UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2019

☐ 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)	(I.R.S. Employer Identification No.)
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 Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $1 par value	**NPK**	**NYSE**

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There were 6,996,981 shares of the Issuer's Common Stock outstanding as of June 30, 2019.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
June 30, 2019 and December 31, 2018
(Dollars in thousands)

	June 30, 2019 (Unaudited)		December 31, 2018	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents		$ 63,438		$ 56,847
Marketable securities		91,517		134,598
Accounts receivable, net		36,746		52,372
Inventories:				
Finished goods	$ 33,070		$ 28,791	
Work in process	74,406		59,580	
Raw materials	6,998	114,474	5,617	93,988
Assets held for sale		-		375
Notes receivable, current		7,327		7,213
Other current assets		6,270		6,869
Total current assets		319,772		352,262
PROPERTY, PLANT AND EQUIPMENT	$ 99,269		$ 96,094	
Less allowance for depreciation	58,802	40,467	56,951	39,143
GOODWILL		11,485		11,485
INTANGIBLE ASSETS, net		1,000		1,000
NOTES RECEIVABLE		7,073		6,966
RIGHT-OF-USE LEASE ASSETS		3,715		-
DEFERRED INCOME TAXES		1,046		1,088
OTHER ASSETS		-		1,674
		$ 384,558		$ 413,618

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
June 30, 2019 and December 31, 2018
(Dollars in thousands)

	June 30, 2019 (Unaudited)		December 31, 2018	
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable		$ 28,311		$ 34,100
Federal and state income taxes		849		1,384
Lease liabilities		483		-
Accrued liabilities		12,484		12,011
Total current liabilities		42,127		47,495
LEASE LIABILITIES - NON-CURRENT		3,232		-
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' EQUITY				
Common stock, $1 par value:				
Authorized: 12,000,000 shares				
Issued: 7,440,518 shares	$ 7,441		$ 7,441	
Paid-in capital	10,914		10,360	
Retained earnings	334,730		362,709	
Accumulated other comprehensive loss	180		21	
	353,265		380,531	
Treasury stock, at cost	14,066		14,408	
Total stockholders' equity		339,199		366,123
		$ 384,558		$ 413,618

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Three and Six Months Ended June 30, 2019 and July 1, 2018
(Unaudited)
(In thousands except per share data)

	Three Months Ended		Six Months Ended	
	2019	2018	2019	2018
Net sales	$ 71,745	$ 79,227	$ 135,595	$ 156,053
Cost of sales	57,069	59,782	108,427	116,331
Gross profit	14,676	19,445	27,168	39,722
Selling and general expenses	6,039	5,631	12,483	11,782
Intangibles amortization	-	1,416	-	2,161
Operating profit	8,637	12,398	14,685	25,779
Other income	1,638	997	3,270	1,892
Earnings from continuing operations before provision for	10,275	13,395	17,955	27,671
Provision for income taxes from continuing operations	2,122	2,619	3,851	5,901
Earnings from continuing operations	$ 8,153	$ 10,776	$ 14,104	$ 21,770
Earnings (loss) from discontinued operations, net of tax	3	(1)	3	(9)
Net earnings	$ 8,156	$ 10,775	$ 14,107	$ 21,761
Weighted average shares outstanding:				
Basic and diluted	7,019	7,006	7,016	7,002
Earnings per share, basic and diluted:				
From continuing operations	$ 1.16	$ 1.54	$ 2.01	$ 3.11
From discontinued operations	0.00	0.00	0.00	0.00
Net earnings per share	$ 1.16	$ 1.54	$ 2.01	$ 3.11
Comprehensive income:				
Net earnings	$ 8,156	$ 10,775	$ 14,107	$ 21,761
Other comprehensive income, net of tax:				
Unrealized gain on available-for-sale securities	89	21	158	65
Comprehensive income	$ 8,245	$ 10,796	$ 14,265	$ 21,826
Cash dividends declared and paid per common share	$ 0.00	$ 0.00	$ 6.00	$ 6.00

