

NATIONAL PRESTO INDUSTRIES INC  
Form 10-K  
March 16, 2017

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, 2016

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

39-0494170  
(IRS Employer

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incorporation or organization)                      Identification Number)

3925 North Hastings Way  
Eau Claire, Wisconsin                      54703-3703  
(Address of principal executive offices)    (Zip Code)

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

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

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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: \$459,511,275. The number of shares outstanding of each of the registrant's classes of common stock, as of March 1, 2017 was 6,953,780.

The Registrant has incorporated in Part II and Part III of Form 10-K, by reference, portions of its 2016 Annual Report and portions of its Proxy Statement for its 2017 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 two 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 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; and manufactures detonators, booster pellets, release cartridges, lead azide, and other military energetic devices and materials.

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 \$67,000,000, subject to customary post-closing adjustments. 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, at a future date. As a result of this transaction, effective in the fourth quarter of 2016, 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 R to the Company’s Consolidated Financial Statements for further discussion. The operations of PAPI previously comprised the Company’s Absorbent Products segment which manufactured and sold private label and branded adult incontinence products.

#### 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, oil, and microwave); dehydrators; rice cookers; microwave bacon cookers; coffeemakers and coffeemaker accessories; electric tea kettles; electric knife sharpeners; a line of kitchen gadgets; 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, 2016, 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, dehydrators, rice cookers, tea kettles, electric stainless steel appliances, non-cast fryers and heaters). For the year ended December 31, 2015, approximately 13% of consolidated net sales were provided by cast products, and approximately 21% by noncast/thermal appliances. For the year ended December 31, 2014, approximately 13% of consolidated net sales were provided by cast products, and approximately 22% by noncast/thermal appliances. For the years ended December 31, 2016, 2015 and 2014, this segment had one customer which accounted for 10% or more of the Company's consolidated net sales. That customer was Wal-Mart Stores, Inc., which accounted for 11%, 12%, and 12% of consolidated net sales in the years ended December 31, 2016, 2015, and 2014, respectively. 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

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customers, it does not have long-term supply contracts with them. The loss of, or material reduction in, sales to 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 primarily through the use of newspaper advertising, in store promotions, and digital advertising. 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, product quality, 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 2016, 2015, and 2014 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(5) 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 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 106,000 square foot manufacturing facility located in Janesville, Wisconsin, which includes the Company's 2016 construction of 31,000 square feet of manufacturing space to meet anticipated production needs, is focused on producing niche market ordnance products (such as training ammunition, fuzes, firing devices, and initiators). AMTEC is also the 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 354,000 square feet of space located in East Camden, Arkansas, dedicated primarily to Load, Assemble and Pack (LAP) type work.

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 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 new state-of-the-art less lethal ammunition manufacturing and training facility, which was completed in 2013, is 54,000 square feet and is located in Perry, Florida. Previously, the subsidiary operated out of a 15,000 square foot facility in Bull Shoals, Arkansas.

Tech Ord, a division of AMTEC, holds the assets of Chemring Energetic Devices, Inc.'s business located in Clear Lake, South Dakota and all of the real property owned by Technical Ordnance Realty, LLC that were acquired on January 24, 2014. The 88,000 square foot Clear Lake facility is a manufacturer of detonators, booster pellets, release cartridges, lead azide, and other military energetic devices and materials, and its major customers include US and foreign government agencies, AMTEC Corporation, and other defense contractors.

The Defense 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. Deliveries under the contract exceeded \$671,000,000, with final deliveries completed in 2013. 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 five-year contract, AMTEC was awarded the majority share of the 40mm requirement. The total dollar amount of this contract awarded to AMTEC was \$566,000,000. The Company expects deliveries under this contract to continue into 2018. In addition, as part of an acquisition of a group of assets from DSE, Inc. completed on November 7, 2013 (see Note Q to the Consolidated Financial Statements), AMTEC acquired through a novation agreement an additional \$188,000,000, representing the remaining undelivered portion of the award that had been given to AMTEC's competitor under the second five-year contract mentioned above. Total deliveries for the systems program under the second 40mm contract were \$147,000,000 through 2016. Additional shipments under the contract will be made during 2017 and 2018. The Company submitted its bid for a third contract, and although the FY15 (Army's fiscal year beginning October 1, 2014) bid request was subsequently cancelled, the 40mm program requirements remained and were subsequently awarded to AMTEC as the Army's FY16 40mm requirements in a single award valued at \$84,500,000. The Company expects shipments under this FY16 contract will be made during 2017 and 2018. AMTEC will be submitting a bid in early 2017 for the Army's next five-year 40mm system contract to cover FY17-21 requirements, with an award decision expected in September 2017.

During June of 2015, the U.S. Army awarded AMTEC two contracts to develop the next generation of 40mm high and low velocity training rounds. Two contracts, one in each category, were also awarded to other contractors. The values of AMTEC's high and low velocity development awards were \$2,985,000 and \$2,990,000, respectively. Although the project was scheduled for completion in the first quarter of 2017, the work was finished during 2016 and samples were sent at year-end. Each contract has three production option years beginning in 2018. If exercised, the first year would be at a low initial rate, while the last two years would be at a full production rates. The Army will test each competitor's samples and will select the rounds in each category that provide the best value, at which point it will decide whether to exercise the production options under the applicable contracts. The Army's decision on both contracts is expected by September 2017.

During 2016, 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 2010 contract applied 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. The segment's business does not tend to be seasonal.



## 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 to the Company's Housewares/Small Appliance segment. 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, December 2022, and 6,527,570, October 2021), Rotatable Cooking Apparatus (US 6,125,740 and 6,354,194, March 2019), Coffee brewer (US D695,064, December 2027), Griddle w/ folding legs (US 7,635,827, November 2027), Griddle w/ attached warming tray (US D674,656, January 2027), Low profile griddle (US D575,098, August 2022), Stirring popcorn maker (US D615,797, May 2024), and Parabolic Heater (US D633,189, February 2025). To date, the Company has vigorously protected its rights and enjoyed success in all its intellectual property suits. The Defense segment holds a United States patent related to its non-dud signature training round (US 8,640,621, Oct 2029), 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 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, 2016, 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, 2016, the Company and its subsidiaries had 1,138 employees compared to 1,090 employees at the end of December 2015.

Approximately 174 employees of Amron are members of the United Steel Workers union. The most recent contract between Amron and the union is effective through February 29, 2020.

#### 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 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 \$359,000,000, \$284,000,000, and \$407,000,000 at December 31, 2016, 2015, and 2014, respectively. 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 produced and shipped during an 18 to 24-month period, after December 31, 2016.

### C. AVAILABLE INFORMATION

The Company has a web site at [www.gopresto.com](http://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 or 10-Q/A. 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. The Company does not do so because these and all other reports it files with the SEC are readily available to the public on the SEC web site at [www.sec.gov](http://www.sec.gov) and can be located with ease using the link provided on the Company's web site. The Company provides paper copies of its annual report free of charge upon request.

The public also may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

#### ITEM 1A. RISK FACTORS

The Company's two 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 the Company's 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, the Company 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 anticipated orders, change planned quantities, delay purchases, or change product assortments for reasons beyond the Company's 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, shift in consumer spending away from its housewares/small appliances, or deterioration in the financial health of its customer base 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 the Company 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 could the imposition of industry sustainability standards.

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 portable appliance and floor care companies' industry association is in the process of trying to promulgate sustainability standards for the industry. It has passed an outline for a standard but has not yet developed specific guidelines for implementation. The Sustainability Consortium (TSC) under the auspices of a Retail Association (RILA) is trying to develop standards for all consumer products. If either the association or TSC is successful in developing enforceable standards, the standards are expected to ultimately become mandatory. The standards as drafted will do nothing for the environment, but will entail the addition of significant bureaucracy and outside certification fees. As such, compliance will be burdensome and expensive.

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.

Tax reform could have a negative impact on top line and after tax profitability.

One element of proposed tax reforms is a border adjustment tax, which disallows any imported item as an expense. If implemented, the adjustment could increase the Company's corporate income tax and ultimately might require significant price increases that could have a negative impact on unit volume and in turn top line volume and operating profits.

#### Defense Segment:

The Company relies primarily on sales to U.S. Government entities, and the failure to procure or 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.

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 were 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 around 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 termination.

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.

#### 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.

#### Information Technology System Failure or Security Breach Risks:

The Company relies on its information technology systems to effectively manage its business data, communications, supply chain, logistics, accounting, and other business processes. While the Company endeavors to build and sustain an appropriate technology environment, information technology systems are vulnerable to damage or interruption from circumstances beyond the Company's control, including systems failures, viruses, security breaches or cyber incidents such as intentional cyber attacks aimed at theft of sensitive data, or inadvertent cyber-security compromises. A security breach of such systems could result in interruptions of the Company's operations, negatively impact relations with customers or employees, and expose the Company to liability and litigation, any one of which could have a negative impact on the Company's results of operations or financial condition. The Company's insurance coverage may not be adequate to cover all the costs related to cyber security attacks or disruptions.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None



ITEM 2. PROPERTIES (Owned Except Where Indicated)

The Company's Eau Claire facility is approximately 522,000 square feet, of which approximately 380,000 square feet was formerly occupied by Presto Absorbent Products, Inc. and subsequently, beginning on January 3, 2017, is leased to Drylock Technologies, LTD mentioned in Item 1 of this Form 10-K. 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; East Camden, Arkansas; Perry, Florida; and Clear Lake, South Dakota.

The Janesville, Wisconsin facility is comprised of approximately 106,000 square feet, which includes the Company's 2016 construction of 31,000 square feet of manufacturing space to meet anticipated needs. The Antigo, Wisconsin facility is comprised of approximately 208,000 square feet and the Perry, Florida facility is comprised of approximately 54,000 square feet. The East Camden, Arkansas operation leases approximately 354,000 square feet. The Company acquired the 88,000 square foot Clear Lake, South Dakota facility in 2014 as part of a business combination, which is described in Note P to the Company's Consolidated Financial Statements.

There are two warehousing facilities located in Jackson and Canton, Mississippi used in the Housewares/Small Appliance segment. The Jackson facility contains 252,000 square feet. The Company also leases a 255,000 square foot building in Canton 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 Canton buildings for warehousing.

