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

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**FORM 10-Q**

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED September 27, 2020

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**

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**NATIONAL PRESTO INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**Wisconsin**

(State or other jurisdiction of incorporation or organization)

**39-0494170**

(I.R.S. Employer Identification No.)

**3925 North Hastings Way**

**Eau Claire, Wisconsin**

(Address of principal executive offices)

**54703-3703**

(Zip Code)

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

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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
<b>Common Stock, \$1 par value</b>	<b>NPK</b>	<b>NYSE</b>

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 7,023,288 shares of the Issuer's Common Stock outstanding as of November 6, 2020.

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

September 27, 2020 and December 31, 2019

(Dollars in thousands)

	<u>September 27, 2020</u> <u>(Unaudited)</u>	<u>December 31, 2019</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 44,428	\$ 79,579
Marketable securities	79,098	78,733
Accounts receivable, net	63,163	41,464
Inventories:		
Finished goods	\$ 34,544	\$ 33,495
Work in process	93,716	87,805
Raw materials	<u>7,842</u>	<u>7,236</u>
Notes receivable, current	136,102	128,536
Other current assets	2,868	2,853
Total current assets	<u>9,099</u>	<u>6,668</u>
Total current assets	334,758	337,833
<b>PROPERTY, PLANT AND EQUIPMENT</b>	\$ 95,435	\$ 93,982
Less allowance for depreciation	<u>58,731</u>	<u>56,704</u>
<b>GOODWILL</b>	15,317	15,317
<b>INTANGIBLE ASSETS, net</b>	2,892	3,059
<b>NOTES RECEIVABLE</b>	7,343	7,182
<b>RIGHT-OF-USE LEASE ASSETS</b>	3,373	3,521
<b>DEFERRED INCOME TAXES</b>	1,256	1,281
<b>OTHER ASSETS</b>	9,035	4,782
	<u>\$ 410,678</u>	<u>\$ 410,253</u>

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

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
September 27, 2020 and December 31, 2019  
(Dollars in thousands)

	<u>September 27, 2020</u> (Unaudited)	<u>December 31, 2019</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 28,891	\$ 21,652
Federal and state income taxes	2,252	3,799
Lease liabilities	547	520
Accrued liabilities	14,949	13,324
Total current liabilities	<u>46,639</u>	<u>39,295</u>
LEASE LIABILITIES - NON-CURRENT	2,826	3,001
OTHER NON-CURRENT LIABILITIES	1,166	-
Total liabilities	<u>50,631</u>	<u>42,296</u>
COMMITMENTS AND CONTINGENCIES		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$1 par value:		
Authorized: 12,000,000 shares		
Issued: 7,440,518 shares	\$ 7,441	\$ 7,441
Paid-in capital	12,131	11,447
Retained earnings	353,687	362,842
Accumulated other comprehensive income	230	136
	<u>373,489</u>	<u>381,866</u>
Treasury stock, at cost	13,442	13,909
Total stockholders' equity	<u>360,047</u>	<u>367,957</u>
	<u>\$ 410,678</u>	<u>\$ 410,253</u>

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

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Three and Nine Months Ended September 27, 2020 and September 29, 2019  
(Unaudited)  
(In thousands except per share data)

	Three Months Ended		Nine Months Ended	
	2020	2019	2020	2019
Net sales	\$ 93,937	\$ 78,006	\$ 246,705	\$ 213,601
Cost of sales	73,219	54,159	188,127	162,586
Gross profit	<u>20,718</u>	<u>23,847</u>	<u>58,578</u>	<u>51,015</u>
Selling and general expenses	6,212	6,609	19,366	19,092
Intangibles amortization	54	-	168	-
Operating profit	<u>14,452</u>	<u>17,238</u>	<u>39,044</u>	<u>31,923</u>
Other income	812	1,398	3,032	4,668
Earnings from continuing operations before provision for income taxes	<u>15,264</u>	<u>18,636</u>	<u>42,076</u>	<u>36,591</u>
Provision for income taxes from continuing operations	3,126	3,924	9,059	7,775
Earnings from continuing operations	<u>12,138</u>	<u>14,712</u>	<u>33,017</u>	<u>28,816</u>
Earnings from discontinued operations, net of tax	-	1,677	-	1,680
Net earnings	<u><u>\$ 12,138</u></u>	<u><u>\$ 16,389</u></u>	<u><u>\$ 33,017</u></u>	<u><u>\$ 30,496</u></u>
Weighted average shares outstanding:				
Basic and diluted	<u>7,041</u>	<u>7,020</u>	<u>7,036</u>	<u>7,018</u>
Net Earnings per share, basic and diluted:				
From continuing operations	\$ 1.72	\$ 2.09	\$ 4.69	\$ 4.11
From discontinued operations	<u>0.00</u>	<u>0.24</u>	<u>0.00</u>	<u>0.24</u>
Net earnings per share	<u><u>\$ 1.72</u></u>	<u><u>\$ 2.33</u></u>	<u><u>\$ 4.69</u></u>	<u><u>\$ 4.35</u></u>
Comprehensive income:				
Net earnings	\$ 12,138	\$ 16,389	\$ 33,017	\$ 30,496
Other comprehensive income, net of tax:				
Unrealized (loss) gain on available-for-sale securities	(64)	(23)	94	135
Comprehensive income	<u><u>\$ 12,074</u></u>	<u><u>\$ 16,366</u></u>	<u><u>\$ 33,111</u></u>	<u><u>\$ 30,631</u></u>
Cash dividends declared and paid per common share	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 6.00</u></u>	<u><u>\$ 6.00</u></u>