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2019 and July 1, 2018
(Unaudited)
(Dollars in thousands)

	2019	2018
Cash flows from operating activities:		
Net earnings	$ 14,107	$ 21,761
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for depreciation	1,899	2,057
Intangibles amortization	-	2,161
Provision for doubtful accounts	-	12
Non-cash retirement plan expense	359	379
Other	65	139
Changes in operating accounts:		
Accounts receivable, net	15,626	21,469
Inventories	(20,486)	6,791
Other assets and current assets	2,273	275
Accounts payable and accrued liabilities	(5,406)	(847)
Federal and state income taxes	(577)	(4,371)
Net cash provided by operating activities	7,860	49,826
Cash flows from investing activities:		
Marketable securities purchased	(95,301)	(59,771)
Marketable securities - maturities and sales	138,583	74,666
Proceeds from divestiture of business, net of cash paid	-	3,660
Purchase of property, plant and equipment	(3,566)	(4,001)
Proceeds from insurance settlement	807	2,474
Sale of property, plant and equipment	-	1
Net cash provided by investing activities	40,523	17,029
Cash flows from financing activities:		
Dividends paid	(42,087)	(41,989)
Proceeds from sale of treasury stock	518	528
Other	(223)	(6)
Net cash used in financing activities	(41,792)	(41,467)
Net increase in cash and cash equivalents	6,591	25,388
Cash and cash equivalents at beginning of period	56,847	11,222
Cash and cash equivalents at end of period	$ 63,438	$ 36,610

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

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three Months Ended June 30, 2019 and July 1, 2018
(Unaudited)
(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 April 1, 2018	6,977	$ 7,441	$ 9,640	$ 333,754	$ (42)	$ (14,535)	$ 336,258
Net earnings				10,775			10,775
Unrealized gain on available-for-sale securities, net of tax					21		21
Other	1		249			44	293
Balance July 1, 2018	6,978	$ 7,441	$ 9,889	$ 344,529	$ (21)	$ (14,491)	$ 347,347
Balance March 31, 2019	6,995	$ 7,441	$ 10,692	$ 326,574	$ 90	$ (14,128)	$ 330,669
Net earnings				8,156			8,156
Unrealized gain on available-for-sale securities, net of tax					89		89
Other	2		222		1	62	285
Balance June 30, 2019	6,997	$ 7,441	$ 10,914	$ 334,730	$ 180	$ (14,066)	$ 339,199

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

NATIONAL PRESTO INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2019 and July 1, 2018
(Unaudited)
(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, 2017	6,968	$ 7,441	$ 9,074	$ 364,757	$ (86)	$ (14,810)	$366,376
Net earnings				21,761			21,761
Unrealized gain on available-for-sale securities, net of tax					65		65
Dividends paid March 15, $1.00 per share regular, $5.00 per share extra				(41,989)			(41,989)
Other	10		815			319	1,134
Balance July 1, 2018	6,978	$ 7,441	$ 9,889	$ 344,529	$ (21)	$ (14,491)	$347,347
Balance December 31, 2018	6,981	$ 7,441	$10,360	$ 362,709	$ 21	$ (14,408)	$366,123
Net earnings				14,107			14,107
Unrealized gain on available-for-sale securities, net of tax					158		158
Dividends paid March 15, $1.00 per share regular, $5.00 per share extra				(42,087)			(42,087)
Other	16		554	1	1	342	898
Balance June 30, 2019	6,997	$ 7,441	$10,914	$ 334,730	$ 180	$ (14,066)	$339,199

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

NOTE A – BASIS OF PRESENTATION

The consolidated interim financial statements included herein are unaudited and have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). In the opinion of management of the Company, the consolidated interim financial statements reflect all the adjustments which were of a normal recurring nature necessary for a fair presentation of the results of the interim periods. The condensed consolidated balance sheet as of December 31, 2018 is summarized from audited consolidated financial statements, but does not include all the disclosures contained therein and should be read in conjunction with the 2018 Annual Report on Form 10-K. Interim results for the period are not indicative of those for the year.

