# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D. C. 20549**

# FORM 10-K/A

**Amendment No. 1**

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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** | **39-0494170** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer 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 ☑*

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☐ No ☑*

Indicate by check mark 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/A. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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: $613,060,092. The number of shares outstanding of each of the registrant's classes of common stock, as of March 1, 2019 was 6,981,085.

The Registrant has incorporated in Part II and Part III of Form 10-K/A, by reference, portions of its 2018 Annual Report and portions of its Proxy Statement for its 2019 Annual Meeting of Stockholders.

* The Form 10-Q report for the quarter ending June 30, 2019 and related interactive data files have not been filed.

## EXPLANATORY NOTE

National Presto Industries, Inc. (the "Company") is filing this Amendment No. 1 to its Form 10-K for the year ended December 31, 2018 to revise its conclusions on the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting following an inspection by the Public Company Accounting Oversight Board ("PCAOB") of BDO USA LLP's ("BDO") audit of the Company's financial statements for the year ended December 31, 2018, as further explained in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 23, 2019. The revised conclusions did not result in any material adjustments to the Company's consolidated financial statements for the year ended December 31, 2018, and accordingly, all other information presented in the Company's Form 10-K for the year ended December 31, 2018 originally filed with the SEC on March 15, 2019 (the "Original Form 10-K"), with the exception of some language in Note A(12) to the Company's Consolidated Financial Statements, remains unchanged. Note A(12) has been revised solely to indicate that the Company's adoption of ASC Topic 606, *Revenue from Contracts with Customers*, did not result in any material change to the Company's pattern of revenue recognition, and that for the Defense segment, revenue is primarily recognized when the customer has legal title and formally documents that it has accepted the products..

The Company does not intend to file amendments to any of its previously filed quarterly reports on Form 10-Q for the interim periods of 2018.

Except as described above and the inclusion of new certifications by management and a new consent of BDO, this Amendment does not amend, update or change the financial statements or any other disclosures in the Original Form 10-K and does not reflect events occurring after the filing of the Original Form 10-K. Accordingly, this Amendment No. 1 should be read in conjunction with the Original 10-K and Company's filings with the SEC subsequent to the date of the Original Form 10-K.

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# PART II

## 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-20.
B. Quarterly financial data is contained in Note N to the Consolidated Financial Statements.

## ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Treasurer (principal financial officer), conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the "1934 Act") as of December 31, 2018. The Company's Chief Executive Officer and Treasurer (principal financial officer) have concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2018, as a result of a material weakness in internal control over financial reporting described below.

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 Rule 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, 2018. 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 this assessment and the material weakness identified below related to revenue recognition, management concluded that as of December 31, 2018, the Company did not maintain effective internal control over financial reporting.

The Company did not properly design and maintain effective controls over revenue for its Defense segment, as the controls failed to demonstrate an appropriate level of precision over the assessment and documentation of the point in time pattern of revenue recognition, and did not fully consider alternative use and the impact of certain termination clauses in its contracts with customers that might create a legal right for payment for work completed prior to the contract termination that would include a reasonable profit margin.

Notwithstanding the material weakness described above, the Company's management has concluded that the consolidated financial statements as originally filed, and as included in this Form 10-K/A, present fairly, in all material respects, the Company's financial position, results of operations and cash flow for the periods presented, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Changes in Internal Control over Financial Reporting

Other than the material weakness described above, there were no changes in internal controls over financial reporting during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Remediation Plan

The Company has designed a remediation plan to address the control deficiencies and strengthen its internal control over financial reporting, which entails reassessing the design and operating effectiveness of its controls over the review of Defense segment contracts, including implementing an appropriate level of precision in its reviews to identify significant key terms and assumptions that could impact the pattern of revenue recognition.

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

Shareholders and Board of Directors
National Presto Industries, Inc.
Eau Claire, Wisconsin

### Opinion on Internal Control over Financial Reporting

We have audited National Presto Industries Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria") In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria. In our report dated March 15, 2019, we expressed an unqualified opinion on the effectiveness of internal control over financial reporting as of December 31, 2018. Subsequent to March 15, 2019, the Company identified a material weakness in its internal control over financial reporting. Management revised its assessment of internal control over financial reporting due to the identification of a material weakness, as described below. Accordingly, our opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 expressed herein is different from that expressed in our previous report.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2018 and 2017, 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, 2018, and the related notes and financial statement schedule listed in Item 15 and our report dated March 15, 2019, expressed an unqualified opinion thereon.

### Basis for Opinion

The Company'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 Report on 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. 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 material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness regarding management's failure to design and maintain effective controls over revenue for the Defense segment has been identified and described in management's assessment as the controls failed to demonstrate an appropriate level of precision over the assessment and documentation of the point in time pattern of revenue recognition and did not fully consider alternative use and the impact of certain termination clauses in its contracts with customers that might create a legal right for payment for work completed prior to the contract termination that would include a reasonable profit margin.

**Definition and Limitations of Internal Control over Financial Reporting**

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.