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

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Nine Months Ended September 27, 2020 and September 29, 2019  
(Unaudited)  
(Dollars in thousands)

	2020	2019
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 33,017	\$ 30,496
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for depreciation	2,070	2,815
Intangibles amortization	168	-
Non-cash retirement plan expense	379	359
Loss (gain) on sale of property, plant, and equipment	2	(160)
Gain on legal settlement	-	(2,300)
Other	558	670
Changes in operating accounts:		
Accounts receivable, net	(21,699)	11,049
Inventories	(7,566)	(39,421)
Other assets and current assets	(6,684)	(3,351)
Accounts payable and accrued liabilities	10,030	(5,099)
Federal and state income taxes	(2,011)	1,372
Net cash provided by (used in) operating activities	<u>8,264</u>	<u>(3,570)</u>
<b>Cash flows from investing activities:</b>		
Marketable securities purchased	(42,105)	(98,416)
Marketable securities - maturities and sales	41,859	148,406
Proceeds from note receivable	-	2,100
Purchase of property, plant and equipment	(1,498)	(4,326)
Acquisition of business, net of cash acquired	-	(3,733)
Proceeds from legal settlement	-	2,300
Proceeds from insurance settlement	-	807
Sale of property, plant and equipment	-	767
Net cash (used in) provided by investing activities	<u>(1,744)</u>	<u>47,905</u>
<b>Cash flows from financing activities:</b>		
Dividends paid	(42,172)	(42,087)
Proceeds from sale of treasury stock	528	518
Other	(27)	(442)
Net cash used in financing activities	<u>(41,671)</u>	<u>(42,011)</u>
Net (decrease) increase in cash and cash equivalents	(35,151)	2,324
Cash and cash equivalents at beginning of period	79,579	56,847
Cash and cash equivalents at end of period	<u>\$ 44,428</u>	<u>\$ 59,171</u>

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

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
Three and Nine Months Ended September 27, 2020 and September 29, 2019  
(Unaudited)  
(In thousands except per share data)

	Shares of Common Stock Outstanding Net of				Accumulated	Treasury	Total
	Treasury Shares	Common Stock	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Stock	
Balance June 30, 2019	6,997	\$ 7,441	\$10,914	\$ 334,730	\$ 180	\$ (14,066)	\$339,199
Net earnings				16,389			16,389
Unrealized loss on available- for-sale securities, net of tax					(23)		(23)
Other	6		284		-	42	326
Balance September 29, 2019	<u>7,003</u>	<u>\$ 7,441</u>	<u>\$11,198</u>	<u>\$ 351,119</u>	<u>\$ 157</u>	<u>\$ (14,024)</u>	<u>\$355,891</u>
Balance June 28, 2020	7,019	\$ 7,441	\$11,923	\$ 341,549	\$ 294	\$ (13,512)	\$347,695
Net earnings				12,138			12,138
Unrealized loss on available- for-sale securities, net of tax					(64)		(64)
Other	2		208			70	278
Balance September 27, 2020	<u>7,021</u>	<u>\$ 7,441</u>	<u>\$12,131</u>	<u>\$ 353,687</u>	<u>\$ 230</u>	<u>\$ (13,442)</u>	<u>\$360,047</u>

	Shares of Common Stock Outstanding Net of				Accumulated	Treasury	Total
	Treasury Shares	Common Stock	Paid-in Capital	Retained Earnings	Comprehensiv e Income (Loss)	Stock	
Balance December 31, 2018	6,981	\$ 7,441	\$10,360	\$ 362,709	\$ 21	\$ (14,408)	\$366,123
Net earnings				30,496			30,496
Unrealized gain on available-for- sale securities, net of tax					135		135
Dividends paid March 15, \$1.00 per share regular, \$5.00 per share extra				(42,087)			(42,087)
Other	22		838	1	1	384	1,224
Balance September 29, 2019	<u>7,003</u>	<u>\$ 7,441</u>	<u>\$11,198</u>	<u>\$ 351,119</u>	<u>\$ 157</u>	<u>\$ (14,024)</u>	<u>\$355,891</u>
Balance December 31, 2019	7,006	\$ 7,441	\$11,447	\$ 362,842	\$ 136	\$ (13,909)	\$367,957
Net earnings				33,017			33,017
Unrealized gain on available-for- sale securities, net of tax					94		94
Dividends paid March 13, \$1.00 per share regular, \$5.00 per share extra				(42,172)			(42,172)
Other	15		684			467	1,151
Balance September 27, 2020	<u>7,021</u>	<u>\$ 7,441</u>	<u>\$12,131</u>	<u>\$ 353,687</u>	<u>\$ 230</u>	<u>\$ (13,442)</u>	<u>\$360,047</u>

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



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

#### NOTE A – BASIS OF PRESENTATION

The consolidated interim financial statements included herein are unaudited and have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). In the opinion of management of the Company, the consolidated interim financial statements reflect all of 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, 2019 is summarized from audited consolidated financial statements, but does not include all the disclosures contained therein and should be read in conjunction with the 2019 Annual Report on Form 10-K. Interim results for the period are not indicative of those for the year.