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

ITEM 3. LEGAL PROCEEDINGS

See Note I to the Company's 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

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## 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

	2016			2015		
	Applicable Dividends Paid per Share	Market Price		Applicable Dividends Paid per Share	Market Price	
		High	Low		High	Low
First Quarter*	\$ 5.05	\$ 88.00	\$ 72.30	\$ 4.05	\$ 67.90	\$ 56.31
Second Quarter	—	94.98	81.96	—	81.74	61.77
Third Quarter	—	96.25	85.14	—	87.96	63.87
Fourth Quarter	—	108.70	83.68	—	93.97	78.13
Full Year	\$ 5.05	\$ 108.70	\$ 72.30	\$ 4.05	\$ 93.97	\$ 56.31

\* First quarter 2016 includes a regular dividend of \$1.00 and an extra dividend of \$4.05. First quarter 2015 includes a regular dividend of \$1.00 and an extra dividend of \$3.05.

On February 10, 2017, the Company's Board of Directors announced a regular dividend of \$1.00 per share, plus an extra dividend of \$4.50. On March 15, 2017, a payment of \$38,405,000 was made to the shareholders of record as of March 1, 2017.

The common stock of National Presto Industries, Inc. is traded on the New York Stock Exchange under the symbol "NPK". As of March 1, 2017, there were 274 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 2016, the Company did not purchase any of its equity securities.

The information under the heading "Equity Compensation Plan Information," in the Company's Proxy Statement for its 2017 Annual Meeting of Stockholders, is incorporated by reference.

The line graph and related information set forth under the heading “Performance Graph” in the Company’s 2016 Annual Report is incorporated by reference.

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## ITEM 6. SELECTED FINANCIAL DATA

	(In thousands except per share data)					
For the years ended December 31,	2016	2015	2014	2013	2012	
Net sales	\$ 341,905	\$ 355,649	\$ 347,198	\$ 343,423	\$ 390,021	
Earnings from continuing operations	\$ 41,915	\$ 42,162	\$ 30,752	\$ 39,985	\$ 44,701	
Earnings (loss) from discontinued operations, net of tax	2,649	(1,666)	(4,275)	1,267	(5,826)	
Net earnings	44,564	40,496	26,477	41,252	38,875	
Earnings (loss) per share - basic and diluted						
From continuing operations	\$ 6.01	\$ 6.07	\$ 4.44	\$ 5.79	\$ 6.49	
From discontinued operations, net of tax	0.38	(0.24)	(0.62)	0.18	(0.85)	
Net earnings per share	6.39	5.83	3.82	5.97	5.64	
Total assets	\$ 417,594	\$ 387,384	\$ 374,071	\$ 386,781	\$ 346,544	
Dividends paid per common share applicable to current year						
Regular	\$ 1.00	\$ 1.00	\$ 1.00	\$ -	\$ 1.00	
Extra	4.05	3.05	4.05	-	5.00	
2013 Regular	-	-	-	-	* 1.00	*
2013 Extra	-	-	-	-	* 5.50	*
Total	\$ 5.05	\$ 4.05	\$ 5.05	\$ -	\$ 12.50	

\* Fiscal year 2012 reflects the 2012 dividend paid in March, as well as a second accelerated payment made in late December of the annual 2013 dividend. The acceleration was occasioned by the uncertainty over the federal income tax rate that would be in effect in 2013.

## 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 2016 Annual Report to Shareholders, in the Proxy Statement for the annual meeting to be held May 16, 2017, 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; 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, among other things, in 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 tooling and equipment investments; political actions of federal and state governments which could have an impact on everything from the value of the U.S. dollar vis-à-vis other currencies to the availability of affordable labor and energy; and security breaches and disruptions to our information technology system. 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, effective in the fourth quarter of 2016, 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.

### 2016 COMPARED TO 2015

Readers are directed to Note L, "Business Segments," to the Company's Consolidated Financial Statements for data on the financial results of the Company's two business segments for the years ended December 31, 2016 and 2015.

On a consolidated basis, sales decreased by \$13,744,000 (4%), gross profit decreased by \$3,771,000 (4%), selling and general expense increased by \$694,000 (3%), and intangibles amortization decreased by \$4,452,000 (86%). Other income, principally interest, increased by \$413,000 (104%), while earnings from continuing operations before provision for income taxes increased by \$400,000 (1%), and earnings from continuing operations decreased by \$247,000 (1%). Earnings from discontinued operations, net of tax, increased \$4,315,000. Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales decreased by \$17,816,000, from \$125,944,000 to \$108,128,000, or 14%, primarily due to a decrease in shipments. Defense net sales increased by \$4,072,000, from \$229,705,000 to \$233,777,000, or 2%, reflecting an increase in units shipped.

Housewares/Small Appliance gross profit decreased \$6,492,000 from \$27,455,000 (22% of sales) in 2015 to \$20,963,000 (19% of sales) in 2016, primarily reflecting the decrease in sales mentioned above and higher repairs and maintenance costs of approximately \$883,000. Defense gross profit increased \$2,721,000 from \$61,978,000 (27% of sales) to \$64,699,000 (28% of sales), primarily reflecting the increase in sales mentioned above.

Selling and general expenses for the Housewares/Small Appliance segment were essentially flat. Defense segment selling and general expenses increased \$757,000, primarily reflecting increased employee compensation and benefit costs of \$381,000, increased legal and professional costs of \$327,000, and a non-cash write-down of the book value of equipment of \$353,000. These were partially offset by a decrease in the provision for bad debts of \$462,000.

Intangible assets primarily consist of the value of a government sales contract, and consulting and non-compete agreements recognized as a result of the acquisition of certain assets of DSE, Inc., more fully described in Note Q to the Company's Consolidated Financial Statements, and the value of customer relationships, trademarks and non-compete agreements related to AMTEC Less Lethal Systems, Inc. ("ALS"), a reporting unit in the Company's Defense segment. ALS was formed in 2011 following the acquisition of certain assets of ALS Technologies, Inc. The intangible assets are all attributable to the Defense segment. The government sales contract intangible asset is amortized based on units fulfilled under the applicable contract, while the other intangible assets were amortized on a straight-line basis that approximates economic use, over periods ranging from 1 to 10 years. The decrease in amortization is primarily attributable to fewer units shipped under the acquired government sales contract in 2016 than in 2015.

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

Other income increased \$413,000, which was primarily attributable to an increase in interest income to the Company's cash equivalents and marketable securities, due to increased interest rates.

Earnings from continuing operations before provision for income taxes increased \$400,000 from \$62,922,000 to \$63,322,000. The provision for income taxes from continuing operations increased from \$20,760,000 to \$21,407,000, which resulted in an effective income tax rate increase from 33% in 2015 to 34% in 2016. Earnings from continuing operations decreased \$247,000 from \$42,162,000 to \$41,915,000.

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, effective in the fourth quarter of 2016, 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. Income from discontinued operations increased \$4,315,000, from a loss of \$1,666,000 to income of \$2,649,000, primarily attributable to higher sales and production and a gain on the involuntary conversion of machinery and equipment.

Net earnings increased \$4,068,000 from \$40,496,000 to \$44,564,000.

#### 2015 COMPARED TO 2014

Readers are directed to Note L, “Business Segments,” to the Company’s Consolidated Financial Statements for data on the financial results of the Company’s two business segments for the years ended December 31, 2015 and 2014.

On a consolidated basis, sales increased by \$8,451,000 (2%), gross profit increased by \$8,127,000 (10%), selling and general expense increased by \$313,000 (2%), and intangibles amortization decreased by \$6,818,000 (57%). Other income, principally interest, increased by \$30,000 (8%), while earnings from continuing operations before provision for income taxes increased by \$16,725,000 (36%), and earnings from continuing operations increased by \$11,410,000 (37%). Earnings from discontinued operations, net of tax, increased \$2,609,000. Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales were essentially flat. Defense net sales increased by \$8,160,000, from \$221,545,000 to \$229,705,000, or 4%, reflecting an increase in units shipped.

Housewares/Small Appliance gross profit increased \$3,358,000 from \$24,097,000 (19% of sales) in 2014 to \$27,455,000 (22% of sales) in 2015, primarily reflecting a more favorable product mix. Defense gross profit increased \$4,769,000 from \$57,209,000 (26% of sales) to \$61,978,000 (27% of sales), primarily reflecting the increase in sales mentioned above, augmented by an improved product mix and increased production efficiencies.



Selling and general expenses for the Housewares/Small Appliance segment increased by \$765,000, largely due to increases in insurance accruals for employee health benefits and an increased adjustment to the products liability reserve. Defense segment selling and general expenses decreased \$452,000, primarily reflecting a decrease in accruals for legal fees of \$411,000, the absence of last year's one time transitional costs of \$176,000 associated with the purchase of Tech Ord, which is described in Note P to the Consolidated Financial Statements included in Item 8 of this Form 10-K, and a decrease in employee compensation costs of \$159,000. These decreases were offset mainly by higher costs for information technology upgrades.

Intangible assets primarily consist of the value of a government sales contract, product backlogs, and consulting and non-compete agreements recognized as a result of the acquisition of certain assets of DSE, Inc., more fully described in Note Q to the Company's Consolidated Financial Statements, and the value of customer relationships, trademarks and non-compete agreements related to AMTEC Less Lethal Systems, Inc. ("ALS"), a reporting unit in the Company's Defense segment. ALS was formed in 2011 following the acquisition of certain assets of ALS Technologies, Inc. The intangible assets are all attributable to the Defense segment. The government sales contract intangible asset is amortized based on units fulfilled under the three year contract, while the other intangible assets were amortized on a straight-line basis that approximates economic use, over periods ranging from one to ten years. The decrease in amortization is primarily attributable to fewer units shipped under the acquired government sales contract in 2015 than in 2014.

Intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. During 2014, the Company noted that the carrying amount of the customer relationships, trademarks and non-compete agreements related to ALS mentioned above exceeded the undiscounted cash flows expected to result from their use. As a result, an impairment loss of \$2,063,000 was recognized based on the Company's analysis comparing the fair value of the intangible assets and their carrying amounts. The fair value of the intangible assets was determined using a discounted cash flow model.

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

Earnings from continuing operations before provision for income taxes increased \$16,725,000 from \$46,197,000 to \$62,922,000. The provision for income taxes from continuing operations increased from \$15,445,000 to \$20,760,000, which resulted in an effective income tax rate of 33% in both years. Earnings from continuing operations increased \$11,410,000 from \$30,752,000 to \$42,162,000.

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, effective in the fourth quarter of 2016, 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. Income from discontinued operations improved \$2,609,000, from a loss of \$4,275,000 to a loss of \$1,666,000, primarily attributable

to higher sales and lower material costs.

Net earnings increased \$14,019,000 from \$26,477,000 to \$40,496,000.