/s/ BDO USA, LLP
Milwaukee, Wisconsin

March 15, 2019, except as to the effect of the material weakness as described in Management's Annual Report on Internal Control over Financial Reporting, which is dated November 15, 2019

# PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

| | | Form 10-K/A Page Reference |
|---|---|---|
| 1. | Consolidated Financial Statements: | |
| a. | Consolidated Balance Sheets - December 31, 2018 and 2017 | F-1 & F-2 |
| b. | Consolidated Statements of Comprehensive Income - Years ended December 31, 2018, 2017 and 2016 | F-3 |
| c. | Consolidated Statements of Cash Flows - Years ended December 31, 2018, 2017 and 2016 | F-4 |
| d. | Consolidated Statements of Stockholders' Equity - Years ended December 31, 2018, 2017 and 2016 | F-5 |
| e. | Notes to Consolidated Financial Statements | F-6 through F-19 |
| f. | Report of Independent Registered Public Accounting Firm | F-20 |
| 2. | Consolidated Financial Statement Schedule: | |
| | Schedule II - Valuation and Qualifying Accounts | F-21 |

(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 Number | Description |
|---|---|
| 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 |
| Exhibit 10.3* | 2017 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 2, 2017 |
| Exhibit 10.4* | Form of Restricted Stock Award Agreement – 2017 Incentive Compensation Plan - incorporated by reference from Exhibit 10.2 of the Company's quarterly report on Form 10-Q for the quarter ended July 2, 2017 |
| Exhibit 21 | Subsidiaries of the Registrant – incorporated by reference from Exhibit 21 of the Company's annual report on Form 10-K for the year ended December 31, 2018 |
| Exhibit 23.1 | Consent of Independent Registered Public Accounting Firm |
| Exhibit 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 31.2 | Certification of the Treasurer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 32.1 | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 32.2 | Certification of the Treasurer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 101 | The following financial information from National Presto Industries, Inc.'s annual report on Form 10-K/A for the period ended December 31, 2018, 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. |
| | * Compensatory Plans |

(c) Schedules:

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

## 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: November 15, 2019

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

By: /S/ Randy F. Lieble
Randy F. Lieble
Director

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

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

Date: November 15, 2019

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

| December 31 | 2018 | | 2017 | |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | | $ 56,847 | | $ 11,222 |
| Marketable securities | | 134,598 | | 144,252 |
| Accounts receivable | $ 53,119 | | $ 67,089 | |
| Less allowance for doubtful accounts | 747 | 52,372 | 1,869 | 65,220 |
| Inventories: | | | | |
| Finished goods | 28,791 | | 27,242 | |
| Work in process | 59,580 | | 72,219 | |
| Raw materials and supplies | 5,617 | 93,988 | 4,978 | 104,439 |
| Assets held for sale | | 375 | | 6,189 |
| Notes receivable, current | | 7,213 | | - |
| Other current assets | | 6,869 | | 7,186 |
| Total current assets | | 352,262 | | 338,508 |
| PROPERTY, PLANT AND EQUIPMENT: | | | | |
| Land and land improvements | 3,008 | | 4,985 | |
| Buildings | 45,995 | | 47,412 | |
| Machinery and equipment | 47,091 | | 51,141 | |
| | 96,094 | | 103,538 | |
| Less allowance for depreciation and amortization | 56,951 | 39,143 | 58,370 | 45,168 |
| GOODWILL | | 11,485 | | 11,485 |
| INTANGIBLE ASSETS, net | | 1,000 | | 3,330 |
| NOTES RECEIVABLE | | 6,966 | | 6,750 |
| DEFERRED INCOME TAXES | | 1,088 | | 995 |
| OTHER ASSETS | | 1,674 | | 5,637 |
| | | $ 413,618 | | $ 411,873 |

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 | 2018 | | 2017 | |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable | | $ 34,100 | | $ 28,445 |
| Federal and state income taxes | | 1,384 | | 3,750 |
| Accrued liabilities | | 12,011 | | 13,092 |
| Liabilities held for sale | | - | | 210 |
| Total current liabilities | | 47,495 | | 45,497 |
| **COMMITMENTS AND CONTINGENCIES** | | | | |
| **STOCKHOLDERS' EQUITY** | | | | |
| Common stock, $1 par value: | | | | |
| Authorized: 12,000,000 shares at December 31, 2018 and 2017 | | | | |
| Issued: 7,440,518 shares at December 31, 2018 and 2017 | | | | |
| Outstanding: 6,981,080 and 6,968,120 shares at December 31, 2018 and 2017, respectively | $ 7,441 | | $ 7,441 | |
| Paid-in capital | 10,360 | | 9,074 | |
| Retained earnings | 362,709 | | 364,757 | |
| Accumulated other comprehensive income (loss) | 21 | | (86) | |
| | 380,531 | | 381,186 | |
| Less treasury stock, at cost, 459,438 and 472,398 shares at December 31, 2018 and 2017, respectively | 14,408 | | 14,810 | |
| Total stockholders' equity | | 366,123 | | 366,376 |
| | | $ 413,618 | | $ 411,873 |

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

**NATIONAL PRESTO INDUSTRIES, INC.**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(In thousands except per share data)