On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. ("PAPI"), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. ("Drylock") in exchange for $68,448,000. The proceeds amount differs from the amount 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 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 K for further discussion.

NOTE B – 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.

NOTE C – REVENUES

The Company's revenues are derived from short-term contracts and programs that are typically completed within 3 to 24 months and are recognized in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. The 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 June 30, 2019 and December 31, 2018, $8,322,000 and $9,579,000, respectively, of contract liabilities were included in Accounts Payable on the Company's Condensed Consolidated Balance Sheets. The Company recognized revenue of $2,443,000 during the six-month period ended June 30, 2019 that was included in the Defense segment contract liability at the beginning of that period. The Company monitors its estimates of variable consideration, which includes customer allowances for cooperative advertising, defective product, 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 the three and six month periods ended June 30, 2019 and July 1, 2018, the Company reduced its estimate of returns of seasonal and newly introduced product by $265,000 and $421,000, respectively. There were no other material adjustments to the aforementioned estimates during the same periods. There were no amounts of revenue recognized during the same periods related to performance obligations satisfied in a previous period. The portion of contract transaction prices allocated to unsatisfied performance obligations, also known as the contract backlog, in the Company's Defense segment were $366,244,000 and $333,592,000 as of June 30, 2019 and December 31, 2018, respectively. The Company anticipates that the unsatisfied performance obligations will be fulfilled in an 18 to 24-month period. The performance obligations in the Housewares/Small Appliances segment have original expected durations of less than one year.

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

NOTE D – EARNINGS PER SHARE

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

NOTE E – BUSINESS SEGMENTS

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

	(in thousands)			
	Housewares / Small Appliances	Defense Products	Assets Held for Sale	Total
Quarter ended June 30, 2019				
External net sales	$ 19,148	$ 52,597	$	$ 71,745
Gross profit	2,055	12,621		14,676
Operating profit (loss)	(1,333)	9,970		8,637
Total assets	240,759	143,799	-	384,558
Depreciation and amortization	370	581		951
Capital expenditures	(101)	817		716
Quarter ended July 1, 2018				
External net sales	$ 17,978	$ 61,249	$	$ 79,227
Gross profit	2,248	17,197		19,445
Operating profit (loss)	(298)	12,696		12,398
Total assets	247,352	141,656	528	389,536
Depreciation and amortization	332	2,089		2,421
Capital expenditures	3,203	297		3,500

	(in thousands)			
	Housewares / Small Appliances	Defense Products	Assets Held for Sale	Total
Six Months ended June 30, 2019				
External net sales	$ 38,857	$ 96,738	$	$ 135,595
Gross profit	4,239	22,929		27,168
Operating profit (loss)	(2,862)	17,547		14,685
Total assets	240,759	143,799	-	384,558
Depreciation and amortization	736	1,163		1,899
Capital expenditures	129	3,095		3,224
Six Months ended July 1, 2018				
External net sales	$ 34,035	$ 122,018	$	$ 156,053
Gross profit	4,147	35,575		39,722
Operating profit (loss)	(1,173)	26,952		25,779
Total assets	247,352	141,656	528	389,536
Depreciation and amortization	668	3,550		4,218
Capital expenditures	4,912	378		5,290

NOTE F - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The carrying amounts for cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and accrued liabilities approximate fair value due to the immediate or short-term maturity of these financial instruments.

NOTE G - CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

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

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

At June 30, 2019 and December 31, 2018, cost for marketable securities was determined using the specific identification method. A summary of the amortized costs and fair values of the Company's marketable securities at the end of the periods presented is shown in the following table. All of the Company's marketable securities are classified as Level 2, as defined by FASB ASC 820, with fair values determined using significant other observable inputs, which include quoted prices in markets that are not active, quoted prices of similar securities, recently executed transactions, broker quotations, and other inputs that are observable.