#### NOTE B – GENERAL

Government responses to the COVID-19 virus have impacted worldwide economic activity. The Company is closely monitoring the impact of the pandemic on all aspects of its business, including effects on employees, customers, suppliers, and the global economy and will adjust procedures accordingly. All of the Company’s businesses are deemed essential and as a result, all have been and are currently operating. The COVID-19 related shutdowns and their aftermath have affected each segment in a variety of fashions, which include increased absenteeism; the cancellation of planned trade shows and customer/supplier visits; inefficiencies inherent from working at home; as well as customer and supplier issues in placing and accepting orders; picking up, accepting, or shipping product; or making or accepting deliveries occasioned by similar problems. While there was no material adverse impact on the current quarter’s consolidated financial statements and related disclosures, the extent to which the COVID-19 pandemic impacts the Company’s business for the remainder of 2020 and beyond will depend on future developments that are highly uncertain and cannot be predicted.

In response to the government mandated COVID-19 shutdowns, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law on March 27, 2020. The CARES Act, among other things, includes tax provisions relating to refundable payroll tax credits, deferment of employer’s social security payments, net operating loss utilization and carryback periods, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property (QIP). The CARES Act did not have a material impact on the Company’s income tax provision for the three or nine months ended September 27, 2020. Starting May 1, 2020, the Company had deferred employer social security payments as provisioned by the Act. The Company will continue to evaluate the impact of the CARES Act on its financial position, results of operations and cash flows.

#### 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 Financial Accounting Standard Board (“FASB”) Accounting Standard Codification (“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. There are also certain termination

clauses in Defense segment contracts that may give rise to an over-time pattern of recognition of revenue in the absence of alternative use of the product. 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.

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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 September 27, 2020 and December 31, 2019, \$1,585,000 and \$1,847,000, respectively, of contract liabilities were included in Accounts Payable on the Company's Condensed Consolidated Balance Sheets. The Company recognized revenue of \$220,000 during the nine-month period ended September 27, 2020 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 nine month periods ended September 27, 2020 and September 29, 2019, the Company reduced its estimate of returns of seasonal and newly introduced product by \$421,000 and \$265,000, 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 \$323,462,000 and \$310,385,000 as of September 27, 2020 and December 31, 2019, respectively. The Company anticipates that the unsatisfied performance obligations (contract backlog) 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 three segments: Housewares/Small Appliance, Defense, and Safety, 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 owned or leased 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.

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On July 23, 2019, the Company purchased substantially all the assets of OneEvent Technologies, Inc., a Mount Horeb, Wisconsin company established in 2014. 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 temperature, smoke, carbon monoxide, humidity, water, motion, and more. See Note K. Because a major focus of OneEvent is protection for buildings, homes, assets, and occupant, the Company has created a new operating segment, “Safety,” combining its operations with those of Rusoh, Inc., which designs and markets fire extinguishers. Previously, Rusoh, Inc. had been included in the Company’s Housewares/Small Appliance segment. Prior period segment information has been restated to reflect the Company’s current segmentation.

	(in thousands)			
	Housewares / Small Appliances	Defense Products	Safety	Total
<b>Quarter ended September 27, 2020</b>				
External net sales	\$ 27,169	\$ 66,679	\$ 89	\$ 93,937
Gross profit (loss)	5,259	15,718	(259)	20,718
Operating profit (loss)	2,385	13,416	(1,349)	14,452
Total assets	218,464	171,105	21,109	410,678
Depreciation and amortization	243	434	61	738
Capital expenditures	130	624	10	764

<b>Quarter ended September 29, 2019</b>				
External net sales	\$ 21,597	\$ 56,395	\$ 14	\$ 78,006
Gross profit (loss)	2,823	21,363	(339)	23,847
Operating profit (loss)	(865)	19,161	(1,058)	17,238
Total assets	232,565	151,455	20,252	404,272
Depreciation and amortization	320	538	58	916
Capital expenditures	298	460	36	794

	(in thousands)			
	Housewares / Small Appliances	Defense Products	Safety	Total
<b>Nine Months Ended September 27, 2020</b>				
External net sales	\$ 73,025	\$ 173,489	\$ 191	\$ 246,705
Gross profit (loss)	13,982	45,631	(1,035)	58,578
Operating profit (loss)	4,739	38,341	(4,036)	39,044
Total assets	218,464	171,105	21,109	410,678
Depreciation and amortization	722	1,295	221	2,238
Capital expenditures	456	945	97	1,498

<b>Nine Months Ended September 29, 2019</b>				
External net sales	\$ 60,415	\$ 153,133	53	\$ 213,601
Gross profit (loss)	7,369	44,292	(646)	51,015
Operating profit (loss)	(2,623)	36,708	(2,162)	31,923
Total assets	232,565	151,455	20,252	404,272
Depreciation and amortization	943	1,701	171	2,815
Capital expenditures	250	3,555	214	4,019

**NOTE F - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company utilizes the methods of fair value as described in FASB 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. See Note G for fair value information on marketable securities.