| | For the years ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|
| Net sales | $ 323,317 | $ 333,633 | $ 341,905 |
| Cost of sales | 247,434 | 246,399 | 256,243 |
| Gross profit | 75,883 | 87,234 | 85,662 |
| Selling and general expenses | 23,286 | 22,900 | 22,429 |
| Intangibles amortization | 2,167 | 2,630 | 721 |
| Loss on divestiture, net | 2,528 | - | - |
| Operating profit | 47,902 | 61,704 | 62,512 |
| Other income | 4,437 | 3,581 | 810 |
| Earnings from continuing operations before provision for income taxes | 52,339 | 65,285 | 63,322 |
| Provision for income taxes from continuing operations | 12,450 | 21,971 | 21,407 |
| Earnings from continuing operations | 39,889 | 43,314 | 41,915 |
| Earnings from discontinued operations, net of tax | 51 | 9,645 | 2,649 |
| Net earnings | $ 39,940 | $ 52,959 | $ 44,564 |
| | | | |
| Weighted average common shares outstanding: | | | |
| Basic and diluted | 7,005 | 6,989 | 6,970 |
| | | | |
| Earnings per share, basic and diluted: | | | |
| From continuing operations | $ 5.69 | $ 6.20 | $ 6.01 |
| From discontinued operations | 0.01 | 1.38 | 0.38 |
| Net earnings per share | $ 5.70 | $ 7.58 | $ 6.39 |
| | | | |
| Comprehensive income: | | | |
| Net earnings | 39,940 | 52,959 | 44,564 |
| Other comprehensive income (loss), net of tax: | | | |
| Unrealized gain (loss) on available-for-sale securities | 107 | (39) | (38) |
| Comprehensive income | $ 40,047 | $ 52,920 | $ 44,526 |

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

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

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Cash flows from operating activities: | | | |
| Net earnings | $ 39,940 | $ 52,959 | $ 44,564 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Provision for depreciation | 4,052 | 7,258 | 13,962 |
| Intangibles amortization | 2,167 | 2,630 | 721 |
| Deferred income tax provision (benefit) | (121) | (4,001) | 6,360 |
| Net loss (gain) and impairment on divestiture of businesses | 2,528 | (11,413) | - |
| Net gain on involuntary conversion of machinery and equipment | - | (2,713) | (968) |
| Loss on disposal and impairment of property, plant and equipment | 163 | 248 | 434 |
| Provision for doubtful accounts | 458 | 70 | 1 |
| Noncash retirement plan expense | 698 | 675 | 782 |
| Other | 229 | 238 | 217 |
| Changes in operating accounts: | | | |
| Accounts receivable | 11,546 | 1,848 | (13,539) |
| Inventories | 6,821 | (8,730) | (7,528) |
| Other assets and current assets | 4,067 | (806) | 5,148 |
| Accounts payable and accrued liabilities | 6,066 | (11,462) | 12,145 |
| Federal and state income taxes receivable/payable | (2,366) | (2,523) | 4,077 |
| Net cash provided by operating activities | 76,248 | 24,278 | 66,376 |
| | | | |
| Cash flows from investing activities: | | | |
| Marketable securities purchased | (163,271) | (192,584) | (86,119) |
| Marketable securities - maturities and sales | 173,060 | 132,752 | 33,863 |
| Proceeds from divestiture of businesses, net of cash paid | 9,410 | 64,033 | - |
| Purchase of property, plant and equipment | (8,686) | (7,396) | (6,950) |
| Notes issued | (2,300) | - | (2,419) |
| Proceeds from insurance settlement | 2,630 | 2,104 | 987 |
| Acquisition of intangible assets | - | (1,000) | (211) |
| Sale of property, plant and equipment | 1 | 1 | 3 |
| Net cash provided by (used in) investing activities | 10,844 | (2,090) | (60,846) |
| | | | |
| Cash flows from financing activities: | | | |
| Dividends paid | (41,989) | (38,405) | (35,161) |
| Proceeds from sale of treasury stock | 528 | 519 | 443 |
| Other | (6) | (114) | - |
| Net cash used in financing activities | (41,467) | (38,000) | (34,718) |
| | | | |
| Net increase (decrease) in cash and cash equivalents | 45,625 | (15,812) | (29,188) |
| Cash and cash equivalents at beginning of year | 11,222 | 27,034 | 56,222 |
| Cash and cash equivalents at end of year | $ 56,847 | $ 11,222 | $ 27,034 |
| | | | |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Income taxes | $ 14,968 | $ 32,837 | $ 17,278 |

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, 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 |
| Net earnings | | | | 52,959 | | | 52,959 |
| Unrealized loss on available-for-sale securities, net of tax | | | | | (39) | | (39) |
| Dividends paid March 15, $1.00 per share regular, $4.50 per share extra | | | | (38,405) | | | (38,405) |
| Other | 17 | | 1,161 | - | | 464 | 1,625 |
| Balance December 31, 2017 | 6,968 | 7,441 | 9,074 | 364,757 | (86) | (14,810) | 366,376 |
| Net earnings | | | | 39,940 | | | 39,940 |
| Unrealized gain on available-for-sale securities, net of tax | | | | | 107 | | 107 |
| Dividends paid March 15, $1.00 per share regular, $5.00 per share extra | | | | (41,989) | | | (41,989) |
| Other | 13 | | 1,286 | 1 | | 402 | 1,689 |
| Balance December 31, 2018 | 6,981 | $ 7,441 | $ 10,360 | $ 362,709 | $ 21 | $ (14,408) | $366,123 |

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

**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 $68,448,000. The proceeds amount differs from the amount originally disclosed because of the customary post-closing adjustments that were finalized during the second quarter of 2017, totaling $1,448,000. The asset purchase agreement also provided for additional proceeds of $4,000,000 upon the sale of certain delayed assets, consisting of machinery and equipment that were the subject of an involuntary conversion. The sale of the delayed assets was consummated during the second quarter of 2018 and resulted in no gain or loss. As a result of the aforementioned transactions, 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 P for further discussion.