	(In Thousands) MARKETABLE SECURITIES			
	Amortized Cost	**Fair Value**	**Gross Unrealized Gains**	**Gross Unrealized Losses**
June 30, 2019				
Tax-exempt Municipal Bonds	$ 51,541	$ 51,768	$ 227	$ -
Variable Rate Demand Notes	39,749	39,749	-	-
Total Marketable Securities	$ 91,290	$ 91,517	$ 227	$ -
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

Proceeds from maturities and sales of available-for-sale securities totaled $55,319,000 and $11,353,000 for the three month periods ended June 30, 2019 and July 1, 2018, respectively, and totaled $138,583,000 and $74,666,000 for the six month periods then ended, respectively. There were no gross gains or losses related to sales of marketable securities during the same periods. Net unrealized gains included in other comprehensive income were $112,000 and $27,000 before taxes for the three month periods ended June 30, 2019 and July 1, 2018, respectively, and were $201,000 and $82,000 before taxes for the six month periods then ended, 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 June 30, 2019 are as follows: $29,684,000 within one year; $21,305,000 beyond one year to five years; $4,148,000 beyond five years to ten years, and $36,380,000 beyond ten years. All of the instruments in the beyond five year ranges are variable rate demand notes which can be tendered for cash at par plus interest within seven days. Despite the stated contractual maturity date, to the extent a tender is not honored, the notes become immediately due and payable.

NOTE H – OTHER ASSETS

Other Assets includes prepayments that are made from time to time by the Company for certain materials used in the manufacturing process in the Housewares/Small Appliances segment. The Company expects to utilize the prepayments and related materials over an estimated period of up to two years. As of June 30, 2019 and December 31, 2018, $4,307,000 and $6,864,000 of such prepayments, respectively, remained unused and outstanding. At June 30, 2019 and December 31, 2018, $4,307,000 and $5,190,000, respectively were included in Other Current Assets, representing the Company's best estimate of the expected utilization of the prepayments and related materials during the twelve-month periods following those dates.

NOTE I – LEASES

The Company accounts for leases under ASC *Topic 842, Leases*, which was adopted on January 1, 2019. The Company's leasing activities include roles as both lessee and lessor. As lessee, the Company's primary leasing activities include buildings and structures to support its manufacturing operations at one location in its Defense segment, and warehouse space and equipment to support its distribution center operations in its Housewares/Small Appliances segment. As lessor, the Company's primary leasing activity is comprised of manufacturing and office space located adjacent to its corporate offices. All of the Company's leases are classified as operating leases.

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

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

Summary of Lease Cost (in thousands)	**3 Months Ending June 30, 2019**	**6 Months Ending June 30, 2019**
Operating lease cost	$ 168	$ 336
Sort-term and variable lease cost	57	80
Total lease cost	$ 225	$ 416

Operating cash used for operating leases was $225,000 and $416,000 for the three and six months ended June 30, 2019, respectively. The weighted-average remaining lease term was 8.02 years, and the weighted-average discount rate was 5.5% as of June 30, 2019.

Maturities of operating lease liabilities are as follows:

Years ending December 31:	**(In thousands)**
2019 (remaining six months)	$ 336
2020	655
2021	644
2022	648
2023	531
Thereafter	1,823
Total lease payments	$ 4,637
Less: future interest expense	922
Lease liabilities	$ 3,715

Lease income from operating lease payments for the quarter ended June 30, 2019 was $444,000. Undiscounted cash flows provided by lease payments are expected as follows:

Years ending December 31:	**(In thousands)**
2019 (remaining six months)	$ 887
2020	1,761
2021	1,755
2022	1,755
2023	1,755
Thereafter	15,795
Total lease payments	$ 23,708

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

NOTE J – COMMITMENTS AND CONTINGENCIES

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

NOTE K – 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 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 previously 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:

	Three Months Ended		**Six Months Ended**	
(in thousands) (unaudited)	**June 30, 2019**	**July 1, 2018**	**June 30, 2019**	**July 1, 2018**
Cost of sales	$ 4	$ -	$ 4	$ (11)
Earnings (loss) from discontinued operations before provision for income taxes	4	-	4	(11)
Provision for (benefit from) income taxes from discontinued operations	1	1	1	(2)
Earnings (loss) from discontinued operations, net of tax	$ 3	$ (1)	$ 3	$ (9)