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 September 27, 2020 and December 31, 2019, 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

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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
<b>September 27, 2020</b>				
Tax-exempt Municipal Bonds	\$ 49,954	\$ 50,245	\$ 291	\$ -
Variable Rate Demand Notes	28,853	28,853	-	-
Total Marketable Securities	\$ 78,807	\$ 79,098	\$ 291	\$ -
<b>December 31, 2019</b>				
Tax-exempt Municipal Bonds	\$ 39,313	\$ 39,484	\$ 176	\$ 5
Variable Rate Demand Notes	39,249	39,249	-	-
Total Marketable Securities	\$ 78,562	\$ 78,733	\$ 176	\$ 5

Proceeds from maturities and sales of available-for-sale securities totaled \$23,224,000 and \$9,823,000 for the three month periods ended September 27, 2020 and September 29, 2019, respectively, and totaled \$41,859,000 and \$148,406,000 for the nine month periods then ended, respectively. There were no gross gains or losses related to sales of marketable securities during the same periods. Net unrealized (losses) gains included in other comprehensive income were (\$81,000) and (\$28,000) before taxes for the three month periods ended September 27, 2020 and September 29, 2019, respectively, and were \$119,000 and \$173,000 before taxes for the nine 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 September 27, 2020 are as follows: \$43,015,000 within one year; \$7,230,000 beyond one year to five years; \$3,590,000 beyond five years to ten years, and \$25,263,000 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 two years. As of September 27, 2020 and December 31, 2019, \$13,376,000 and \$9,396,000 of such prepayments, respectively, remained unused and outstanding. At September 27, 2020 and December 31, 2019, \$4,341,000 and \$4,614,000 of those payments, 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.

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The Company has determined that the rates implicit in its leases are not readily determinable and therefore, 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 (12 months or less) leases as lessee and has elected a non-recognition accounting policy, as permitted by ASC *Topic 842*.

	<b>3 Months Ended September 27, 2020</b>	<b>3 Months Ended September 29, 2019</b>	<b>9 Months Ended September 27, 2020</b>	<b>9 Months Ended September 29, 2019</b>
<b>Summary of Lease Cost (in thousands)</b>				
Operating lease cost	\$ 183	\$ 178	\$ 544	\$ 514
Short-term and variable lease cost	131	64	337	145
Total lease cost	<u>\$ 314</u>	<u>\$ 242</u>	<u>\$ 881</u>	<u>\$ 659</u>

Operating cash used for operating leases was \$314,000 and \$881,000 for the three and nine months ended September 27, 2020, respectively. The weighted-average remaining lease term was 7.1 years, and the weighted-average discount rate was 5.6% as of September 27, 2020.

Maturities of operating lease liabilities are as follows:

<b>Years ending December 31:</b>	<b>(In thousands)</b>
2020 (remaining three months)	\$ 177
2021	716
2022	719
2023	574
2024	472
Thereafter	1,452
Total lease payments	<u>\$ 4,110</u>
Less: future interest expense	737
Lease liabilities	<u>\$ 3,373</u>

Lease income from operating lease payments was \$463,000 and \$444,000 for the quarters ended September 27, 2020 and September 29, 2019, respectively. Undiscounted cash flows provided by lease payments are expected as follows:

<b>Years ending December 31:</b>	<b>(In thousands)</b>
2020 (remaining three months)	\$ 463
2021	1,839
2022	1,832
2023	1,832
2024	1,832
Thereafter	14,656
Total lease payments	<u>\$ 22,454</u>

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.

In the state of Mississippi, inventory that is shipped out of state that is held in a licensed Free Port Warehouse is exempt from personal property taxes. One of the Company's subsidiaries operates in Hinds County, Mississippi. That subsidiary has submitted its Hinds County Free Port Warehouse tax filing for nearly 40 years. Each year, the county then assessed the subsidiary in accordance with the Company's filing. However, in June 2020, the Hinds County tax assessor notified the Company that the county had no record of a Free Port Warehouse License and issued an assessment totaling \$2,506,000, reflecting personal property tax going back seven years. The Company intends to vigorously fight the assessment, and does not consider the ultimate payment

of the taxes to be probable. Accordingly, as prescribed by ASC450 - *Contingencies*, no accrual has been recorded on the Company's consolidated financial statements as of September 27, 2020.



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### NOTE K – BUSINESS ACQUISITION

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 \$6,501,000, including cash of \$4,020,000, forgiveness of a note receivable of \$2,364,000 and a potential earn out, which is based on earnings over a seven-year period. The current estimated value of the earn out is \$117,000, however, the value of the earn out will vary depending on actual earnings over the seven-year period. OneEvent's systems provide early warning of conditions that could ultimately lead to significant losses. The initial application combines patented machine learning, digital sensors and cloud-based technology to continuously monitor freezers and refrigerators, instantly detecting and alerting users to potential safety issues around pharmaceuticals and food. The OneEvent® system also has the ability to continually measure other factors such as smoke, carbon monoxide, motion, humidity, and moisture. 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.