(3) RECLASSIFICATIONS: 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 $3,057,000 and $3,157,000 at December 31, 2018 and 2017, respectively, are included as reductions of cash and cash equivalents or book 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, 2018 and 2017, cost for marketable securities was determined using the specific identification method. A summary of the amortized costs and fair values of the Company's marketable securities at 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.

| | (In thousands) MARKETABLE SECURITIES | | | |
|---|---|---|---|---|
| | **Amortized Cost** | **Fair Value** | **Gross Unrealized Gains** | **Gross Unrealized Losses** |
| December 31, 2018 | | | | |
| Tax-exempt Municipal Bonds | $ 40,156 | $ 40,182 | $ 44 | $ 18 |
| Variable Rate Demand Notes | 94,416 | 94,416 | - | - |
| Total Marketable Securities | $ 134,572 | $ 134,598 | $ 44 | $ 18 |
| | | | | |
| December 31, 2017 | | | | |
| Tax-exempt Municipal Bonds | $ 30,103 | $ 29,994 | $ - | $ 109 |
| Variable Rate Demand Notes | 114,258 | 114,258 | - | - |
| Total Marketable Securities | $ 144,361 | $ 144,252 | $ - | $ 109 |

Proceeds from sales and maturities of marketable securities totaled $173,060,000 in 2018, $132,752,000 in 2017, and $33,863,000 in 2016. There were no realized gross gains or losses related to sales of marketable securities during the years ended December 31, 2018, 2017 and 2016. Net unrealized gains (losses) included in other comprehensive income were $135,000, $(37,000) and $(57,000) before taxes for the years ended December 31, 2018, 2017, and 2016, 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, 2018 are as follows: $21,787,000 within one year; $35,857,000 beyond one year to five years; $17,538,000 beyond five years to ten years, and $59,416,000 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 net realizable value with cost being determined principally on the last-in, first-out (LIFO) method. Defense segment inventories are stated at the lower of cost and net realizable value 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. As a result of the divestiture of one of its operating facilities in the Defense segment during 2018, the Company recorded an impairment of $2,975,000 during the third quarter of 2018. See Note Q for further explanation. Approximately $264,000 of construction in progress in the Company's Housewares/Small Appliance segment is presented on the Consolidated Balance Sheet as Machinery and Equipment at December 31, 2018, and approximately $1,437,000 of construction in progress in the Company's Defense segment is presented on the Consolidated Balance Sheet as Buildings at December 31, 2018. The construction in progress is expected to be completed by the third quarter of 2019. Approximately $374,000 and $764,000 of construction in progress in the Company's Defense segment is presented on the Consolidated Balance Sheet as Buildings and Machinery and Equipment, respectively, at December 31, 2017.

(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 2018, 2017, or 2016.

The Company's goodwill as of December 31, 2018 and 2017 was $11,485,000, relating entirely to its Defense segment, which had no cumulative impairment charges at December 31, 2018.

(10) INTANGIBLE ASSETS: Intangible assets primarily consist of the value of an acquired government sales contract and the value of trademarks and trade secrets. 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 2 to 10 years. As of December 31, 2018, the Company determined that the trade secrets, which were acquired during 2017, had an indefinite life.

Intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. As a result of the divestiture of one of its operating facilities in the Defense segment during 2018, the Company recorded an impairment of $46,000 during the third quarter of 2018. See Note Q for further explanation. There were no impairments of intangible assets recognized during 2017 or 2016.

There were no intangible assets subject to amortization at December 31, 2018. 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, 2017. Accumulated amortization was $0 and $19,570,000 at December 31, 2018 and 2017, respectively. Amortization expense was $2,167,000, $2,630,000, and $721,000 during the years ended December 31, 2018, 2017, and 2016, respectively.

(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, 2018 and 2017, $6,864,000 and $11,567,000 of such prepayments, respectively, remained unused and outstanding. At December 31, 2018 and 2017, $5,190,000 and $5,930,000 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) REVENUES: The Company's revenues are derived from short-term contracts and programs that are typically completed within 3 to 24 months and are recognized in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. The standard was adopted on January 1, 2018 and did not result in any material change to the Company's pattern of revenue recognition. The Company's contracts each contain one or more performance obligations: the physical delivery of distinct ordered product or products. The Company provides an assurance type product warranty on its products to the original owner. In addition, for the Housewares/Small

Appliances segment, the Company estimates returns of seasonal products and returns of newly introduced products sold with a return privilege. Stand-alone selling prices are set forth in each contract and are used to allocate revenue to the corresponding performance obligations. For the Housewares/Small Appliances segment, contracts include variable consideration, as the prices are subject to customer allowances, which principally consist of allowances for cooperative advertising, defective product, and trade discounts. Customer allowances are generally allocated to the performance obligations based on budgeted rates agreed upon with customers, as well as historical experience, and yield the Company's best estimate of the expected value for the variable consideration.

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

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

The timing of revenue recognition, billings, and cash collections results in billed accounts receivable, and customer advances and deposits (contract liabilities) on the Company's Condensed Consolidated Balance Sheets. For the Defense segment, the Company occasionally receives advances or deposits from certain customers before revenue is recognized, resulting in contract liabilities. These advances or deposits do not represent a significant financing component. As of December 31, 2018 and 2017, $9,579,000 and $8,364,000, respectively, of contract liabilities were included in Accounts Payable on the Company's Condensed Consolidated Balance Sheets. The Company recognized revenue of $676,000 during 2018 that was included in the Defense segment contract liability at the beginning of the year. The Company monitors its estimates of variable consideration, which includes customer allowances for cooperative advertising, defective product, and trade discounts, and returns of seasonal and newly introduced product, all of which pertain to the Housewares/Small Appliances segment, and periodically makes cumulative adjustments to the carrying amounts of these contract liabilities as appropriate. During 2018 and 2017, there were no material adjustments to the aforementioned estimates. There were no material amounts of revenue recognized during the same periods related to performance obligations satisfied in a previous period. The portion of contract transaction prices allocated to unsatisfied performance obligations, also known as the contract backlog, in the Company's Defense segment were $333,592,000 and $308,173,000 as of December 31, 2018 and 2017, respectively. The Company anticipates that the unsatisfied performance obligations will be fulfilled in an 18 to 24-month period. The performance obligations in the Housewares/Small Appliances segment have original expected durations of less than one year.

