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 September 29, 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 7,002,711 shares of the Issuer's Common Stock outstanding as of September 29, 2019.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
September 29, 2019 and December 31, 2018
(Dollars in thousands)

	September 29, 2019 (Unaudited)		December 31, 2018	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents		$ 59,171		$ 56,847
Marketable securities		84,781		134,598
Accounts receivable, net		41,337		52,372
Inventories:				
Finished goods	$ 41,927		$ 28,791	
Work in process	84,427		59,580	
Raw materials	7,362	133,716	5,617	93,988
Assets held for sale		-		375
Notes receivable, current		2,841		7,213
Other current assets		5,485		6,869
Total current assets		327,331		352,262
PROPERTY, PLANT AND EQUIPMENT	$ 96,417		$ 96,094	
Less allowance for depreciation	56,677	39,740	56,951	39,143
GOODWILL		15,824		11,485
INTANGIBLE ASSETS, net		2,988		1,000
NOTES RECEIVABLE		7,127		6,966
RIGHT-OF-USE LEASE ASSETS		3,650		-
DEFERRED INCOME TAXES		1,052		1,088
OTHER ASSETS		6,559		1,674
		$ 404,271		$ 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
September 29, 2019 and December 31, 2018
(Dollars in thousands)

	September 29, 2019 (Unaudited)		December 31, 2018	
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable		$ 27,701		$ 34,100
Federal and state income taxes		2,939		1,384
Lease liabilities		520		-
Accrued liabilities		14,090		12,011
Total current liabilities		45,250		47,495
LEASE LIABILITIES - NON-CURRENT		3,130		-
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	11,198		10,360	
Retained earnings	351,119		362,709	
Accumulated other comprehensive gain	157		21	
	369,915		380,531	
Treasury stock, at cost	14,024		14,408	
Total stockholders' equity		355,891		366,123
		$ 404,271		$ 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 Nine Months Ended September 29, 2019 and September 30, 2018
(Unaudited)
(In thousands except per share data)

	Three Months Ended		Nine Months Ended	
	2019	2018	2019	2018
Net sales	$ 78,006	$ 81,653	$ 213,601	$ 237,706
Cost of sales	54,159	65,956	162,586	182,287
Gross profit	23,847	15,697	51,015	55,419
Selling and general expenses	6,609	5,829	19,092	17,611
Intangibles amortization	-	5	-	2,166
Impairment of long-lived assets	-	3,021	-	3,021
Operating profit	17,238	6,842	31,923	32,621
Other income	1,398	1,189	4,668	3,081
Earnings from continuing operations before provision for income taxes	18,636	8,031	36,591	35,702
Provision for income taxes from continuing operations	3,924	1,791	7,775	7,692
Earnings from continuing operations	14,712	6,240	28,816	28,010
Earnings from discontinued operations, net of tax	1,677	131	1,680	122
Net earnings	$ 16,389	$ 6,371	$ 30,496	$ 28,132
Weighted average shares outstanding:				
Basic and diluted	7,020	7,007	7,018	7,004
Earnings per share, basic and diluted:				
From continuing operations	$ 2.09	$ 0.89	$ 4.11	$ 4.00
From discontinued operations	0.24	0.02	0.24	0.02
Net earnings per share	$ 2.33	$ 0.91	$ 4.35	$ 4.02
Comprehensive income:				
Net earnings	$ 16,389	$ 6,371	$ 30,496	$ 28,132
Other comprehensive income, net of tax:				
Unrealized (loss) gain on available-for-sale securities	(23)	(31)	135	34
Comprehensive income	$ 16,366	$ 6,340	$ 30,631	$ 28,166
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
Nine Months Ended September 29, 2019 and September 30, 2018
(Unaudited)
(Dollars in thousands)