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

(in thousands)	June 30, 2019 (Unaudited)	December 31, 2018
Accounts receivable, net	$ -	$ 375
Assets held for sale	$ -	$ 375

The Consolidated Statements of Cash Flows do not present the cash flows from discontinued operations separately from cash flows from continuing operations. Cash used in operating activities from discontinued operations was $429,000 and $692,000 for the six months ended June 30, 2019 and July 1, 2018, respectively. Cash provided by investing activities related to discontinued operations was $807,000 and $6,134,000 for the six months ended June 30, 2019 and July 1, 2018, 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 had entered into a transition services agreement with Drylock, which terminated at the end of 2017. The amounts received from Drylock for rental income are recorded in Other Income on the Consolidated Statements of Comprehensive Income.

NOTE L – 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 is currently evaluating the impact of the adoption of ASU 2016-13 on its consolidated financial statements.

NOTE M – SUBSEQUENT EVENT

On July 23, 2019, the Company's wholly-owned subsidiary, OETA, Inc., purchased substantially all the assets of OneEvent Technologies, Inc., a Mount Horeb, Wisconsin company established in 2014 for $6,385,000, plus a potential earn out. OneEvent's cloud-based learning and analytics engine utilizes a series of sensing devices integrated with a cellular gateway to predict, alert, and prevent. Sensors measure a variety of environmental data including smoke, temperature, carbon monoxide, humidity, water, motion and more. In addition to these risk alert capabilities, OneEvent's Internet of things (IOT) technology also enables users to benefit from the robust volume of data collected to enhance business intelligence and efficiency. The initial accounting for this acquisition was incomplete at the time these financial statements were available for issuance. The Company expects to finalize the accounting for the acquisition as soon as practicable. Pursuant to the terms of the transaction, the seller has subsequently changed its corporate name, and OETA, Inc. has now legally adopted the corporate name, OneEvent Technologies, Inc.

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

Forward-looking statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, elsewhere in this Form 10-Q, in the Company's 2018 Annual Report to Shareholders, in the Proxy Statement for the annual meeting held on May 21, 2019, and in the Company's press releases and oral statements made with the approval of an authorized executive officer are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are certain important factors that could cause results to differ materially from those anticipated by some of the statements made herein. Investors are cautioned that all forward-looking statements involve risks and uncertainty. In addition to the factors discussed herein and in the Notes to Consolidated Financial Statements, among the other factors that could cause actual results to differ materially are the following: consumer spending and debt levels; interest rates; continuity of relationships with and purchases by major customers; product mix; the benefit and risk of business acquisitions; competitive pressure on sales and pricing; development and market acceptance of new products; increases in material, freight/shipping, tariffs, or production cost which cannot be recouped in product pricing; delays or interruptions in shipping or production; reliance on third-party suppliers in Asia; shipment of defective product which could result in product liability claims or recalls; work or labor disruptions stemming from a unionized work force; changes in government requirements, military spending, and funding of government contracts, which could result in, among other things, the modification or termination of existing contracts; dependence on subcontractors or vendors to perform as required by contract; the efficient start-up and utilization of capital equipment investments; political actions of federal and state governments which could have an impact on everything from the value of the U.S dollar vis-à-vis other currencies to the availability of affordable labor and energy; and information technology system failures or security breaches. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings.

Discontinued Operations

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

Comparison of Second Quarter 2019 and 2018

Readers are directed to Note E to the Consolidated Financial Statements, "Business Segments," for data on the financial results of the Company's two business segments for the quarters ended June 30, 2019 and July 1, 2018.