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

(13) ADVERTISING: The Company's policy is to expense advertising as incurred and include it in selling and general expenses. Advertising expense was $181,000, $174,000, and $369,000 in 2018, 2017, and 2016, respectively.

(14) 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 | |
|---|---|---|
| | 2018 | 2017 |
| Beginning balance January 1 | $ 383 | $ 543 |
| Accruals during the period | 315 | 268 |
| Charges / payments made under the warranties | (477) | (428) |
| Balance December 31 | $ 221 | $ 383 |

(15) 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.

(16) 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. In December 2017, the United States enacted changes to its tax laws, which included a reduction of the corporate income tax rate from 35% to 21%, beginning in 2018. The reduction in the tax rate resulted in a revaluation of the Company's deferred tax assets and liabilities held at December 31, 2017.

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

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company intends to adopt the new standard utilizing a modified retrospective method with no restatement of comparative periods, and also intends to elect the package of practical expedients, as well as the hindsight and short term lease practical expedients. The Company continues to evaluate the impact of the adoption of ASU 2016-02 on its consolidated financial statements. The evaluation includes identifying, cataloging, and categorizing its current leasing arrangements and evaluating new disclosure requirements. The Company estimates the adoption of the new standard will result in the recognition of ROU assets of approximately $4,000,000, with corresponding lease liabilities of the same amount.

Other pronouncements issued but not effective until after December 31, 2018, 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 $27,788,000 and $26,019,000 as of December 31, 2018 and 2017, respectively, and consists of housewares/small appliance finished goods. Under LIFO, inventories are valued at approximately $4,024,000 and $3,835,000 below current cost determined on a first-in, first-out (FIFO) basis at December 31, 2018 and 2017, respectively. During the years ended December 31, 2018, 2017, and 2016, $26,000, $64,000, and $2,451,000, 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.

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 | |
|---|---|---|---|---|---|---|
| 2018 | $ | (189) | $ | 143 | $ | 0.02 |
| 2017 | $ | (1,250) | $ | 830 | $ | 0.12 |
| 2016 | $ | 443 | $ | (292) | $ | (0.04) |

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 $66,200,000 and $78,420,000 at December 31, 2018 and 2017, respectively. At December 31, 2018, the FIFO total was comprised of $1,003,000 of finished goods, $59,580,000 of work in process, and $5,617,000 of raw material. At December 31, 2017, the FIFO total was comprised of $1,223,000 of finished goods, $72,219,000 of work in process, and $4,978,000 of raw material.

**C. ACCRUED LIABILITIES:**
At December 31, 2018, accrued liabilities consisted of payroll $5,130,000, product liability $4,949,000, environmental $1,120,000, and other $812,000. At December 31, 2017, accrued liabilities consisted of payroll $5,827,000, product liability $4,965,000, environmental $1,150,000, and other $1,150,000.

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, 2018, the Company has authority from the Board of Directors to reacquire an additional 503,311 shares. During 2018 and 2017, 62 and 1,139 shares, respectively, were acquired from participants in the Company’s Incentive Compensation Plans described in Note F to cover those participants’ tax withholding obligations related to

vested stock grants in accordance with the Plans' rules. No shares were reacquired in 2016. 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 and the 2017 Incentive Compensation Plan approved by shareholders on May 16, 2017, which authorized 50,000 and 150,000 shares, respectively, 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 2018, 2017, and 2016, the Company granted 3,886 shares, 7,837 shares, and 3,162 shares of restricted stock, respectively, to 23 employees and executive officers of the Company. Unless otherwise vested early in accordance with the Incentive Compensation Plans, the restricted stock vests on specified dates in 2021 through 2024, 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 $469,000, $545,000, and $391,000 in 2018, 2017, and 2016, respectively. As of December 31, 2018, there was approximately $1,406,000 of unrecognized compensation cost related to the restricted stock awards that is expected to be recognized over a weighted-average period of 3.8 years. There were 1,359, 6,492, and 1,284 shares of restricted stock that vested during 2018, 2017, and 2016, respectively.

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

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | **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 | 29,810 | $ 83.40 | 28,465 | $ 77.93 | 26,587 | $ 78.00 |
| Granted | 3,886 | 116.49 | 7,837 | 105.06 | 3,162 | 89.10 |
| Vested | (1,359) | 72.25 | (6,492) | 85.58 | (1,284) | 106.92 |
| Forfeited | 0 | - | 0 | - | 0 | - |
| Non-vested at end of period | 32,337 | $ 87.84 | 29,810 | $ 83.40 | 28,465 | $ 77.93 |

**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 $1,218,000 in 2018, $1,194,000 in 2017, and $1,225,000 in 2016. In addition, the Company made cash contributions of $821,000 in 2018, $817,000 in 2017, and $924,000 in 2016 to the 401(k) Plan. The Company also contributed $352,000, $369,000, and $358,000 to the 401(k) retirement plan covering its union employees at the Amron Division of the AMTEC subsidiary during the years ended December 31, 2018, 2017, and 2016, respectively.