The acquisition was accounted for under the acquisition method of accounting with the Company treated as the acquiring entity. Accordingly, the consideration paid by the Company to complete the acquisition has been recorded to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of acquisition. The carrying values for current assets and liabilities were deemed to approximate their fair values due to the short-term nature of these assets and liabilities. The following table shows the amounts recorded as of their acquisition date.

	<u>(in thousands)</u>
Cash	\$ 287
Receivables	14
Inventory	307
Other current assets	105
Property, plant and equipment	35
Intangibles	2,141
Goodwill	3,831
Right-of-Use Lease Assets	59
Total assets acquired	<u>6,779</u>
Less: Current liabilities assumed	255
Lease Liability - Noncurrent	23
Net assets acquired	<u>\$ 6,501</u>

The acquired intangibles primarily include technology software and patents that will be amortized over a period of 10-15 years. The amount of goodwill recorded reflects expected earning potential of the acquired technology software and patents. The recorded goodwill is deductible for income tax purposes over a fifteen-year period. The Company's statement of comprehensive income for the third quarter of 2019 includes revenue of \$13,000 and loss (\$298,000) from the acquired business from the date of acquisition through September 30, 2019. The following pro forma condensed consolidated results of operations has been prepared as if the acquisition had occurred as of January 1, 2019.

	<u>(unaudited)</u> <u>(in thousands, except per share data)</u>	
	<u>Quarter Ended</u> <u>September 29,</u> <u>2019</u>	<u>Nine Months</u> <u>Ended</u> <u>September 29,</u> <u>2019</u>
Net sales	\$ 78,011	\$ 213,652
Net earnings	16,196	29,069
Net earnings per share (basic and diluted)	\$ 2.31	\$ 4.14
Weighted average shares outstanding (basic and diluted)	7,020	7,018

The unaudited pro forma financial information presented above is not intended to represent or be indicative of what would have occurred if the transactions had taken place on the dates presented and is not indicative of what the Company's actual results of operations would have been had the acquisition been completed at the beginning of the periods indicated above. The pro forma combined results reflect one-time costs to fully merge and operate the combined organization more efficiently, but do not reflect

anticipated synergies expected to result from the combination and should not be relied upon as being indicative of the future results that the Company will experience.

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### NOTE L - 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"). See Note P to the Company's consolidated financial statements included in Form 10-K for the year ended December 31, 2019. As a result, the Company classified its results of operations for all periods presented to reflect its Absorbent Products business as a discontinued operation.

During the third quarter of 2019, the Company recognized Other income from the settlement of a lawsuit with a third party for breach of contract.

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 \$0 and \$1,050,000 for the nine months ended September 27, 2020 and September 29, 2019, respectively. Cash provided by investing activities related to discontinued operations was \$0 and \$3,107,000 for the nine months ended September 27, 2020 and September 29, 2019, 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 the annual payments under the amended lease will total \$1,832,000. The amounts received from Drylock for rental income are recorded in Other Income on the Consolidated Statements of Comprehensive Income.

### NOTE M – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*, which is intended to simplify the accounting for income taxes by removing certain exceptions to the general principles of ASC 740, *Income Taxes*, and providing for simplification in several other areas. The standard is effective for fiscal years beginning after December 15, 2020. The Company believes the adoption of ASU 2019-12 will not 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*, which 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 requires 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 new standard was adopted on January 1, 2020 and was applied prospectively. The Company has made changes to its processes for the assessment of the adequacy of the allowance for credit losses on certain types of financial instruments, including accounts receivable, notes receivable, and available-for-sale debt securities. The adoption of ASU 2016-13 did not have a material impact on the consolidated financial statements, related disclosures, and results of operations.

## 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 2019 Annual Report to Shareholders, in the Proxy Statement for the 2020 annual meeting, 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 ability of startup businesses to ultimately have the potential to be successful; 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 security breaches and disruptions to the Company's information technology system. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings.

### **COVID-19 Disclosure**

All of the Company's businesses are deemed essential and as a result, all operated during the shutdown. With the prior requirement that most stay at home and current concerns about the potential impact of the COVID-19 virus, there is ongoing demand for the Housewares/Small Appliance segment's products. Distribution remains largely intact as most key retail customers sell essential items (food and/or hardware) or distribute over the internet. Those that do not, have since largely reopened. The federal government mandated that Defense businesses continue their operations regardless of past or future individual State edicts. The products that the Safety segment markets are also deemed essential. Material, components and finished goods have also, for the most part, continued to flow. Both internal and external contacts were managed during the shutdown through internet tools like "Zoom." Most external contacts continue to be managed in this fashion. Due to the Company's historical conservative practices, it has no debt and has adequate balances to fund its operations.

The Company has complied with the applicable COVID-19 regulations. The six-foot rule has been implemented in the offices and where practical in the factories. Where not practical, barriers have been erected between workers. Surfaces are regularly cleaned with disinfectant.

The COVID-19 related shutdowns and their aftermath have affected each segment in a variety of ways, which include increased absenteeism; the cancellation of planned trade shows and customer/supplier visits; inefficiencies inherent from working at home; as well as customer and supplier issues in placing and accepting orders; picking up, accepting, or shipping product; or making or accepting deliveries occasioned by similar problems. See "Item 1A. Risk Factors" titled "The COVID-19 pandemic could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations."