## LIQUIDITY AND CAPITAL RESOURCES

### 2016 COMPARED TO 2015

Cash provided by operating activities was \$66,376,000 during 2016 as compared to \$46,275,000 during 2015. 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 2016 were net earnings of \$44,564,000, which included total non-cash depreciation and amortization expenses of \$14,683,000 and the deferred income tax provision of \$6,360,000; increases in net payables; and a decrease in deposits with vendors included in other assets and current assets. These were partially offset by increases in accounts receivable and inventory levels.

Cash provided by discontinued operations was \$4,477,000. Of particular note during 2015 were net earnings of \$40,496,000, which included total non-cash depreciation and amortization expenses of \$15,600,000; increases in net payables; and a decrease in accounts receivable levels. These were partially offset by an increase in inventory levels and a net increase in deposits with vendors included in other assets and current assets. Cash provided by discontinued operations was \$4,733,000.

Net cash used in investing activities was \$60,846,000 during 2016 as compared to \$16,300,000 used during 2015.

During 2016, the Company expanded its Defense segment's Janesville, Wisconsin facility, as noted in Item 2 of this 10-K, and continued its expansion of its Absorbent Products business by purchasing plant and equipment, in the combined amount of \$6,950,000. Also of significance were net purchases of marketable securities of \$52,256,000; the issuance of a note receivable of \$2,419,000; and the acquisition of intangible assets in the Defense segment of \$211,000. These cash outflows were partially offset by proceeds from an insurance settlement of \$987,000. Cash used by discontinued operations was \$1,139,000. During 2015, the Company expanded its Housewares/Small Appliance segment distribution facility and continued its expansion of the Absorbent Products business by purchasing plant and equipment, in the amount of \$6,461,000. These cash outflows were augmented by net purchases of marketable securities of \$9,864,000. Cash used in discontinued operations was \$2,385,000.

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 Sheets that the Company believes understates the true liquidity of the Company's income portfolio. As of December 31, 2016 and 2015, \$46,306,000 and \$12,144,000, 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.

Cash flows from financing activities for 2016 and 2015 primarily differed as a result of the \$1.00 per share increase in the extra dividend paid during those years. Cash flows for both years also reflected the proceeds from the sale of treasury stock to a Company sponsored retirement plan.

As a result of the foregoing factors, cash and cash equivalents decreased in 2016 by \$29,188,000 to \$27,034,000.

Working capital increased by \$62,679,000 to \$276,141,000 at December 31, 2016 for the reasons stated above. The Company's current ratio was 5.3 to 1.0 at December 31, 2016, compared to 5.4 to 1.0 at December 31, 2015.

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-2.

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 municipal bonds that are pre-refunded with escrowed U.S. Treasuries. The Company intends to continue its investment strategy of safety and short-term liquidity throughout its investment holdings.

#### 2015 COMPARED TO 2014

Cash provided by operating activities was \$46,275,000 during 2015 as compared to \$73,213,000 during 2014. The principal factors behind the decrease 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 2015 were net earnings of \$40,496,000, which included total non-cash depreciation and amortization expenses of \$15,600,000; increases in net payables; and a decrease in accounts receivable levels. These were partially offset by an increase in inventory levels and a net increase in deposits with vendors included in other assets and current assets. Cash provided by discontinued operations was \$4,733,000. Of particular note during 2014 were net earnings of \$26,477,000, which included total non-cash depreciation and amortization expenses of \$21,819,000 and impairment of intangible assets charges of \$2,063,000; decreases in accounts receivable and inventory levels; and decreases in deposits with vendors included in other assets and current assets. These were partially offset by decreases in net payables. Cash provided by discontinued operations was \$3,517,000.

Net cash used in investing activities was \$16,300,000 during 2015 as compared to \$7,531,000 used during 2014. During 2015, the Company expanded its Housewares/Small Appliance segment distribution facility, as noted in Item 2 of this 10-K, and continued its expansion of the Absorbent Products business by purchasing plant and equipment, in the amount of \$6,461,000. These cash outflows were augmented by net purchases of marketable securities of \$9,864,000. Cash used in discontinued operations was \$2,385,000. During 2014, the Company continued its expansion of the Absorbent Products business by purchasing plant and equipment in the amount of \$11,287,000. The Company also acquired substantially all of the assets of Chemring Energetic Devices, Inc.'s business located in Clear Lake, South Dakota, and all of the real property owned by Technical Ordnance Realty, LLC, which is described in Note P to the Company's Consolidated Financial Statements, totaling \$10,534,000. These were partially offset by net maturities/sales of marketable securities of \$13,983,000. Cash used in discontinued operations was \$9,551,000.

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 Sheets that the Company believes understates the true liquidity of the Company's income portfolio. As of December 31, 2015 and 2014, \$12,144,000 and \$13,600,000, 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.

Cash flows from financing activities for 2015 and 2014 primarily differed as a result of the \$1.00 per share decrease in the extra dividend paid during those years. Cash flows for both years also reflected the proceeds from the sale of treasury stock to a Company sponsored retirement plan.

As a result of the foregoing factors, cash and cash equivalents increased in 2015 by \$2,179,000 to \$56,222,000.

Working capital increased by \$31,594,000 to \$213,462,000 at December 31, 2015 for the reasons stated above. The Company's current ratio was 5.4 to 1.0 at December 31, 2015, compared to 5.2 to 1.0 at December 31, 2014.

#### DEFENSE SEGMENT BACKLOG

The Company's Defense segment contract backlog was approximately \$359,000,000 at December 31, 2016, and \$284,000,000 at December 31, 2015. 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 produced and shipped during an 18 to 24-month period.



## CONTRACTUAL OBLIGATIONS

The table below discloses a summary of the Company's specified contractual obligations at December 31, 2016:

		Payments Due by Period (in thousands)				
						More Than
Contractual Obligations	Total	Under 1 Year	1-3 Years	3-5 Years	5 Years	
Lease Obligations	\$ 744	\$ 437	\$ 285	\$ 22	\$ 0	
Purchase obligations(1)	192,744	192,744	0	0	0	
Total	\$ 193,488	\$ 193,181	\$ 285	\$ 22	\$ 0	

(1)Purchase obligations includes outstanding purchase orders at December 31, 2016. Included are purchase orders issued to the Company's housewares manufacturers in the Orient and to material suppliers and building contractors in the Defense segment and discontinued operations of the Company's Absorbent Products business (see Note R to the Company's Consolidated Financial Statements). The amount related to discontinued operations is approximately \$4,756,000. The Company can cancel or change many of these purchase orders, but may incur costs if its supplier cannot use the material to manufacture the Company's or other customers' products in other applications or return the material to their supplier. As a result, the actual amount the Company is obligated to pay cannot be estimated.

## 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 year and, accordingly, the Company did not record a reserve for obsolete product. In the future should product demand issues arise, the Company may incur losses related to the obsolescence of the related inventory. Inventory risk for the Company's Defense segment is not deemed to be significant, as products are largely built pursuant to customers' specific orders.

## Self Insured Product Liability & Health Insurance

The Company is subject to product liability claims in the normal course of business and is self-insured for health care costs, although it does carry 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.

## Sales and Returns

Sales for the Housewares/Small Appliance segment are recorded net of discounts and returns. The latter pertain primarily to warranty returns, returns of seasonal items, and returns of those newly introduced products sold 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, customer relationships, trademarks, product backlogs, and consulting and non-compete agreements. 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.

## NEW ACCOUNTING PRONOUNCEMENTS

Please refer to Note A(19) to the Company's Consolidated Financial Statements for information related to the effect of adopting new accounting pronouncements on the Company's Consolidated Financial Statements.

## ITEM 7A. 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 230, the Company's 7-day variable rate demand notes are classified as marketable securities rather than as cash equivalents. The demand notes are highly liquid instruments with interest rates set every 7 days that can be tendered to the trustee or remarketer upon 7 days notice for payment of principal and accrued interest amounts. The 7-day tender feature of these variable rate demand notes is further supported by an irrevocable letter of credit from highly rated U.S. banks. To the extent a bond is not remarketed at par plus accrued interest, the difference is drawn from the bank's letter of credit. The Company has had no issues tendering these notes to the trustees or remarketers. Other than a failure of a major U.S. bank, there are no known 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 rate municipal bonds with an average life of 0.8 year. Accordingly, changes in interest rates have not had a material effect on the Company, and the Company does not anticipate that future exposure to interest rate market risk will be material. The Company uses sensitivity analysis to determine its exposure to changes in interest rates.

The Company has no history of, and does not anticipate in the future, investing in derivative financial instruments. Most transactions with international customers are entered into in U.S. dollars, precluding the need for foreign currency cash flow hedges. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

- A. The Consolidated Financial Statements of National Presto Industries, Inc. and its subsidiaries and the related Report of Independent Registered Public Accounting Firm can be found on pages F-1 through F-23.
- B. Quarterly financial data is contained in Note N to the Consolidated Financial Statements.



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. 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 December 31, 2016. 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 control over financial reporting during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of National Presto Industries, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013). Based on our assessment and those criteria, management concluded that, as of December 31, 2016, the Company's internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the 1934 Act, was effective.

The Company's independent registered public accounting firm has issued its report on the effectiveness of the Company's internal control over financial reporting. The report appears below.

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

National Presto Industries, Inc.

Eau Claire, Wisconsin

We have audited National Presto Industries, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). National Presto Industries, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly

reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, National Presto Industries, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Presto Industries, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 16, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Milwaukee, Wisconsin

March 16, 2017

#### ITEM 9B. OTHER INFORMATION

None

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## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following information is provided with regard to the executive officers of the registrant:

(All terms for elected officers are one year or until their respective successors are elected.)

NAME	TITLE	AGE
Maryjo Cohen	Chair of the Board, President, and Chief Executive Officer	64
Randy F. Lieble	Vice President, Chief Financial Officer, Treasurer, and Director	63
Douglas J. Frederick	Secretary and General Counsel	46
Spencer W. Ahneman	Vice President, Sales	62
Jeffery A. Morgan	Vice President, Engineering	59

Ms. Cohen became Chair of the Board on January 1, 2002. Prior to that date she had been elected Treasurer in September 1983, Vice President in May 1986, President in May 1989 and Chief Executive Officer in May 1994. She has been associated with the registrant since 1976. Prior to becoming an officer, she was Associate Resident Counsel and Assistant to the Treasurer.

Mr. Lieble was elected Chief Financial Officer, Vice President and Treasurer on September 8, 2008. He has been a member of the Board of Directors since 2008. Other than a brief hiatus of one year during which he worked as a financial advisor for UBS Financial Services, Mr. Lieble has worked for the registrant since 1977 in a variety of capacities, including the positions listed above.