## H. INCOME TAXES:

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

| | For Years Ended December 31 (in thousands) | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Current: | | | |
| Federal | $ 10,996 | $ 24,200 | $ 14,391 |
| State | 1,575 | 1,772 | 656 |
| | 12,571 | 25,972 | 15,047 |
| Deferred: | | | |
| Federal | (280) | (4,008) | 5,799 |
| State | 159 | 7 | 561 |
| | (121) | (4,001) | 6,360 |
| Total tax provision | $ 12,450 | $ 21,971 | $ 21,407 |

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 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Statutory rate | 21.0% | 35.0% | 35.0% |
| State tax, net of federal benefit | 2.6% | 1.8% | 1.2% |
| Tax exempt interest and dividends | (0.6%) | (0.7%) | (0.2%) |
| Other | 0.8% | (2.4%) | (2.2%) |
| Effective rate | 23.8% | 33.7% | 33.8% |

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) | |
|---|---|---|
| | 2018 | 2017 |
| **Deferred tax assets** | | |
| Insurance (primarily product liability) | $ 900 | $ 1,023 |
| Vacation | 527 | 596 |
| Inventory | 339 | 654 |
| Deferred compensation | 303 | 253 |
| Environmental | 237 | 275 |
| Doubtful accounts | 158 | 447 |
| Other | 37 | 72 |
| Total deferred tax assets | 2,501 | 3,320 |
| **Deferred tax liabilities** | | |
| Goodwill and other intangibles | 1,200 | 1,112 |
| Depreciation | 213 | 338 |
| Deferred revenue | - | 875 |
| Total deferred tax liabilities | 1,413 | 2,325 |
| **Net deferred tax assets** | $ 1,088 | $ 995 |

In December 2017, the United States enacted changes to its tax laws, which included a reduction of the corporate income tax rate from 35% to 21%, beginning in 2018. The reduction in the tax rate resulted in a revaluation of the Company's deferred tax assets and liabilities held at December 31, 2017, causing an increase in its 2017 income tax provision of

$534,000. The Company believes its accounting assessment for the impact of the enacted changes to the United States tax laws is complete.

The Company establishes tax reserves in accordance with FASB ASC 740, *Income Taxes*. As of December 31, 2018, the carrying amount of the Company's gross unrecognized tax benefits was $320,000 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, 2018 and 2017:

| | (In thousands) | |
|---|---|---|
| | **2018** | **2017** |
| Balance at January 1 | $ 459 | $ 288 |
| Increases for tax positions taken related to the current year | 73 | 128 |
| Increases for tax positions taken related to prior years | - | 66 |
| Decreases for tax positions taken related to prior years | (54) | - |
| Lapse of statute of limitations | (56) | (23) |
| Settlements | (102) | - |
| Balance at December 31 | $ 320 | $ 459 |

It is the Company's practice to include tax related interest expense, interest income, and penalties in tax expense. During the years ended December 31, 2018, 2017 and 2016, the Company accrued approximately $14,000, $17,000 and $15,000 in interest expense, respectively.

The Company is subject to U.S. federal income tax as well as income taxes of multiple states. During 2018, the state of Wisconsin completed its audits of the tax years 2013 through 2016. 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. 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 10%, 10%, and 11% of consolidated net sales for the years ended December 31, 2018, 2017, and 2016, 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 2018, 2017, and 2016, 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, 2018, 170 employees of Amron, or 18% 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, 2018, 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, 2018, 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 $1,120,000 and $1,150,000 as of December 31, 2018 and 2017, 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:** | | |
| 2019 | $ | 230 |
| 2020 | | 165 |
| 2021 | | 150 |
| 2022 | | 135 |
| 2023 | | 120 |
| Thereafter | | 320 |
| | $ | 1,120 |

**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, 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 P for further discussion.

The Housewares/Small Appliance segment designs, markets, and distributes housewares and small appliances. The housewares/small appliance 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. In 2016, AMTEC was awarded a one-year contract, and in 2017, it was awarded a third five-year contract as the sole prime contractor. 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, the 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, and in October of 2018, divested itself of the less lethal business. See Note Q for further explanation. 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. 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. They include the fuze, the metal parts including the cartridge case, the load, assemble and pack of the final round, and the detonator.

In the following summary, operating profit represents earnings before other income, income taxes, and discontinued operations. 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, 2018** | | | | |
| External net sales | $ 93,771 | $ 229,546 | | $ 323,317 |
| Gross profit | 14,904 | 60,979 | | 75,883 |
| Operating profit | 2,991 | 44,911 | | 47,902 |
| Total assets | 280,607 | 132,636 | $ 375 | 413,618 |
| Depreciation and amortization | 1,384 | 4,835 | | 6,219 |
| Capital expenditures | 8,010 | 676 | | 8,686 |
| **Year ended December 31, 2017** | | | | |
| External net sales | $ 97,299 | $ 236,334 | | $ 333,633 |
| Gross profit | 16,850 | 70,384 | | 87,234 |
| Operating profit | 6,264 | 55,440 | | 61,704 |
| Total assets | 242,815 | 162,869 | $ 6,189 | 411,873 |
| Depreciation and amortization | 1,328 | 8,511 | | 9,839 |
| Capital expenditures | 1,849 | 1,301 | | 3,150 |
| **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 |

## 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 ten years. Rent expense was approximately $1,050,000, $994,000, and $1,040,000 for the years ended December 31, 2018, 2017, and 2016 respectively. Future minimum annual rental payments required under operating leases are as follows:

| Years ending December 31: | | (In thousands) |
|---|---|---|
| 2019 | $ | 610 |
| 2020 | | 423 |
| 2021 | | 263 |
| 2022 | | 200 |
| 2023 | | 193 |
| Thereafter | | 40 |
| | $ | 1,729 |