On a consolidated basis, net sales decreased by $7,482,000 (9%), gross profit decreased by $4,769,000 (25%), selling and general expenses increased by $408,000 (7%), and intangibles amortization decreased by $1,416,000. Other income increased by $641,000 (64%), while earnings from continuing operations before provision for income taxes decreased by $3,120,000 (23%), and earnings from continuing operations decreased by $2,623,000 (24%). Change in earnings from discontinued operations, net of tax, was positive by $4,000. Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales increased by $1,170,000 from $17,978,000 to $19,148,000, or 7%, primarily attributable to an increase in shipments. Defense net sales decreased by $8,652,000 from $61,249,000 to $52,597,000, or 14%, primarily reflecting a decrease in units shipped.

Housewares/Small Appliance gross profit decreased $193,000 from $2,248,000 to $2,055,000, primarily reflecting less favorable product margins. Defense gross profit decreased $4,576,000 from $17,197,000 to $12,621,000, primarily reflecting the decreased sales mentioned above and a less favorable product mix.

Selling and general expenses for the Housewares/Small Appliance segment increased $842,000, primarily reflecting higher net charges against self-insurance reserves of $335,000 and higher legal & professional expense of $328,000. Selling and general expenses for the Defense segment decreased $434,000, primarily reflecting the absence of operating costs associated with the Company's wholly-owned subsidiary, AMTEC Less Lethal Systems, Inc., that was divested during the fourth quarter of 2018. See Note Q to the Company's consolidated financial statements for the year ended December 31, 2018 on Form 10-K.

Intangibles amortization decreased by $1,416,000. The decrease primarily reflects the Defense segment's amortization of the value of an acquired government sales contract that was fully amortized during the second quarter of 2018. For the three months ended June 30, 2019 and July 1, 2018, the Company recorded amortization expense of $0 and $1,415,000, respectively, associated with the customer contract intangible asset.

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

The $641,000 increase in other income was primarily attributable to an increase in marketable securities with higher yields stemming from the Federal Reserve's rate increases.

Earnings from continuing operations before provision for income taxes decreased $3,120,000 from $13,395,000 to $10,275,000. The provision for income taxes from continuing operations decreased from $2,619,000 to $2,122,000, which resulted in an effective income tax rate of 21% in 2019 vs. 20% in 2018. Earnings from continuing operations decreased $2,623,000 from $10,776,000 to $8,153,000, or 24%.

On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. ("PAPI"), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. As a result of this transaction, the Company classified its results of operations for all periods presented to reflect its Absorbent Products business as a discontinued operation and classified the assets and liabilities of its Absorbent Products business as held for sale. Earnings (loss) from discontinued operations, net of tax, for the three months ended June 30, 2019 and July 1, 2018 was $3,000 and $(1,000), respectively.

Net earnings decreased $2,619,000 from $10,775,000 to $8,156,000.

Comparison of First Six Months 2019 and 2018

Readers are directed to Note E to the Consolidated Financial Statements, "Business Segments," for data on the financial results of the Company's two business segments for the first six months ended June 30, 2019 and July 1, 2018.

On a consolidated basis, sales decreased by $20,458,000 (13%), gross profit decreased by $12,554,000 (32%), selling and general expenses increased by $701,000 (6%) and intangibles amortization decreased by $2,161,000 (100%). Other income increased by $1,378,000 (73%), while earnings from continuing operations before provision for income taxes decreased by $9,716,000 (35%), and earnings from continuing operations decreased by $7,666,000 (35%). Earnings from discontinued operations, net of tax, increased $12,000 (133%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales increased by $4,822,000 from $34,035,000 to $38,857,000, or 14%, primarily attributable to an increase in shipments. Defense net sales decreased by $25,280,000 from $122,018,000 to $96,738,000, or 21%, primarily reflecting a decrease in units shipped.

Housewares/Small Appliance gross profit increased $92,000 from $4,147,000 to $4,239,000, primarily reflecting the increase in sales mentioned above offset by less favorable product margins. Defense gross profit decreased $12,646,000 from $35,575,000 to $22,929,000, primarily reflecting the decrease in sales mentioned above and less favorable margins/product mix.