Mr. Frederick was elected Corporate Secretary on November 17, 2009. He has been associated with the registrant since 2007 as an in-house attorney with expertise in litigation and intellectual property matters and in the capacity of General Counsel since January 2009. Prior to his employment with the registrant, Mr. Frederick was a litigation attorney with the firm Rider Bennett, LLP.

Mr. Ahneman was elected Vice President, Sales in May 2013. He has been associated with the registrant since 1977. Prior to becoming an officer, he was National Account Sales Manager.

Mr. Morgan was elected Vice President, Engineering in November 2015. He has been associated with the registrant since 2010. Prior to becoming an officer, he was Director of Engineering and Chief Engineer. Prior to his employment with the registrant, Mr. Morgan had worked 21 years at Hoover Company, a division of Maytag, and three years at Hoover's successor, Techtronic Industries, in engineering and engineering management capacities.

The information under the headings "Section 16(a) Beneficial Ownership Reporting Compliance," "Information Concerning Directors and Nominees" and "Corporate Governance" in the Company's Proxy Statement for its 2017 Annual Meeting of Stockholders is incorporated by reference.

The Company has adopted a code of ethics that applies to all Company employees, entitled the "Corporate Code of Conduct," which is set forth in the Corporate Governance section of the Company's website located at [www.gopresto.com](http://www.gopresto.com). The Company intends to make all required disclosures concerning any amendments to, or waivers from, its Corporate Code of Conduct by the posting of such information on that section of its website.

## ITEM 11. EXECUTIVE COMPENSATION

The information under the headings “Compensation Committee Interlocks and Insider Participation,” “Director Compensation,” “Executive Compensation and Other Information” and “Summary Compensation Table” in the Company’s Proxy Statement for its 2017 Annual Meeting of Stockholders is incorporated by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The security ownership and related stockholder matters information set forth under the heading “Voting Securities and Principal Holders Thereof” in the Company’s Proxy Statement for its 2017 Annual Meeting of Stockholders is incorporated by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The certain relationships and related transactions and director independence information set forth under the heading “Corporate Governance” in the Company’s Proxy Statement for its 2017 Annual Meeting of Stockholders is incorporated by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The principal accountant fees and services information set forth under the heading “Independent Registered Public Accountants” in the Company’s Proxy Statement for its 2017 Annual Meeting of Stockholders is incorporated by reference.

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## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Form 10-K:

	Form 10-K Page Reference
1. Consolidated Financial Statements:	
a. <u>Consolidated Balance Sheets - December 31, 2016 and 2015</u>	F-1 & F-2
b. <u>Consolidated Statements of Comprehensive Income - Years ended December 31, 2016, 2015 and 2014</u>	F-3
c. <u>Consolidated Statements of Cash Flows - Years ended December 31, 2016, 2015 and 2014</u>	F-4
d. <u>Consolidated Statements of Stockholders' Equity - Years ended December 31, 2016, 2015 and 2014</u>	F-5
e. <u>Notes to Consolidated Financial Statements</u>	F-6 through F-22
f. <u>Report of Independent Registered Public Accounting Firm</u>	F-23
2. Consolidated Financial Statement Schedule:	
<u>Schedule II - Valuation and Qualifying Accounts</u>	F-24

(b) Exhibits:

Exhibit Number	Description
Exhibit 3(i)	Restated Articles of Incorporation – incorporated by reference from Exhibit 3(i) of the

Company's  
report on Form  
10-K/A for the  
year ended  
December 31,  
2005

Exhibit 3(ii)

By-Laws -  
incorporated  
by reference  
from Exhibit  
3(ii) of the  
Company's  
current report  
on Form 8-K  
dated July 6,  
2007

Exhibit 9.1

Voting Trust  
Agreement -  
incorporated  
by reference  
from Exhibit 9  
of the  
Company's  
quarterly  
report on Form  
10-Q for the  
quarter ended  
July 6, 1997

Exhibit 9.2

Voting Trust  
Agreement  
Amendment –  
incorporated  
by reference  
from Exhibit  
9.2 of the  
Company's  
annual report  
on Form 10-K  
for the year  
ended  
December 31,  
2008

Exhibit 10.1\*

Incentive  
Compensation  
Plan –  
incorporated  
by reference



from Exhibit  
10.1 of the  
Company's  
quarterly  
report on Form  
10-Q for the  
quarter ended  
July 4, 2010

Exhibit 10.2\*      Form of  
Restricted  
Stock Award  
Agreement –  
incorporated  
by reference  
from Exhibit  
10.2 of the  
Company's  
quarterly  
report on Form  
10-Q for the  
quarter ended  
July 4, 2010

\*  
Compensatory  
Plans

Exhibit Number	Description
Exhibit 21	Subsidiaries of the Registrant
Exhibit 31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of the Chief Financial Officer pursuant to Section 302

of the  
Sarbanes-Oxley  
Act of 2002

Exhibit 32.1      Certification of  
the Chief  
Executive  
Officer pursuant  
to Section 906  
of the  
Sarbanes-Oxley  
Act of 2002

Exhibit 32.2      Certification of  
the Chief  
Financial  
Officer pursuant  
to Section 906  
of the  
Sarbanes-Oxley  
Act of 2002

Exhibit 101      The following  
financial  
information  
from National  
Presto  
Industries, Inc.'s  
annual report on  
Form 10-K for  
the period ended  
December 31,  
2016, formatted  
in eXtensible  
Business  
Reporting  
Language  
(XBRL): (i)  
Consolidated  
Balance Sheets,  
(ii)  
Consolidated  
Statements of  
Comprehensive  
Income, (iii)  
Consolidated  
Statements of  
Cash Flows, (iv)  
Consolidated  
Statements of  
Stockholders'

Equity, (v)  
Notes to  
Consolidated  
Financial  
Statements, and  
(vi) Schedule II  
- Valuation and  
Qualifying  
Accounts.

(c) Schedules:

Reference is made to Item 15(a)2 of this Form 10-K.

ITEM 16. FORM 10-K SUMMARY

None

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SIGNATURES

Pursuant to the Requirements of Section 13 or 15 (d) 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.  
(registrant)

By: /S/ Maryjo Cohen  
Maryjo Cohen  
President and Chief Executive Officer

Date: March 16, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /S/ Richard N. Cardozo  
Richard N. Cardozo  
Director

By: /S/ Patrick J. Quinn  
Patrick J. Quinn  
Director

By: /S/ Maryjo Cohen  
Maryjo Cohen  
Chair of the Board, President,  
Chief Executive Officer (Principal  
Executive Officer), and Director

By: /S/ Joseph G. Stienessen  
Joseph G. Stienessen  
Director

By: /S/ Randy F. Lieble  
Randy F. Lieble  
Vice President, Chief Financial  
Officer (Principal Financial  
Officer), Treasurer, and Director

Date: March 16, 2017

NATIONAL PRESTO INDUSTRIES, INC.  
 CONSOLIDATED BALANCE SHEETS  
 (Dollars in thousands except share and per share data)

December 31	2016	2015	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		\$ 27,034	\$ 56,222
Marketable securities		84,457	32,259
Accounts receivable	\$ 69,101		\$ 57,374
Less allowance for doubtful accounts	1,816	67,285	1,796
Inventories:			
Finished goods	25,200		27,765
Work in process	66,528		57,397
Raw materials and supplies	3,675	95,403	3,747
Assets held for sale		58,893	21,663
Other current assets		7,423	6,961
Total current assets		340,495	261,592
PROPERTY, PLANT AND EQUIPMENT:			
Land and land improvements	4,933		4,807
Buildings	47,012		43,392
Machinery and equipment	49,218		48,701
	101,163		96,900
Less allowance for depreciation and amortization	51,688	49,475	43,741
GOODWILL		11,485	11,485
INTANGIBLE ASSETS, net		4,961	5,471
NOTES RECEIVABLE		6,534	3,940
DEFERRED INCOME TAXES		-	3,336
ASSETS HELD FOR SALE		-	38,147
OTHER ASSETS		4,644	10,254
		\$ 417,594	\$ 387,384

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

NATIONAL  
 PRESTO  
 INDUSTRIES,  
 INC.  
 CONSOLIDATED  
 BALANCE  
 SHEETS

(Dollars  
in  
thousands  
except  
share  
and  
per  
share  
data)

December 31, 2016		2015
<b>LIABILITIES</b>		
<b>CURRENT</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 39,584	\$ 27,748
Federal and state income taxes	6,273	2,196
Accrued liabilities	12,244	12,570
Liabilities held for sale	6,253	5,616
Total current liabilities	64,354	48,130
<b>DEFERRED INCOME TAXES</b>		
	3,004	-
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$1 par value:		
Authorized: 12,000,000 shares at December 31, 2016		

and 2015 Issued: 7,440,518 shares at December 31, 2016 and 2015 Outstanding: 6,950,786 and 6,935,471 shares at December 31, 2016 and 2015, respectively		\$ 7,441	
Paid-in capital	1,913	6,775	
Retained earnings	350,203	340,799	
Accumulated other comprehensive loss (47)	365,510	(9)	355,006
Less treasury stock, at cost, 489,732 and 505,047 shares at December 31, 2016 and 2015, respectively	1,074	15,752	
Total stockholders' equity	350,236	339,254	

\$ 417,594

\$ 387,384

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

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## NATIONAL PRESTO INDUSTRIES, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands except per share data)

	For the years ended December 31,		
	2016	2015	2014
Net sales	\$ 341,905	\$ 355,649	\$ 347,198
Cost of sales	256,243	266,216	265,892
Gross profit	85,662	89,433	81,306
Selling and general expenses	22,429	21,735	21,422
Intangibles amortization	721	5,173	11,991
Impairment of finite lived intangible assets	-	-	2,063
Operating profit	62,512	62,525	45,830
Other income, principally interest	810	397	367
Earnings from continuing operations before provision for income taxes	63,322	62,922	46,197
Provision for income taxes from continuing operations	21,407	20,760	15,445
Earnings from continuing operations	41,915	42,162	30,752
Earnings (loss) from discontinued operations, net of tax	2,649	(1,666)	(4,275)
Net earnings	\$ 44,564	\$ 40,496	\$ 26,477
Weighted average common shares outstanding:			
Basic and diluted	6,970	6,951	6,930
Earnings (loss) per share, basic and diluted:			
From continuing operations	\$ 6.01	\$ 6.07	\$ 4.44
From discontinued operations	0.38	(0.24)	(0.62)
Net earnings per share	\$ 6.39	\$ 5.83	\$ 3.82
Comprehensive income:			
Net earnings	44,564	40,496	26,477
Other comprehensive loss, net of tax:			
Unrealized loss on available-for-sale securities	38	6	11
Comprehensive income	\$ 44,526	\$ 40,490	\$ 26,466