### **Comparison of Third Quarter 2020 and 2019**

Readers are directed to Note E to the Consolidated Financial Statements, "Business Segments," for data on the financial results of the Company's three business segments for the quarters ended September 27, 2020 and September 29, 2019.

On a consolidated basis, net sales increased by \$15,931,000 (20%), gross profit decreased by \$3,129,000 (13%), selling and general expenses decreased by \$397,000 (6%), and intangibles amortization increased by \$54,000. Other income decreased by \$586,000 (42%), while earnings from continuing operations before provision for income taxes decreased by \$3,372,000 (18%), and earnings from continuing operations decreased by \$2,574,000 (18%). Earnings from discontinued operations, net of tax, decreased \$1,677,000 (100%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales increased by \$5,572,000 from \$21,597,000 to \$27,169,000, or 25.8%, primarily attributable to an increase in shipments. Defense net sales increased by \$10,284,000 from \$56,395,000 to \$66,679,000, or 18%, also primarily reflecting an increase in shipments partially offset by the absence of the prior year's proceeds from the settlement of a customer termination of \$9,412,000.

Housewares/Small Appliance gross profit increased \$2,436,000 from \$2,823,000 to \$5,259,000, primarily reflecting the increased sales mentioned above and improved product mix and margins. Defense gross profit decreased \$5,645,000 from \$21,363,000 to \$15,718,000, primarily reflecting the absence of the prior year's proceeds from the customer termination agreement partially offset by the increase in sales mentioned above. Due to the startup nature of both businesses in the Safety segment and the resulting limited revenues, gross margins were negative in both years.

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Selling and general expenses for the Housewares/Small Appliance segment decreased \$814,000, primarily reflecting lower accruals for self-insurance reserves of \$335,000, the absence of 2019 charges related to the vesting of stock upon retirement of long-term employees of \$448,000, and lower legal and professional expenses of \$195,000. Selling and general expenses for the Defense segment were relatively flat, increasing \$100,000. Safety segment selling and general expenses increased by \$317,000, primarily reflecting increased legal and professional expense for OneEvent, and increased marketing and segment staffing. For additional information about the OneEvent acquisition, see note K to the Company's Consolidated Financial Statements.

Intangibles amortization increased by \$54,000. The increase reflects the amortization of the OneEvent acquisition-related intangibles. For the three months ended September 27, 2020 and September 29, 2019, the Company recorded amortization expense of \$54,000 and \$0, respectively, associated with the intangible asset.

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

The \$586,000 decrease in other income was primarily attributable to a decrease in interest income on marketable securities largely stemming from lower yields on a lower average daily investment.

Earnings from continuing operations before provision for income taxes decreased \$3,372,000 from \$18,636,000 to \$15,264,000. The provision for income taxes decreased from \$3,924,000 to \$3,126,000, which resulted in an effective income tax rate of 21% in both 2020 and 2019. Earnings from continuing operations decreased \$2,574,000 from \$14,712,000 to \$12,138,000, or 18%.

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. Earnings from discontinued operations, net of tax, for the three months ended September 27, 2020 and September 30, 2019 was \$0 and \$1,677,000, respectively. The majority of the 2019 earnings stemmed from the settlement of a lawsuit for breach of contract.

Net earnings decreased \$4,251,000 from \$16,389,000 to \$12,138,000.

### **Comparison of First Nine Months 2020 and 2019**

Readers are directed to Note E to the Consolidated Financial Statements, "Business Segments," for data on the financial results of the Company's three business segments for the first nine months ended September 27, 2020 and September 29, 2019.

On a consolidated basis, sales increased by \$33,104,000 (16%), gross profit increased by \$7,563,000 (15%), selling and general expenses increased by \$274,000 (1%), and intangibles amortization increased by \$168,000. Other income decreased by \$1,636,000 (35%), while earnings from continuing operations before provision for income taxes increased by \$5,485,000 (15%), and earnings from continuing operations increased by \$4,201,000 (15%). Earnings from discontinued operations, net of tax, decreased \$1,680,000 (100%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales increased by \$12,610,000 from \$60,415,000 to \$73,025,000, or 21%, primarily attributable to an increase in shipments. Defense net sales increased by \$20,356,000 from \$153,133,000 to \$173,489,000, or 13%, also primarily reflecting an increase in units shipped partially offset by the absence of the prior year's proceeds from the settlement of a customer termination of \$9,412,000.

Housewares/Small Appliance gross profit increased \$6,613,000 from \$7,369,000 to \$13,982,000, primarily reflecting the increase in sales mentioned above and improved product mix and margins. Defense gross profit increased \$1,339,000 from \$44,292,000 to \$45,631,000, primarily reflecting the increase in sales mentioned above and improved product margins and increased efficiencies partially offset by the absence of the proceeds from the prior year's settlement of a customer termination mentioned above. Due to the startup nature of both businesses in the Safety segment and the resulting limited revenues, gross margins were negative in both years.