Selling and general expenses for the Housewares/Small Appliance segment increased $1,781,000, primarily reflecting higher accruals for self-insurance of $1,176,000 and legal & professional expenses of $457,000. Selling and general expenses for the Defense segment decreased $1,080,000, primarily reflecting the absence of operating costs associated with the Company's wholly-owned subsidiary, AMTEC Less Lethal Systems, Inc., that was divested during the fourth quarter of 2018. See Note Q to the Company's consolidated financial statements for the year ended December 31, 2018 on Form 10-K

Intangibles amortization decreased by $2,161,000. The decrease primarily reflects the Defense segment's amortization of the value of an acquired government sales contract that was fully amortized during the second quarter of 2018. For the first six months ended June 30, 2019 and July 1, 2018, the Company recorded amortization expense of $0 and $2,151,000, respectively, associated with the customer contract intangible asset.

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

The $1,378,000 increase in other income was primarily attributable to an increase in marketable securities with higher yields stemming from the Federal Reserve's rate increases.

Earnings from continuing operations before provision for income taxes decreased $9,716,000 from $27,671,000 to $17,955,000. The provision for income taxes from continuing operations decreased from $5,901,000 to $3,851,000, which resulted in an effective income tax rate of 21% in both 2019 and 2018. Earnings from continuing operations decreased $7,666,000 from $21,770,000 to $14,104,000, or 35%.

On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. ("PAPI"), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. As a result of this transaction, the Company classified its results of operations for all periods presented to reflect its Absorbent Products business as a discontinued operation and classified the assets and liabilities of its Absorbent Products business as held for sale. Earnings (loss) from discontinued operations, net of tax, for the first six months ended June 30, 2019 and July 1, 2018 were $3,000 and $(9,000), respectively.

Net earnings decreased $7,654,000 from $21,761,000 to $14,107,000.

Liquidity and Capital Resources

Net cash provided by operating activities was $7,860,000 and $49,826,000 for the six months ended June 30, 2019 and July 1, 2018, respectively. The principal factors contributing to the decrease can be found in the changes in the components of working capital within the Consolidated Statements of Cash Flows. Of particular note during the first six months of 2019 were net earnings of $14,107,000, which included non-cash depreciation expense of $1,899,000. Also contributing to the cash provided were decreases in accounts receivable levels stemming from cash collections on customer sales and deposits with vendors included in other assets and current assets. These were partially offset by an increase in inventory levels and a net decrease in payable and accrual levels. Cash used in operating activities from discontinued operations was $429,000. Of particular note during the first six months of 2018 were net earnings of $21,761,000, which included total non-cash depreciation and amortization expenses of $4,218,000. Also contributing to the cash provided were decreases in accounts receivable levels stemming from cash collections on customer sales, and inventory levels. These were partially offset by a net decrease in payable and accrual levels. Cash used in operating activities from discontinued operations was $692,000.

Net cash provided by investing activities was $40,523,000 during the first six months of 2019 as compared to $17,029,000 during the first six months of 2018. Significant factors contributing to the change were net maturities and sales of marketable securities in 2019 of $43,282,000, in contrast with net maturities and sales of marketable securities in 2018 of $14,895,000, and proceeds from an insurance settlement of $807,000 in 2019, as compared to $2,474,000 in 2018. Also contributing to the change in cash provided was a decrease in the purchase of property, plant, and equipment. Cash provided by discontinued operations for the first six months of 2019 and 2018 were $807,000 and $6,134,000, respectively.

Cash flows from financing activities for the first six months of 2019 and 2018 are essentially flat and primarily relate to the annual dividend payments. Cash flows for both six-month periods also reflected the proceeds from the sale of treasury stock to a Company sponsored retirement plan.

Working capital decreased by $27,122,000 during the first six months of 2019 to $277,645,000 at June 30, 2019 for the reasons stated above. The Company's current ratio was 7.6 to 1.0 at June 30, 2019 and 7.4 to 1.0 at December 31, 2018.