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



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NATIONAL PRESTO INDUSTRIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In Thousands)

	For the years ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net earnings	\$ 44,564	\$ 40,496	\$ 26,477
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Intangibles amortization	721	5,173	11,991
Provision for depreciation	13,962	10,427	9,828
Deferred income tax provision (benefit)	6,360	(998)	(1,005)
Impairment of finite lived intangible assets	-	-	2,063
Gain on involuntary conversion of machinery and equipment	(968)	-	-
Loss (gain) on disposal and impairment of property, plant and equipment	434	70	(2)
Provision for doubtful accounts	1	516	532
Noncash retirement plan expense	782	775	705
Other	217	220	141
Changes in operating accounts:			
Accounts receivable	(13,539)	708	16,536
Inventories	(7,528)	(9,398)	8,144
Other assets and current assets	5,148	(2,894)	5,291
Accounts payable and accrued liabilities	12,145	(2,684)	(6,033)
Federal and state income taxes receivable/payable	4,077	3,864	(1,455)
Net cash provided by operating activities	66,376	46,275	73,213
Cash flows from investing activities:			
Marketable securities purchased	(86,119)	(20,170)	(8,976)
Marketable securities - maturities and sales	33,863	10,306	22,959
Purchase of property, plant and equipment	(6,950)	(6,461)	(11,287)
Note issued	(2,419)	-	-
Proceeds from insurance settlement	987	-	-
Acquisition of intangible assets	(211)	-	-
Sale of property, plant and equipment	3	25	307
Acquisition of businesses, net of cash acquired	-	-	(10,534)
Net cash used in investing activities	(60,846)	(16,300)	(7,531)
Cash flows from financing activities:			
Dividends paid	(35,161)	(28,114)	(34,954)
Proceeds from sale of treasury stock	443	323	362
Other	-	(5)	-
Net cash used in financing activities	(34,718)	(27,796)	(34,592)
Net increase (decrease) in cash and cash equivalents	(29,188)	2,179	31,090

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Cash and cash equivalents at beginning of year	56,222	54,043	22,953
Cash and cash equivalents at end of year	\$ 27,034	\$ 56,222	\$ 54,043

Supplemental disclosures of cash flow information:

Cash paid during the year for:

Income taxes	\$ 17,278	\$ 21,930	\$ 17,411
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The accompanying notes are an integral part of the Consolidated Financial Statements.

NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands except per share data)

	Shares of Common Stock Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Comprehensive Income (Loss)	Treasury Stock	Total
Balance December 31, 2013	6,902	\$ 7,441	\$ 4,998	\$ 336,895	\$ 8	\$ (16,791)	\$ 332,551
Net earnings				26,477			26,477
Unrealized loss on available-for-sale securities, net of tax					(11)		(11)
Dividends paid March 14, \$1.00 per share regular, \$4.05 per share extra				(34,954)			(34,954)
Other	15		908	(1)		473	1,380
Balance December 31, 2014	6,917	7,441	5,906	328,417	(3)	(16,318)	325,443
Net earnings				40,496			40,496
Unrealized loss on available-for-sale securities, net of tax					(6)		(6)
Dividends paid March 13, \$1.00 per share regular,				(28,114)			(28,114)

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\$3.05 per share extra								
Other	18		869				566	1,435
Balance								
December 31, 2015	6,935	7,441	6,775	340,799		(9)	(15,752)	339,254
Net earnings				44,564				44,564
Unrealized loss on available-for-sale securities, net of tax						(38)		(38)
Dividends paid March 15, \$1.00 per share regular, \$4.05 per share extra				(35,161)				(35,161)
Other	16		1,138	1			478	1,617
Balance								
December 31, 2016	6,951	\$ 7,441	\$ 7,913	\$ 350,203		\$ (47)	\$ (15,274)	\$ 350,236

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

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NATIONAL PRESTO INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS: In preparation of the Company's Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and related revenues and expenses. Actual results could differ from the estimates used by management.

(2) BASIS OF PRESENTATION: The Consolidated Financial Statements include the accounts of National Presto Industries, Inc. and its subsidiaries, all of which are wholly-owned. All material intercompany accounts and transactions are eliminated. For a further discussion of the Company's business and the segments in which it operates, please refer to Note L.

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 \$67,000,000, subject to customary post-closing adjustments. 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, at a future date. As a result of this transaction, effective in the fourth quarter of 2016, 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 R for further discussion.

(3) RECLASSIFICATIONS: In addition to the reclassifications mentioned in Note A(2) 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.

(4) FAIR VALUE OF FINANCIAL INSTRUMENTS: The Company utilizes the methods of determining 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 amount for cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximates fair value due to the immediate or short-term maturity of these financial instruments. The fair value of marketable securities are discussed in Note A(5).

(5) CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES:

Cash and Cash Equivalents: 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's cash management policy provides for its bank disbursement accounts to be reimbursed on a daily basis. Checks issued but not presented to the bank for payment of \$5,883,000 and \$4,071,000 at December 31, 2016 and 2015, respectively, are included as reductions of cash and cash equivalents or bank overdrafts in accounts payable, as appropriate.

Marketable Securities: The Company has classified all marketable securities as available-for-sale which requires the securities to be reported at fair value, with unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. Highly liquid, tax-exempt variable rate demand notes with put options exercisable in three months or less are classified as marketable securities.

At December 31, 2016 and 2015, 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 December 31 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 2016 and 2015.

(In thousands)  
MARKETABLE SECURITIES

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
December 31, 2016				
Tax-exempt Municipal Bonds	\$ 38,223	\$ 38,151	\$ 1	\$ 73
Variable Rate Demand Notes	46,306	46,306	-	-
Total Marketable Securities	\$ 84,529	\$ 84,457	\$ 1	\$ 73
December 31, 2015				
Tax-exempt Municipal Bonds	\$ 20,129	\$ 20,115	\$ 4	\$ 18
Variable Rate Demand Notes	12,144	12,144	-	-
Total Marketable Securities	\$ 32,273	\$ 32,259	\$ 4	\$ 18

Proceeds from sales and maturities of marketable securities totaled \$33,863,000 in 2016, \$10,306,000 in 2015, and \$22,959,000 in 2014. There were no realized gross gains or losses related to sales of marketable securities during the years ended December 31, 2016, 2015 and 2014. Net unrealized losses included in other comprehensive income were \$57,000, \$9,000 and \$17,000 before taxes for the years ended December 31, 2016 2015, and 2014, 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 December 31, 2016 are as follows: \$29,852,000 within one year; \$14,601,000 beyond one year to five years; \$5,117,000 beyond five years to ten years, and \$34,887,000 beyond ten years. All of the instruments in the beyond five year ranges are variable rate demand notes which, as noted above, 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.

(6) ACCOUNTS RECEIVABLE: The Company's accounts receivable is related to sales of products. Credit is extended based on prior experience with the customer and evaluation of customers' financial condition. Accounts receivable are primarily due within 25 to 60 days. The Company does not accrue interest on past due accounts receivable. Receivables are written off only after all collection attempts have failed and are based on individual credit evaluation and the specific circumstances of the customer. The allowance for doubtful accounts represents an estimate of amounts considered uncollectible and is determined based on the Company's historical collection experience, adverse situations that may affect the customer's ability to pay, and prevailing economic conditions.

(7) INVENTORIES: Housewares/Small Appliance segment inventories are stated at the lower of cost or market with cost being determined principally on the last-in, first-out (LIFO) method. Defense segment inventories are stated at the lower cost or market determined principally on the first-in, first-out (FIFO) method. Inventoried costs relating to contracts in progress are stated at actual production costs, including factory overhead, initial tooling, and other related costs incurred to date, reduced by amounts associated with recognized sales, utilizing a standard costing type method. The Company evaluates inventories to determine if there are any excess or obsolete inventories on hand.



(8) **PROPERTY, PLANT AND EQUIPMENT:** Property, plant and equipment are stated at cost. Straight-line depreciation is provided in amounts sufficient to charge the costs of depreciable assets to operations over their service lives which are estimated at 15 to 40 years for buildings, 3 to 10 years for machinery and equipment, and 15 to 20 years for land improvements. The Company reviews long-lived assets consisting principally of property, plant, and equipment, for impairment when material events and changes in circumstances indicate the carrying value may not be recoverable. Approximately \$3,461,000 of construction in progress in the Company's Defense segment is presented on the Consolidated Balance Sheet as Buildings at December 31, 2016 and is expected to be completed during the first quarter of 2017. Approximately \$3,100,000 of construction in progress in the Company's Housewares/Small Appliance segment is presented on the Consolidated Balance Sheet as Buildings at December 31, 2015. In addition, \$8,928,000 of construction in progress associated with the acquisition of a competitor's assets in the Defense segment described in Note Q is presented as Machinery and equipment at December 31, 2015.

(9) **GOODWILL:** The Company recognizes the excess cost of acquired entities over the net amount assigned to the fair value of assets acquired and liabilities assumed as goodwill. Goodwill is tested for impairment on an annual basis at the start of the fourth quarter and between annual tests whenever an impairment is indicated, such as the occurrence of an event that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Impairment losses are recognized whenever the implied fair value of goodwill is less than its carrying value. No goodwill impairments were recognized during 2016, 2015, or 2014.

The Company's goodwill as of December 31, 2016 and 2015 was \$11,485,000, relating entirely to its Defense segment, which had no cumulative impairment charges at December 31, 2016.

(10) **INTANGIBLE ASSETS:** Intangible assets primarily consist of the value of a government sales contract and consulting and non-compete agreements recognized as a result of the acquisition of certain assets of DSE, Inc., more fully described in Note Q, and the value of customer relationships, trademarks and other non-compete agreements. The intangible assets are all attributable to the Defense segment. The government sales contract intangible asset is amortized based on units fulfilled under the applicable contract, while the other intangible assets are amortized on a straight-line basis that approximates economic use, over periods ranging from 1 to 10 years.

Intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. During 2014, the Company noted that the carrying amount of the customer relationships, certain trademarks and non-compete agreements exceeded the undiscounted cash flows expected to result from their use. As a result, an impairment loss of \$2,063,000 was recognized based on the Company's analysis comparing the fair value of the intangible assets and their carrying amounts. The fair value of the intangible assets was determined using a discounted cash flow model.