Selling and general expenses for the Housewares/Small Appliance segment decreased \$749,000, primarily reflecting lower accruals for self-insurance reserves of \$182,000, legal & professional expenses of \$246,000, and lower compensation expense of \$621,000, largely related to the vesting of stock upon the retirement of long-term employees partially offset by a net increase in sales and marketing expenses. Selling and general expenses for the Defense segment decreased \$294,000, primarily reflecting a decrease in employee compensation resulting from retirements that occurred in second half 2019 and lower legal & professional expenses partially offset by the absence of the prior year gain on sale of assets of \$163,000. Safety segment selling and general expenses increased by \$1,317,000, primarily reflecting increased legal & professional expenses for OneEvent and increased

marketing and segment staffing. OneEvent was acquired during the third quarter of 2019. For additional information about the OneEvent acquisition, see note K to the Company's Consolidated Financial Statements.

Intangibles amortization increased by \$168,000. The increase reflects the Safety segment's amortization of intangibles acquired during the OneEvent acquisition. For the first nine months ended September 27, 2020 and September 29, 2019, the Company recorded amortization expense of \$168 and \$0, respectively, associated with the intangible asset.

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

The \$1,636,000 decrease in other income was primarily attributable to a decrease in interest income on marketable securities stemming from lower yields on a lower average daily investment.

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Earnings from continuing operations before provision for income taxes increased \$5,485,000 from \$36,591,000 to \$42,076,000. The provision for income taxes from continuing operations increased from \$7,775,000 to \$9,059,000, which resulted in an effective income tax rate of 22% in 2020 versus 21% in 2019. Earnings from continuing operations increased \$4,201,000 from \$28,816,000 to \$33,017,000, or 15%.

Earnings from discontinued operations, net of tax, for the first nine months ended September 27, 2020 and September 29, 2019 were \$0 and \$1,680,000, respectively. The majority of the 2019 earnings stemmed from the settlement of a lawsuit for breach of contract.

Net earnings increased \$2,521,000 from \$30,496,000 to \$33,017,000.

## **Liquidity and Capital Resources**

Net cash provided by (used in) operating activities was \$8,264,000 and (\$3,570,000) for the nine months ended September 27, 2020 and September 29, 2019, respectively. The principal factors contributing to the increase can be found in the changes in the components of working capital within the Consolidated Statements of Cash Flows. Of particular note during the first nine months of 2020 were net earnings of \$33,017,000, which included non-cash depreciation and amortization expenses of \$2,238,000. Also contributing to the cash provided was a net increase in payable and accrual levels, partially offset by increased inventory levels, deposits made to vendors included in other assets and current assets, and an increase in accounts receivable levels. Of particular note during the first nine months of 2019 were net earnings of \$30,496,000, which included non-cash depreciation expense of \$2,815,000 and a gain on a legal settlement of \$2,300,000. Contributing to the cash used were an increase in inventory levels and deposits made to vendors included in other assets and current assets and a net decrease in payable and accrual levels partially offset by a decrease in accounts receivable levels stemming from cash collections on customer sales. Cash used in operating activities from discontinued operations for the first nine months of 2020 and 2019 were \$0 and \$1,050,000, respectively.

Net cash used in investing activities was \$1,744,000 during the first nine months of 2020 as compared to \$47,905,000 provided by investing activities during the first nine months of 2019. Significant factors contributing to the change were net purchases of marketable securities in 2020 of \$246,000, in contrast with net maturities and sales of marketable securities in 2019 of \$49,990,000, proceeds from a legal settlement of \$2,300,000 in 2019, and proceeds from an insurance settlement of \$807,000 in 2019, and proceeds from a note receivable of \$2,100,000 in 2019. Also contributing to the change in cash used was a decrease in the purchase of property, plant, and equipment and the acquisition of OneEvent in 2019. Cash provided by discontinued operations for the first nine months of 2020 and 2019 were \$0 and \$3,107,000, respectively.

Cash flows from financing activities for the first nine months of 2020 and 2019 are essentially flat and primarily relate to the annual dividend payments. Cash flows for both nine-month periods also reflected the proceeds from the sale of treasury stock to a Company sponsored retirement plan.

Working capital decreased by \$10,419,000 during the first nine months of 2020 to \$288,119,000 at September 27, 2020 for the reasons stated above. The Company's current ratio was 7.2 to 1.0 at September 27, 2020 and 8.6 to 1.0 at December 31, 2019.

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

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

## **Critical Accounting Policies**

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

## Inventories

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

#### Self-Insured Product Liability and Health Insurance

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



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### Revenues

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

### Impairment and Valuation of Long-lived Assets

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

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's interest income on cash equivalents and marketable securities is affected by changes in interest rates in the United States. Cash equivalents primarily consist of money market funds. Based on the accounting profession's interpretation of cash equivalents under FASB ASC Topic 230, the Company's seven-day variable rate demand notes are classified as marketable securities rather than as cash equivalents. The demand notes are highly liquid instruments with interest rates set every seven days that can be tendered to the trustee or remarketer upon seven days notice for payment of principal and accrued interest amounts. The seven-day tender feature of these variable rate demand notes is further supported by an irrevocable letter of credit from highly rated U.S. banks. To the extent a bond is not remarketed at par plus accrued interest, the difference is drawn from the bank's letter of credit. The Company has had no issues tendering these notes to the trustees or remarketers. Other than a failure of a major U.S. bank, there are no risks of which the Company is aware that relate to these notes in the current market. The balance of the Company's investments is held primarily in fixed and variable rate municipal bonds with a weighted average life of 0.6 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 September 27, 2020. 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 that date, 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.