The Company expects to continue to evaluate acquisition opportunities that align with its business segments and will make further acquisitions, as well as continue to make capital investments in these segments per existing authorized projects and for additional projects, if the appropriate return on investment is projected.

The Company has substantial liquidity in the form of cash and cash equivalents and marketable securities to meet all of its anticipated capital requirements, to make dividend payments, and to fund future growth through acquisitions and other means. The bulk of its marketable securities are invested in the tax exempt variable rate demand notes described above and in fixed rate municipal notes and bonds. The Company intends to continue its investment strategy of safety and short-term liquidity throughout its investment holdings.

Critical Accounting Policies

The preparation of the Company's Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and revenues and expenses during the periods reported. Actual results may differ from those estimates. The Company reviewed the development and selection of the critical accounting policies and believes the following are the most critical accounting policies that could have an effect on the Company's reported results. These critical accounting policies and estimates have been reviewed with the Audit Committee of the Board of Directors.

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's interest income on cash equivalents and marketable securities is affected by changes in interest rates in the United States. Cash equivalents primarily consist of money market funds. Based on the accounting profession's interpretation of cash equivalents under FASB ASC Topic 230, the Company's seven-day variable rate demand notes are classified as marketable securities rather than as cash equivalents. The demand notes are highly liquid instruments with interest rates set every seven days that can be tendered to the trustee or remarketer upon seven days notice for payment of principal and accrued interest amounts. The seven-day tender feature of these variable rate demand notes is further supported by an irrevocable letter of credit from highly rated U.S. banks. To the extent a bond is not remarketed at par plus accrued interest, the difference is drawn from the bank's letter of credit. The Company has had no issues tendering these notes to the trustees or remarketers. Other than a failure of a major U.S. bank, there are no risks of which the Company is aware that relate to these notes in the current market. The balance of the Company's investments is held primarily in fixed and variable rate municipal bonds with a weighted average life of 1.2 years. Accordingly, changes in interest rates have not had a material effect on the Company, and the Company does not anticipate that future exposure to interest rate market risk will be material. The Company uses sensitivity analysis to determine its exposure to changes in interest rates.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Treasurer (principal financial officer), conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the "1934 Act") as of June 30, 2019. 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 June 30, 2019, as a result of a material weakness in internal control over financial reporting described below.

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 in the Company's annual or interim financial statements will not be prevented or detected on a timely basis. 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.

In Item 9A of the Company's Annual Report on Form 10-K/A for the year ended December 31, 2018 filed with the SEC on November 15, 2019, management identified a material weakness in its internal controls over financial reporting related to revenue recognition. 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 included in this Form 10-Q, 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).

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.

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 June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note J to the Consolidated Financial Statements set forth under Part I - Item 1 above.

Item 6. Exhibits

Exhibit 3(i)	Restated Articles of Incorporation - incorporated by reference from Exhibit 3 (i) of the Company's annual report on Form 10-K for the year ended December 31, 2005
Exhibit 3(ii)	By-Laws - incorporated by reference from Exhibit 3 (ii) of the Company's current report on Form 8-K dated July 6, 2007
Exhibit 9.1	Voting Trust Agreement - incorporated by reference from Exhibit 9 of the Company's quarterly report on Form 10-Q for the quarter ended July 6, 1997
Exhibit 9.2	Voting Trust Agreement Amendment - incorporated by reference from Exhibit 9.2 of the Company's annual report on Form 10-K for the year ended December 31, 2008
Exhibit 31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of the Treasurer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of the Treasurer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101	The following financial information from National Presto Industries, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2019, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.

SIGNATURES

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

NATIONAL PRESTO INDUSTRIES, INC.

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

/s/ David J. Peuse
David J. Peuse, Treasurer, (Principal
Financial Officer)

Date: November 22, 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 quarterly report on Form 10-Q of National Presto Industries, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 22, 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 J. Peuse, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Presto Industries, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 22, 2019

/S/ David J. Peuse

David J. 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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2019 (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 22, 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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2019 (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 22, 2019

/S/ David J. Peuse
David J. Peuse
Treasurer