The gross carrying amounts of the government sales contract and other intangible assets subject to amortization were \$21,690,000 and \$211,000, respectively, totaling \$21,901,000 at December 31, 2016. The gross carrying amount of the government sales contract subject to amortization was \$21,690,000 at December 31, 2015. Accumulated amortization was \$16,940,000 and \$16,219,000 at December 31, 2016 and 2015, respectively. Amortization expense was \$721,000, \$5,173,000, and \$11,991,000 during the years ended December

31, 2016, 2015, and 2014, respectively. Estimated amortization expense as of December 31, 2016 for the five succeeding years is shown in the following table:

Years ending December 31:	(In thousands)
2017	\$ 3,024
2018	1,778
2019	21
2020	21
2021	21

(11) 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 Appliance segment. The Company expects to utilize the prepayments and related materials over an estimated period of up to two years. As of December 31, 2016 and 2015, \$10,974,000 and \$16,254,000 of such prepayments, respectively, remained unused and outstanding. At December 31, 2016 and 2015, \$6,330,000 and \$6,000,000 of these amounts, respectively, are 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.

(12) REVENUE RECOGNITION: For all of its segments, the Company recognizes revenue when product is shipped or title passes pursuant to customers' orders, the price is fixed and collection is reasonably assured. For the Housewares/Small appliance segment, the Company provides for its 60-day over-the-counter return privilege and warranties at the time of shipment. Net sales for this segment are calculated by deducting early payment discounts and cooperative advertising allowances from gross sales. The Company records cooperative advertising allowances when revenue is recognized. See Note A(13) for a description of the Company's policy for sales returns.

(13) SALES & RETURNS: Sales are recorded net of estimated discounts and returns. The latter pertain primarily to warranty returns, returns of seasonal items, and returns of those newly introduced products sold with a return privilege within the Housewares/Small Appliance segment. 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.

(14) SHIPPING AND HANDLING COSTS: In accordance with FASB ASC 605-45, Revenue Recognition, the Company includes shipping and handling revenues in net sales and shipping costs in cost of sales.

(15) **ADVERTISING:** The Company's policy is to expense advertising as incurred and include it in selling and general expenses. Advertising expense was \$369,000, \$98,000, and \$202,000 in 2016, 2015, and 2014, respectively.

(16) **PRODUCT WARRANTY:** The Company's Housewares/Small Appliance segment's products are generally warranted to the original owner to be free from defects in material and workmanship for a period of 1 to 12 years from date of purchase. The Company allows a 60-day over-the-counter initial return privilege through cooperating dealers. The Company services its products through a corporate service repair operation. The Company estimates its product warranty liability based on historical percentages which have remained relatively consistent over the years.

The product warranty liability is included in accounts payable on the balance sheet. The following table shows the changes in product warranty liability for the period:

	(In thousands)	
	Year Ended	
	December 31	
	2016	2015
Beginning balance January 1	\$ 487	\$ 377
Accruals during the period	549	677
Charges / payments made under the warranties	(493)	(567)
Balance December 31	\$ 543	\$ 487

(17) **STOCK-BASED COMPENSATION:** The Company accounts for stock-based compensation in accordance with ASC 718, Compensation — Stock Compensation. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period, net of estimated forfeitures. As more fully described in Note F, the Company awards non-vested restricted stock to employees and executive officers.

(18) **INCOME TAXES:** Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported. Income tax contingencies are accounted for in accordance with FASB ASC 740, Income Taxes. See Note H for summaries of the provision, the effective tax rates, and the tax effects of the cumulative temporary differences resulting in deferred tax assets and liabilities.

(19) **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 January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 806): Clarifying the Definition of a Business, which provides guidance in evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting, including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those periods, with early adoption permitted under certain circumstances. The Company does not expect the adoption of ASU 2017-01 to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 provides guidance on the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 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 March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 provides guidance that simplifies some provisions in

stock compensation accounting for tax consequences related to stock payments and amends how excess tax benefits and payments to cover the tax liabilities of award recipients should be classified. ASU 2016-09 also allows an entity to elect an accounting policy for forfeitures and revises the withholding requirements for classifying stock awards as equity. The guidance is effective for annual periods beginning after December 15, 2016, with early adoption permitted. The Company does not expect the adoption of ASU 2016-09 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 currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The guidance is effective for reporting periods (interim and annual) beginning after December 15, 2017. The Company does not expect the adoption of ASU 2016-01 to have a material effect on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 requires inventory to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 does not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method, but applies to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. ASU 2015-11 is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2015-11 to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. It is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016. The amendment may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company expects to adopt ASU 2014-09 as of January 1, 2018, and continues to deliberate on the transition method. While the Company's evaluation of the impact of the standard is ongoing, representative samples of existing revenue contracts have been considered. The Company continues to evaluate if there will be any effect on the timing and pattern of revenue recognition, and additional disclosures may be required. The Company will continue assessing the impact of ASU 2014-09 on its consolidated financial statements through the date of adoption.

Other pronouncements issued but not effective until after December 31, 2016, are not expected to have a material impact on the Company's consolidated financial statements.

**B. INVENTORIES:**

The amount of inventories valued on the LIFO basis was \$25,031,000 and \$27,394,000 as of December 31, 2016 and 2015, respectively, and consists of housewares/small appliance finished goods. Under LIFO, inventories are valued at approximately \$2,585,000 and \$3,028,000 below current cost determined on a first-in, first-out (FIFO) basis at December 31, 2016 and 2015, respectively. During the years ended December 31, 2016, 2015, and 2014, \$2,451,000, \$0, and \$7,181,000, respectively, of a LIFO layer was liquidated. The Company uses the LIFO method of inventory accounting to improve the matching of costs and revenues for the Housewares/Small Appliance segment.

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The following table describes that which would have occurred if LIFO inventories had been valued at current cost determined on a FIFO basis:

Increase (Decrease) – (In thousands, except per share data)

Year	Cost of Sales	Net Earnings	Earnings Per Share
2016	\$ 443	\$ (292)	\$ (0.04)
2015	\$ 763	\$ (505)	\$ (0.07)
2014	\$ 643	\$ (422)	\$ (0.06)

This information is provided for comparison with companies using the FIFO basis.

Inventory for Defense and raw materials of the Housewares/Small Appliance segments are valued under the FIFO method and total \$70,372,000 and \$61,515,000 at December 31, 2016 and 2015, respectively. The December 31, 2016 FIFO total is comprised of \$169,000 of finished goods, \$66,528,000 of work in process, and \$3,675,000 of raw material. At December 31, 2015 the FIFO total was comprised of \$371,000 of finished goods, \$57,397,000 of work in process, and \$3,747,000 of raw material.

#### C. ACCRUED LIABILITIES:

At December 31, 2016, accrued liabilities consisted of payroll \$4,948,000, product liability \$5,172,000, environmental \$1,010,000, and other \$1,114,000. At December 31, 2015, accrued liabilities consisted of payroll \$4,576,000, product liability \$5,370,000, environmental \$1,180,000, and other \$1,444,000.

The Company is self-insured for health care costs, although it does carry stop loss and other insurance to cover health care claims once they reach a specified threshold. The Company is also subject to product liability claims in the normal course of business. It is partly self-insured for product liability claims, and therefore records an accrual for known claims and estimated incurred but unreported claims in the Company's Consolidated Financial Statements. The Company utilizes historical trends and other analysis to assist in determining the appropriate accrual. An increase in the number or magnitude of claims could have a material impact on the Company's financial condition and results of operations. The Company's policy is to accrue for legal fees expected to be incurred in connection with loss contingencies. See Note K for a discussion of environmental remediation liabilities.

D. TREASURY STOCK:

As of December 31, 2016, the Company has authority from the Board of Directors to reacquire an additional 504,512 shares. During 2015, 88 shares were acquired from a participant in the Company's Incentive Compensation Plan described in Note F to cover that participant's tax withholding obligation related to a vested stock grant in accordance with the Plan's rules. No shares were reacquired in 2016 or 2014. Treasury shares have been used for stock based compensation and to fund a portion of the Company's 401(k) contributions.

E. NET 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.

F. STOCK-BASED COMPENSATION:

The Company, from time to time, enters into separate non-vested share-based payment arrangements with employees and executive officers under the Incentive Compensation Plan approved by stockholders on May 18, 2010, which authorized 50,000 shares to be available for grants. The Compensation Committee of the Company's Board of Directors approves all stock-based compensation awards for employees and executive officers of the Company. The Company grants restricted stock that is subject to continued employment and vesting conditions, but has dividend and voting rights, and uses the fair-market value of the Company's common stock on the grant date to measure the fair value of the awards. The fair value of restricted stock is recognized as expense ratably over the requisite serviced period, net of estimated forfeitures.

During 2016, 2015, and 2014, the Company granted 3,162, 5,779 and 7,367 shares of restricted stock, respectively, to 21 employees and executive officers of the Company. Unless otherwise vested early in accordance with the Incentive Compensation Plan, the restricted stock vests on specified dates in 2019 through 2022, subject to the recipients' continued employment or service through each applicable vesting date.

The Company recognized pre-tax compensation expense in the Consolidated Statements of Comprehensive Income related to stock-based compensation of \$391,000, \$333,000, and \$265,000 in 2016, 2015, and 2014, respectively. As of December 31, 2016, there was approximately \$1,150,000 of unrecognized compensation cost related to the restricted stock awards that is expected to be recognized over a weighted-average period of 3.6 years. There were 1,284, 2,570, and 0 shares of restricted stock that vested during 2016, 2015, and 2014, respectively.

The following table summarizes the activity for non-vested restricted stock:



	2016		2015		2014	
	Shares	Weighted Average Fair Value at Grant Date	Shares	Weighted Average Fair Value at Grant Date	Shares	Weighted Average Fair Value at Grant Date
Non-vested at beginning of period	26,587	\$ 78.00	23,668	\$ 79.02	16,301	\$ 84.96
Granted	3,162	89.10	5,779	84.90	7,367	65.87
Vested	(1,284)	106.92	(2,570)	103.65	0	
Forfeited	0		(290)	78.12	0	
Non-vested at end of period	28,465	\$ 77.93	26,587	\$ 78.00	23,668	\$ 79.02

#### G. 401(K) PLAN:

The Company sponsors a 401(k) retirement plan that covers substantially all non-union employees. Historically, the Company matched up to 50% of the first 4% of salary contributed by employees to the plan. This matching contribution was made with common stock. Starting in 2004, the Company began to match, in cash, an additional 50% of the first 4% of salary contributed by employees plus 3% of total compensation for certain employees. Contributions made from treasury stock, including the Company's related cash dividends, totaled \$1,225,000 in 2016, \$1,098,000 in 2015, and \$1,066,000 in 2014. In addition, the Company made cash contributions of \$924,000 in 2016, \$941,000 in 2015, and \$887,000 in 2014 to the 401(k) Plan. The Company also contributed \$358,000, \$393,000, and \$307,000 to the 401(k) retirement plan covering its union employees at the Amron Division of the AMTEC subsidiary during the years ended December 31, 2016, 2015, and 2014, respectively.