## N. INTERIM FINANCIAL INFORMATION (UNAUDITED):

The following represents quarterly unaudited financial information for 2018 and 2017:

| | (In thousands, except per share data) | | | | | Per Share (basic and diluted) | | |
|---|---|---|---|---|---|---|---|---|
| Quarter | Net Sales | Gross Profit | Earnings from Continuing Operations | Earnings (Loss) from Discontinued Operations, net of tax | Net Earnings | Earnings from Continuing Operations | Earnings (Loss) from Discontinued Operations, net of tax | Net Earnings |
| 2018 | | | | | | | | |
| First | $ 76,826 | $ 20,277 | $ 10,994 | $ (8) | $ 10,986 | $ 1.57 | $ - | $ 1.57 |
| Second | 79,227 | 19,445 | 10,776 | (1) | 10,775 | 1.54 | - | 1.54 |
| Third | 81,653 | 15,697 | 6,240 | 131 | 6,371 | 0.89 | 0.02 | 0.91 |
| Fourth | 85,611 | 20,464 | 11,879 | (71) | 11,808 | 1.69 | (0.01) | 1.68 |
| Total | $ 323,317 | $ 75,883 | $ 39,889 | $ 51 | $ 39,940 | $ 5.69 | $ 0.01 | $ 5.70 |
| 2017 | | | | | | | | |
| First | $ 72,854 | $ 20,126 | $ 9,973 | $ 8,182 | $ 18,155 | $ 1.43 | $ 1.17 | $ 2.60 |
| Second | 74,561 | 17,560 | 8,941 | 771 | 9,712 | 1.28 | 0.11 | 1.39 |
| Third | 70,614 | 18,892 | 8,338 | (6) | 8,332 | 1.19 | - | 1.19 |
| Fourth | 115,604 | 30,656 | 16,062 | 698 | 16,760 | 2.30 | 0.10 | 2.40 |
| Total | $ 333,633 | $ 87,234 | $ 43,314 | $ 9,645 | $ 52,959 | $ 6.20 | $ 1.38 | $ 7.58 |

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. As discussed in Note P, the Company sold its Absorbent Products business on January 3, 2017, and the gain on divestiture was recorded primarily in the first quarter of 2017.

## 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, 2018 and 2017, 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 $1,247,000 and $1,197,000 as of December 31, 2018 and 2017, respectively, related to performance on certain customer contracts. As of December 31, 2018, the entire balance of the issued letters of credit had not been drawn upon.

## P. DISCONTINUED OPERATIONS

On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. (“PAPI”), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. (“Drylock”) in exchange for $68,448,000. The proceeds amount differs from the amount originally disclosed because of the customary post-closing adjustments that were finalized during the second quarter of 2017, totaling $1,448,000. The asset purchase agreement also provided for additional proceeds of $4,000,000 upon the sale of certain delayed assets, consisting of machinery and equipment that were the subject of an involuntary conversion. The sale of the delayed assets was consummated during the second quarter of 2018 and resulted in no gain or loss. As a result of the aforementioned transactions, the Company classified its results of operations for all periods presented to reflect its Absorbent Products business as a discontinued operation, and classified the assets and liabilities of its Absorbent Products business as held for sale. The Company's pre-tax gain on the sale of $11,413,000, net of one-time transaction costs, was recorded in 2017 within earnings from discontinued operations. This amount differs from the gain originally reported as a result of the post-closing adjustments mentioned above that were finalized in the second quarter of 2017.

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, | | |
|---|---|---|---|
| **(in thousands)** | **2018** | **2017** | **2016** |
| Net sales | $ - | $ 421 | $ 76,555 |
| Cost of sales | 65 | (675) | (70,848) |
| Selling and general expenses | - | (25) | (2,618) |
| Gain on divestiture, net | - | 11,413 | - |
| Other income (expense) | - | 2,753 | 976 |
| Earnings from discontinued operations before provision for income taxes | 65 | 13,887 | 4,065 |
| Provision for income taxes from discontinued operations | 14 | 4,242 | 1,416 |
| Earnings from discontinued operations, net of tax | $ 51 | $ 9,645 | $ 2,649 |

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:

| | Year Ended December 31, | |
|---|---|---|
| **(in thousands)** | **2018** | **2017** |
| Accounts receivable, net | $ 375 | $ 2,529 |
| Property, plant and equipment, net | - | 3,660 |
| Assets held for sale | $ 375 | $ 6,189 |
| | | |
| Accounts payable | $ - | $ 210 |
| Liabilities held for sale | $ - | $ 210 |

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 (used in) operating activities from discontinued operations was $(636,000), $(5,447,000), and $4,477,000 for the years ended December 31, 2018, 2017, and 2016, respectively. Cash provided by (used in) investing activities related to discontinued operations was $6,290,000, $61,891,000, and $(1,139,000) for the years ended December 31, 2018, 2017, and 2016, respectively.