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In Item 9A of the Company's Annual Reports on Form 10-K for the year ended December 31, 2019 and on Form 10-K/A for the year ended December 31, 2018 filed with the SEC on March 11, 2020 and November 15, 2019, respectively, 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. The new controls over revenue were implemented as of September 1, 2020. The material weakness will be considered remediated upon the successful completion of management's testing of the operating effectiveness of the controls expected in the 4th quarter of 2020.

### Changes in Internal Control over Financial Reporting

Other than the controls mentioned in the Remediation Plan above, there were no changes in internal controls over financial reporting during the quarter ended September 27, 2020 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.

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### Item 1A. Risk Factors

There have been no material changes made to the risk factors listed in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for fiscal year 2019, except as follows:

#### The COVID-19 pandemic could have a material adverse effect on the Company’s business, financial condition, liquidity and results of operations.

The Company may be negatively impacted by the fear of exposure to, or actual effects of, pandemics and epidemics or similar public health crises. In response to a public health crisis, national, state and local authorities have implemented a variety of measures to limit the spread of a disease, such as travel restrictions, social distancing or imposing quarantine and isolation measures on the population. They may implement other measures. The impacts of a public health crisis may include, but are not limited to:

- Significant reductions in demand or significant volatility in demand for the Company’s products, which may be caused by, among other things, the temporary inability of consumers to purchase the products due to illness, self-quarantine, travel restrictions, financial hardship, restrictions that limit access to or close customer stores, shifts in demand away from one or more of the Company’s more discretionary or higher priced products to lower priced products, or the inability to meet heightened demand stemming from programs like the CARES Act that provide substantial additional purchasing power to consumers;
- Inability to meet the Company’s customers’ needs and achieve cost targets due to disruptions in distribution capabilities or the supply chain caused by the loss or disruption of essential manufacturing and supply elements such as raw materials or other finished products or components, restricted transportation or increased freight costs, reduced workforce, or other manufacturing sources and distribution processes;
- Failure of third parties on which the Company relies, including suppliers, customers, distributors, commercial banks, and external business partners, to meet their obligations to the Company, or significant disruptions in their ability to do so, which may be caused by their own financial or operational difficulties and may adversely impact the Company’s operations;
- Significant changes in the political environment in which the Company manufactures, sells or distributes products, including quarantines, governmental authority actions, closures or other restrictions that limit or close operating and manufacturing or distribution facilities, restrict employees’ ability to travel or perform necessary business functions, or otherwise prevent external business partners, suppliers, or customers from sufficiently staffing operations, including operations necessary for the production, distribution, sale, and support of the Company’s products, which could adversely impact the Company’s results;
- Massive government indebtedness resulting from its injection of money into the economy that could result in spiraling inflation, which could in turn affect the Company’s liquidity, and could also result in decreases in U.S. and foreign defense budgets, which in turn could have a negative impact on the Company’s sales and earnings;
- Delays or limits in the ability of the U.S. Government and other customers to perform, including making timely payments and awards to the Company, negotiating contracts and agreeing appropriate costs for recovery, performing quality inspections, supporting testing, accepting delivery, approving security clearances (for individuals and facilities), and providing necessary personnel, equipment and facilities; or
- A prolonged period of generating lower cash from operations that could adversely affect both the Company’s financial condition and the achievement of its strategic objectives.

### Item 6. Exhibits

- |               |  |
|---------------|--|
| Exhibit 3(i)  | <a href="#">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</a> |
| Exhibit 3(ii) | <a href="#">By-Laws - incorporated by reference from Exhibit 3 (ii) of the Company's current report on Form 8-K dated July 6, 2007</a>   |
| Exhibit 9.1   | <a href="#">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</a>                |
| Exhibit 9.2   | <a href="#">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</a>     |
| Exhibit 31.1  | <a href="#">Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>   |
| Exhibit 31.2  | <a href="#">Certification of the Treasurer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>   |

- 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.INS eXtensible Business Reporting Language (XBRL) Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- Exhibit 101.SCH Inline XBRL Taxonomy Extension Schema Document
- Exhibit 101.CAL Inline XBRL Taxonomy Calculation Linkbase Document
- Exhibit 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- Exhibit 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- Exhibit 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- Exhibit 104 The cover page from this Quarterly Report on Form 10-Q for the quarter ended September 27, 2020, formatted in Inline XBRL and contained in Exhibit 101.INS

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 6, 2020

**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 6, 2020

/S/ Maryjo Cohen  
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Maryjo Cohen  
Chief Executive Officer

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

I, 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 6, 2020

/S/ David J. Peuse

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David J. Peuse  
Treasurer

**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 September 27, 2020 (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 6, 2020

/S/ Maryjo Cohen  
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Maryjo Cohen,  
Chief Executive Officer



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

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I the undersigned 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 September 27, 2020 (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 6, 2020

/S/ David J. Peuse

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David J. Peuse  
Treasurer