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## H. INCOME TAXES:

The following table summarizes the provision for income taxes from continuing operations:

	For Years Ended December 31		
	(in thousands)		
	2016	2015	2014
Current:			
Federal	\$ 14,391	\$ 21,346	\$ 15,190
State	656	412	1,260
	15,047	21,758	16,450
Deferred:			
Federal	5,799	(989)	(651)
State	561	(9)	(354)
	6,360	(998)	(1,005)
Total tax provision	\$ 21,407	\$ 20,760	\$ 15,445

The effective rate of the provision for income taxes on earnings from continuing operations before income taxes as shown in the Consolidated Statements of Comprehensive Income differs from the applicable statutory federal income tax rate for the following reasons:

	Percent of Pre-tax Income		
	2016	2015	2014
Statutory rate	35.0%	35.0%	35.0%
State tax, net of federal benefit	1.2%	0.4%	1.3%
Tax exempt interest and dividends	(0.2%)	0.0%	(0.1%)
Other	(2.2%)	(2.4%)	(2.8%)
Effective rate	33.8%	33.0%	33.4%

Deferred tax assets and liabilities are recorded based on the differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. The tax effects of the cumulative temporary differences resulting in deferred tax assets and liabilities are as follows at December 31:

	(In thousands)	
	2016	2015
Deferred tax assets		
Goodwill and other intangibles	\$ -	\$ 4,915
Doubtful accounts	2,878	3,561
Insurance (primarily product liability)	1,594	1,934
Vacation	893	993
Inventory	628	520
Deferred compensation	338	304
Other	430	549
Total deferred tax assets	6,761	12,776
Deferred tax liabilities		
Depreciation	8,067	9,440
Goodwill and other intangibles	1,698	-
Total deferred tax liabilities	9,765	9,440
Net deferred tax assets (liabilities)	\$ (3,004)	\$ 3,336

The Company establishes tax reserves in accordance with FASB ASC 740, Income Taxes. As of December 31, 2016, the carrying amount of the Company's gross unrecognized tax benefits was \$288,000 which, if recognized, would affect the Company's effective income tax rate.

The following is a reconciliation of the Company's unrecognized tax benefits for the years ended December 31, 2016 and 2015:

	(In thousands)	
	2016	2015
Balance at January 1	\$ 312	\$ 238
Increases for tax positions taken related to the current year	80	83
Increases for tax positions taken related to prior years	-	23
Decreases for tax positions taken related to prior years	(8)	-
Lapse of statute of limitations	-	(32)
Settlements	(96)	-
Balance at December 31	\$ 288	\$ 312

It is the Company's practice to include tax related interest expense, interest income, and penalties in tax expense. For the year ended December 31, 2015, \$482,000 of interest income associated with tax refunds is included in tax expense. During the years ended December 31, 2016 and 2015, the Company accrued approximately \$15,000 and \$13,000 in interest expense, respectively.

The Company is subject to U.S. federal income tax as well as income taxes of multiple states. During June of 2016, the Internal Revenue Service completed its audits of the tax years 2012 and 2013. As a result of the audits, the tax amortization period of certain intangible assets was shortened. During January of 2015, the state of Wisconsin completed its audits of the tax years 2009 through 2012. For all states in which it does business, the Company is subject to state audit statutes.

#### I. COMMITMENTS AND CONTINGENCIES:

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

#### J. CONCENTRATIONS:

In the Housewares/Small Appliance segment, one customer accounted for 11%, 12%, and 12% of consolidated net sales for the years ended December 31, 2016, 2015, and 2014, respectively.

The Company sources most of its housewares/small appliances from vendors in the Orient and, as a result, risks deliveries from the Orient being disrupted by labor or supply problems at the vendors, or transportation delays. Should such problems or delays materialize, products might not be available in sufficient quantities during the prime selling period. The Company has made and will continue to make every reasonable effort to prevent these problems; however, there is no assurance that its efforts will be totally effective. 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 the segment's product costs. To date, any material impact from fluctuations in the exchange rate has been to the cost of products secured via purchase orders issued subsequent to the currency value change. Foreign transaction gains/losses are immaterial to the financial statements for all years presented.

The Company's Defense segment manufactures products primarily for the U.S. Department of Defense (DOD) and DOD prime contractors. As a consequence, this segment's future business essentially depends on the product needs and governmental funding of the DOD. During 2016, 2015, and 2014, substantially 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, 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. In addition, in the case of the 40mm systems contract, 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. 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 process at the time of termination. Materials used in the Defense segment are available from multiple sources. As of December 31, 2016, 174 employees of Amron, or 15% of the Company's and its subsidiaries' total workforce, are members of the United Steel Workers union. The most recent contract between Amron and the union is effective through February 29, 2020.

## K. ENVIRONMENTAL

In May 1986, the Company's Eau Claire, Wisconsin site was placed on the United States Environmental Protection Agency's National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 because of hazardous waste deposited on the property. As of December 31, 1998, all remediation projects required at the Company's Eau Claire, Wisconsin site had been installed, were fully operational, and restoration activities had been completed. In addition, the Company is a member of a group of companies that may have disposed of waste into an Eau Claire area landfill in the 1960s and 1970s. After the landfill was closed, elevated volatile organic compounds were discovered in the groundwater. Remediation plans were established, and the costs associated with remediation and monitoring at the landfill are split evenly between the group and the City of Eau Claire. As of December 31, 2016, there does not appear to be exposure related to this site that would have a material impact on the operations or financial condition of the Company.

Based on factors known as of December 31, 2016, it is believed that the Company's existing environmental accrued liability reserve will be adequate to satisfy on-going remediation operations and monitoring activities both on- and off-site; however, should environmental agencies require additional studies, extended monitoring, or remediation projects, it is possible that 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. The Company's environmental accrued liability on an undiscounted basis was \$1,010,000 and \$1,180,000 as of December 31, 2016 and 2015, respectively, and is included in accrued liabilities on its balance sheet.

Expected future payments for environmental matters are as follows:

	(In thousands)
Years Ending December 31:	
2017	\$ 240
2018	154
2019	138
2020	122
2021	106
Thereafter	250
	\$ 1,010

## L. BUSINESS SEGMENTS:

The Company operates in two business segments. The Company identifies its segments based on the Company's organization structure, which is primarily by principal products. The principal product groups are Housewares/Small Appliance and Defense. Sales for both segments are primarily to customers in North America. 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, effective in the fourth quarter of 2016, 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. See Note R for further discussion.

The Housewares/Small Appliance segment designs, markets, and distributes housewares and small appliances. These products are sold primarily in the United States and Canada directly to retail outlets and also through independent distributors. As more fully described in Note J, the Company primarily sources its Housewares/Small Appliance products from non-affiliated suppliers located in the Orient. Sales are seasonal, with the normal peak sales period occurring in the fourth quarter of the year prior to the holiday season.

The Defense segment was started in 2001 with the acquisition of AMTEC Corporation, which manufactures precision mechanical and electromechanical assemblies for the U.S. Government and prime contractors. During 2005, and again during 2010, AMTEC Corporation was one of two prime contractors selected by the Army to supply all requirements for the 40mm family of practice and tactical ammunition cartridges for a period of five years. AMTEC's manufacturing plant is located in Janesville, Wisconsin. Since the inception of the Defense segment in 2001, the Company has expanded the segment by making several strategic business acquisitions, and has additional facilities located in East Camden, Arkansas; Antigo, Wisconsin; Perry, Florida; and Clear Lake, South Dakota. During 2003, this segment was expanded with the acquisition of Spectra Technologies, LLC of East Camden, Arkansas. This facility performs Load, Assemble, and Pack (LAP) operations on ordnance-related products for the U.S. Government and prime contractors. During 2006, the segment was expanded with the acquisition of certain assets of Amron, LLC of Antigo, Wisconsin, which primarily manufactures cartridge cases used in medium caliber (20-40mm) ammunition. In 2011 the segment was further augmented with the purchase of certain assets of ALS Technologies, Inc. of Bull Shoals, Arkansas, which manufactures less lethal ammunitions. The Company subsequently relocated this operation to Perry, Florida. During 2014, the Company continued the expansion of the Defense segment with the purchase of substantially all of the assets of Chemring Energetic Devices, Inc. located in Clear Lake, South Dakota, and all of the real property owned by Technical Ordnance Realty, LLC. The Clear Lake facility manufactures detonators, booster pellets, release cartridges, lead azide, and other military energetic devices and materials. See Note P for further discussion of the Clear Lake acquisition. The Defense segment's collection of facilities enables the Company to deliver in virtually all aspects of the manufacture of medium caliber training and tactical rounds and less lethal ammunition. They include the fuze, the metal parts including the cartridge case, the load, assemble and pack of the final round, and the detonator.

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In the following summary, operating profit represents earnings (loss) before other income (loss), principally interest income, and income taxes. The Company's segments operate discretely from each other with no shared manufacturing facilities. Costs associated with corporate activities (such as cash and marketable securities management) and the assets associated with such activities are included within the Housewares/Small Appliance segment for all periods presented.