In connection with the asset purchase agreement discussed above, the Company entered into a 10-year lease agreement with Drylock for a portion of its manufacturing and warehouse facilities. The lease agreement provided for total annual payments of $1,288,000 initially. During the fourth quarter of 2018, the lease agreement was amended to incorporate additional facilities that the Company built for Drylock. The amended lease provides for an initial term of approximately 14 years, and allows for successive three-year renewal periods, as well as options to terminate the lease early after five and ten years. The amended lease also provides for adjustments to the rental payments based on certain price indices, taxes, and space occupied. The Company estimates that annual payments under the lease will total $1,755,000. The Company also entered into a transition services agreement with Drylock, which terminated at the end of 2017. The amounts received from Drylock for transition services and rental income are recorded in Other Income on the Consolidated Statements of Comprehensive Income.

**Q. DIVESTITURE**
On October 17, 2018, the Company, through its wholly owned subsidiary AMTEC Corporation, sold the outstanding stock of its wholly owned subsidiary AMTEC Less Lethal Systems, Inc. ("ALS") to PACEM Defense LLC ("PACEM"), a third party, in exchange for cash and promissory notes totaling $10,636,000, subject to customary post-closing adjustments. The Company tested long-lived assets for recoverability in the quarter ending September 30, 2018 and recorded an impairment charge of $3,021,000. The pre-tax loss on divestiture, including the impairment charge, recorded in 2018 was $2,528,000. The Company expects the post-closing adjustments mentioned above to be finalized during the first quarter of 2019. As of December 31, 2018, $4,913,000 of promissory notes and accrued interest related to the divestiture of ALS are included on the Company's balance sheet as Notes Receivable, Current. Accrued interest and principal for both notes become due during the fourth quarter of 2019.

The Company determined this transaction did not qualify for discontinued operations treatment, since it did not represent a strategic shift that had or would have a major effect on the Company's operations and financial results.

**R. OTHER**
The Company has entered into a licensing agreement with another firm that holds intellectual property on the Rusoh® self-service/self-reloadable fire extinguisher. 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, 2018 and 2017, notes receivable plus accrued interest of $6,966,000 and $6,750,000, respectively, related to the license agreement were classified as Notes Receivable on the Company's Consolidated Balance Sheets. The fire extinguisher was introduced to the commercial market in 2017, and the Company believes that collectability of the notes receivable is probable.

During the fourth quarter of 2018 the Company issued a promissory note of $2,300,000 related to an option agreement with an unrelated third party. The note is included on the Company's balance sheet as Notes Receivable, Current.

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

On February 15, 2019, the Company's Board of Directors announced a regular dividend of $1.00 per share, plus an extra dividend of $5.00. On March 15, 2019, a payment of $42,087,000 was made to the shareholders of record as of March 1, 2019.

**Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors
National Presto Industries, Inc.
Eau Claire, Wisconsin

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of National Presto Industries, Inc. (the "Company") and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in Item 15 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, 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 15, 2019, November 15, 2019, as to the effects of the material weakness as described in Management's Annual Report on Internal Control over Financial Reporting, which expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2007.

Milwaukee, Wisconsin

March 15, 2019

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 2018, 2017 and 2016

(In thousands)

| Column A | Column B | Column C | Column C | Column D | Column E |
|---|---|---|---|---|---|
| Description | Balance at Beginning of Period | Additions - Charged to Costs and Expenses (A) | Additions - Charged to Other Accounts (B) | Deductions (C) | Balance at End of Period |
| Deducted from assets: | | | | | |
| Allowance for doubtful accounts: | | | | | |
| Year ended December 31, 2018 | $ 1,869 | $ 458 | $ (1,422) | $ 158 | $ 747 |
| Year ended December 31, 2017 | $ 1,816 | $ 70 | $ - | $ 17 | $ 1,869 |
| Year ended December 31, 2016 | $ 1,796 | $ 1 | $ - | $ (19) | $ 1,816 |

Notes:

(A) Amounts charged to selling and general expenses.

(B) Amounts charged to other accounts. Charged to the loss on divestiture of AMTEC Less Lethal Systems, Inc. (See Note Q to the Consolidated Financial Statements.)

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

**EXHIBIT 23.1**

# CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

National Presto Industries, Inc.
Eau Claire, Wisconsin

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-46711) of National Presto Industries, Inc. of our reports dated March 15, 2019 (except as to the effect of the material weakness described in Management's Annual Report on Internal Control over Financial Reporting, which is dated November 15, 2019), relating to the consolidated financial statements and financial statement schedule and the effectiveness of internal control over financial reporting which appear in this Form 10-K/A. Our report on the effectiveness of internal control over financial reporting expresses an adverse opinion on the effectiveness of National Presto Industries' internal control over financial reporting as of December 31, 2018.

/s/BDO USA, LLP
Milwaukee, Wisconsin

November 15, 2019

**EXHIBIT 31.1**

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

I, Maryjo Cohen, certify that:

1. I have reviewed this annual report on Form 10-K/A of National Presto Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2019

/S/ Maryjo Cohen
Maryjo Cohen
Chief Executive Officer

**EXHIBIT 31.2**

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

I, David Peuse, certify that:

1. I have reviewed this annual report on Form 10-K/A of National Presto Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2019

/S/ David Peuse

David Peuse
Treasurer

**EXHIBIT 32.1**

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

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I the undersigned Chief Executive Officer of National Presto Industries, Inc. (the "Company"), hereby certify that the Annual Report on Form 10-K/A of the Company for the year ended December 31, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Date: November 15, 2019

/S/ Maryjo Cohen
Maryjo Cohen,
Chief Executive Officer

**EXHIBIT 32.2**

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

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I the undersigned Treasurer of National Presto Industries, Inc. (the "Company"), hereby certify that the Annual Report on Form 10-K/A of the Company for the year ended December 31, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Date: November 15, 2019

/S/ David Peuse
David Peuse
Treasurer