	(in thousands)			
	Housewares / Small Appliance	Defense	Assets Held for Sale	Total
Year ended December 31, 2016				
External net sales	\$ 108,128	\$ 233,777		\$ 341,905
Gross profit	20,963	64,699		85,662
Operating profit	9,677	52,835		62,512
Total assets	200,639	158,062	\$ 58,893	417,594
Depreciation and amortization	1,045	7,830		8,875
Capital expenditures	1,351	3,473		4,824
Year ended December 31, 2015				
External net sales	\$ 125,944	\$ 229,705		\$ 355,649
Gross profit	27,455	61,978		89,433
Operating profit	16,106	46,419		62,525
Total assets	184,385	143,189	\$ 59,810	387,384
Depreciation and amortization	923	7,905		8,828
Capital expenditures	3,955	121		4,076
Year ended December 31, 2014				
External net sales	\$ 125,653	\$ 221,545		\$ 347,198
Gross profit	24,097	57,209		81,306
Operating profit	13,513	32,317		45,830
Total assets	161,812	149,466	\$ 62,793	374,071
Depreciation and amortization	954	14,555		15,509
Capital expenditures	571	1,165		1,736

#### M. OPERATING LEASES

The Company leases office, manufacturing, and warehouse facilities and equipment under non-cancelable operating leases, many of which contain renewal options ranging from one to five years. Rent expense was approximately \$1,040,000, \$888,000, and \$825,000 for the years ended December 31, 2016, 2015, and 2014, respectively. Future minimum annual rental payments required under operating leases are as follows:

Years ending December 31:	(In thousands)
2017	\$ 437
2018	242
2019	43
2020	22
	\$ 744

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## N. INTERIM FINANCIAL INFORMATION (UNAUDITED):

The following represents quarterly unaudited financial information for 2016 and 2015:

(In thousands, except per share data)

Quarter	Net Sales	Gross Profit	Earnings from Continuing Operations	Earnings (Loss) from Discontinued Operations, net of tax	Net Earnings	Per Share (basic and diluted)		
						Earnings from Continuing Operations, net of tax	Earnings (Loss) from Discontinued Operations, net of tax	Net Earnings
2016								
First	\$ 65,942	\$ 16,048	\$ 6,510	\$ 701	\$ 7,211	\$ 0.94	\$ 0.10	\$ 1.04
Second	69,516	17,167	7,936	338	8,274	1.14	0.05	1.19
Third	74,533	17,094	7,767	537	8,304	1.11	0.08	1.19
Fourth	131,914	35,353	19,702	1,073	20,775	2.82	0.15	2.97
Total	\$ 341,905	\$ 85,662	\$ 41,915	\$ 2,649	\$ 44,564	\$ 6.01	\$ 0.38	\$ 6.39
2015								
First	\$ 82,971	\$ 20,609	\$ 8,299	\$ (190)	\$ 8,109	\$ 1.20	\$ (0.03)	\$ 1.17
Second	84,609	20,560	9,636	(516)	9,120	1.38	(0.07)	1.31
Third	72,325	18,605	8,157	(46)	8,111	1.18	(0.01)	1.17
Fourth	115,744	29,659	16,070	(914)	15,156	2.31	(0.13)	2.18
Total	\$ 355,649	\$ 89,433	\$ 42,162	\$ (1,666)	\$ 40,496	\$ 6.07	\$ (0.24)	\$ 5.83

As shown above, fourth quarter sales are significantly impacted by the holiday driven seasonality of the Housewares/Small Appliance segment. This segment orders/purchases inventory during the first three quarters to meet the sales demand of the fourth quarter. The Defense segment is typically non-seasonal.

## O. LINE OF CREDIT AND COMMERCIAL LETTERS OF CREDIT

The Company maintains an unsecured line of credit for short term operating cash needs. The line of credit is renewed each year at the end of the third quarter. As of December 31, 2016 and 2015, the line of credit limit was set at \$5,000,000, with \$0 outstanding on both dates. The interest rate on the line of credit is reset monthly to the London Inter-Bank Offered Rate (LIBOR) plus one half of one percent. In addition, the Company had issued commercial letters of credit totaling \$1,803,000 and \$303,000 as of December 31, 2016 and 2015, respectively, related to performance on certain customer contracts. As of December 31, 2016, the entire balance of the issued letters of credit had not been drawn upon.

P. BUSINESS ACQUISITION

On January 24, 2014, AMTEC Corporation, a wholly-owned subsidiary of the Company, purchased substantially all of the assets of Chemring Energetic Devices, Inc.'s business located in Clear Lake, South Dakota, and all of the real property owned by Technical Ordnance Realty, LLC. The Clear Lake facility is a manufacturer of detonators, booster pellets, release cartridges, lead azide, and other military energetic devices and materials. Its major customers include U.S. and foreign government agencies, AMTEC Corporation, and other defense contractors. The acquisition of the Clear Lake facility complements the Defense segment's existing line of products. The total consideration transferred was \$10,534,000, consisting of \$10,000,000 of cash paid at closing, and an additional cash payment of \$534,000, which was made during the second quarter of 2014.

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The acquisition was accounted for under the acquisition method of accounting with the Company treated as the acquiring entity. Accordingly, the consideration paid by the Company to complete the acquisition has been recorded to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of acquisition. The fair value of the property, plant and equipment was based upon the assessed value of the land, which was determined to approximate fair value, as well as the income approach in determining the fair value of building improvements and equipment. The carrying values for current assets and liabilities were deemed to approximate their fair values due to the short-term nature of these assets and liabilities. The following table shows the amounts recorded as of the acquisition date.

	(in thousands)
Receivables	\$ 1,498
Inventory	4,688
Other current assets	28
Property, plant and equipment	4,800
Total assets acquired	11,014
Less: Current liabilities assumed	480
Net assets acquired	\$ 10,534

The amount shown above for receivables represents the gross accounts receivable from the sales of goods, net of an allowance for doubtful accounts of \$20,000.

The Company's results of operations for 2014 includes revenue of \$13,732,000 and earnings of \$1,268,000 from the acquired facility from the date of acquisition through December 31, 2014. The following pro forma condensed consolidated results of operations has been prepared as if the acquisition had occurred as of January 1, 2014.

	(unaudited) (in thousands, except per share data) 2014
Net sales	\$ 347,833
Net earnings	26,197
Net earnings per share (basic and diluted)	\$ 3.78
Weighted average shares outstanding (basic and diluted)	6,930

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

#### Q. ACQUISITION OF COMPETITOR'S ASSETS

On November 7, 2013, AMTEC Corporation, a wholly owned subsidiary of the Company, purchased certain assets from its competitor, DSE, Inc. The transaction was considered an acquisition of assets. DSE was the minority prime contractor for the 40mm ammunition system to the Department of Defense. At the time of purchase, DSE had terminated virtually all of its employees and was no longer manufacturing product. The primary assets acquired were a customer contract intangible of \$21,690,000 related to government contract backlog of approximately \$188,000,000, inventory valued at \$11,590,000, and equipment of \$14,245,000. As it already had the personnel, facilities and production equipment in place to fill the acquired backlog, AMTEC did not purchase any of DSE's plants or land and did not acquire or retain DSE's management, operational, resource management, or distribution processes. It also did not procure any of DSE's trademarks or seek to find or hire DSE's former employees. The purchase consideration was \$47,803,000, consisting of \$46,465,000 of cash paid and \$1,338,000 liabilities incurred. This amount does include the customary post-closing adjustments and the valuation of certain liabilities incurred.

#### R. 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 \$67,000,000, subject to customary post-closing adjustments. 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, at a future date. As a result of this transaction, effective in the fourth quarter of 2016, 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. As the selling price less selling costs exceeded the carrying value of the assets and liabilities subject to the purchase agreement, no impairment was indicated or recorded as of December 31, 2016.

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

For the years ended December 31,

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(in thousands)	2016	2015	2014
Net sales	\$ 76,555	\$ 72,041	\$ 65,165
Cost of sales	(70,848)	(71,897)	(69,270)
Selling and general expenses	(2,618)	(2,275)	(1,794)
Other income (expense)	976	(1)	(1)
Earnings (loss) from discontinued operations before provision for income taxes	4,065	(2,132)	(5,900)
Provision for (benefit from) income taxes from discontinued operations	1,416	(466)	(1,625)
Earnings (loss) from discontinued operations, net of tax	\$ 2,649	\$ (1,666)	\$ (4,275)

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)	Year Ended	
	December 31,	
	2016	2015
Accounts receivable, net	\$ 13,781	\$ 11,950
Inventories	10,747	9,713
Property, plant and equipment, net	34,365	38,147
Assets held for sale	\$ 58,893	\$ 59,810
Accounts payable	\$ 5,245	\$ 4,788
Accrued liabilities	1,008	828
Liabilities held for sale	\$ 6,253	\$ 5,616

The Consolidated Statements of Cash Flows do not present the cash flows from discontinued operations separately from cash flows from continuing operations. Cash provided by operating activities from discontinued operations was \$4,477,000, \$4,733,000, and \$3,517,000 for the years ended December 31, 2016, 2015, and 2014, respectively. Cash used in investing activities related to discontinued operations was \$1,139,000, \$2,385,000, and \$9,551,000 for the years ended December 31, 2016, 2015, and 2014, 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 provides for total annual payments of \$1,288,000 initially and 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. The agreement also allows for adjustments to the rental payments based on certain price indices. The Company has also entered into a transition services agreement with Drylock which is expected to continue through the end of 2017.

S. OTHER

The Company has entered into a licensing agreement with another firm that holds intellectual property on certain products that would complement the assortment of products currently sold by the Housewares/Small Appliance segment. Under the agreement, the Company has advanced the entity funds and has agreed to pay royalties to the entity on the commercial sales of the developed products. As of December 31, 2016 and 2015, notes receivable plus accrued interest of \$6,534,000 and \$3,940,000, respectively, related to the license agreement were classified as Notes Receivable on the Company's Consolidated Balance Sheet.

#### T. SUBSEQUENT EVENTS

The Company evaluates events that occur through the filing date and discloses any material events or transactions.

See Note R for a discussion of subsequent events related to discontinued operations.

On February 10, 2017, the Company's Board of Directors announced a regular dividend of \$1.00 per share, plus an extra dividend of \$4.50. On March 15, 2017, a payment of \$38,405,000 was made to the shareholders of record as of March 1, 2017.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

National Presto Industries, Inc.

Eau Claire, Wisconsin

We have audited the accompanying consolidated balance sheets of National Presto Industries, Inc. as of December 31, 2016 and 2015 and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying Schedule II, Valuation and Qualifying Accounts. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Presto Industries, Inc. at December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Presto Industries, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Milwaukee, Wisconsin

March 16, 2017

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## NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES

## SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 2016, 2015 and 2014

(In thousands)

Column A Description	Column B Balance at Beginning of Period	Column C Additions - Charged to Costs and Expenses (A)	Column C Additions - Charged to Other Accounts (B)	Column D Deductions (C)	Column E Balance at End of Period
Deducted from assets: Allowance for doubtful accounts: Year ended December 31, 2016	\$ 1,796	\$ 1	\$ -	\$ (19)	\$ 1,816
Year ended December 31, 2015	\$ 1,319	\$ 516	\$ -	\$ 39	\$ 1,796
Year ended December 31, 2014	\$ 938	\$ 488	\$ 19	\$ 126	\$ 1,319

Notes:

(A) Amounts charged to selling and general expenses.

(B) Amounts charged to other accounts. For the year ended December 31, 2014, this amount reflects the reserve for doubtful accounts recorded in association with a business acquisition that was completed during 2014, which is described in Note P to the Company's Consolidated Financial Statements.

(C) Principally bad debts written off, net of recoveries.