	2019	2018
Cash flows from operating activities:		
Net earnings	$ 30,496	$ 28,132
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Provision for depreciation	2,815	3,079
Intangibles amortization	-	2,166
Provision for doubtful accounts	-	18
Non-cash retirement plan expense	359	527
Impairment of long-lived assets	-	3,021
Gain on sale of property, plant, and equipment	(160)	-
Gain on legal settlement	(2,300)	-
Other	670	86
Changes in operating accounts, net of effects of acquisition:		
Accounts receivable, net	11,049	20,958
Inventories	(39,421)	6,816
Other assets and current assets	(3,351)	2,208
Accounts payable and accrued liabilities	(5,099)	8,666
Federal and state income taxes	1,372	(5,698)
Net cash (used in) provided by operating activities	(3,570)	69,979
Cash flows from investing activities:		
Marketable securities purchased	(98,416)	(84,753)
Marketable securities - maturities and sales	148,406	126,532
Proceeds from divestiture of business, net of cash paid	-	3,660
Proceeds from note receivable	2,100	-
Purchase of property, plant and equipment	(4,326)	(7,110)
Acquisition of business, net of cash acquired	(3,733)	-
Proceeds from legal settlement	2,300	-
Proceeds from insurance settlement	807	2,474
Sale of property, plant and equipment	767	1
Net cash provided by investing activities	47,905	40,804
Cash flows from financing activities:		
Dividends paid	(42,087)	(41,989)
Proceeds from sale of treasury stock	518	528
Other	(442)	(6)
Net cash used in financing activities	(42,011)	(41,467)
Net increase in cash and cash equivalents	2,324	69,316
Cash and cash equivalents at beginning of period	56,847	11,222
Cash and cash equivalents at end of period	$ 59,171	$ 80,538

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 September 29, 2019 and September 30, 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 July 2, 2018	6,978	$ 7,441	$ 9,889	$ 344,529	$ (21)	$ (14,491)	$347,347
Net earnings				6,371			6,371
Unrealized loss on available-for-sale securities, net of tax					(31)		(31)
Other	2		229	6		37	272
Balance September 30, 2018	6,980	$ 7,441	$ 10,118	$ 350,906	$ (52)	$ (14,454)	$353,959
Balance July 1, 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	7,003	$ 7,441	$ 11,198	$ 351,119	$ 157	$ (14,024)	$355,891

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

NATIONAL PRESTO INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Nine Months Ended September 29, 2019 and September 30, 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				28,132			28,132
Unrealized gain on available-for-sale securities, net of tax					34		34
Dividends paid March 15, $1.00 per share regular, $5.00 per share extra				(41,989)			(41,989)
Other	12		1,044	6		356	1,406
Balance September 30, 2018	6,980	$ 7,441	$10,118	$ 350,906	$ (52)	$ (14,454)	$353,959
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	7,003	$ 7,441	$11,198	$ 351,119	$ 157	$ (14,024)	$355,891

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/A. 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 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. There are also certain termination clauses in Defense segment contracts that may give rise to the recognition of revenue, $9,412,000 of which was recognized during the third quarter of 2019. 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 September 29, 2019 and December 31, 2018, $4,294,000 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 $9,574,000 during the nine-month period ended September 29, 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 nine month periods ended September 29, 2019 and September 30, 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 $332,810,000 and $333,592,000 as of September 29, 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 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.

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 smoke, temperature, carbon monoxide, humidity, water, motion, and more. See Note L. Because a major focus of OneEvent is fire 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**	**Assets Held for Sale**	**Total**
Quarter ended September 29, 2019					
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	237,071	151,455	15,745		404,271
Depreciation and amortization	320	538	58		916
Capital expenditures	298	460	36		794
Quarter ended September 30, 2018					
External net sales	$ 22,705	$ 58,939	$ 9	$	$ 81,653
Gross profit (loss)	3,317	12,657	(277)		15,697
Operating profit (loss)	580	6,786	(524)		6,842
Total assets	268,885	126,937	8,022	528	404,372
Depreciation and amortization	287	684	56		1,027
Capital expenditures	1,757	39	24		1,820

	(in thousands)				
	Housewares / Small Appliances	**Defense Products**	**Safety**	**Assets Held for Sale**	**Total**
Nine Months ended September 29, 2019					
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	237,071	151,455	15,745		404,271
Depreciation and amortization	943	1,701	171		2,815
Capital expenditures	250	3,555	214		4,019
Nine Months ended September 30, 2018					
External net sales	$ 56,721	$ 180,957	28	$	$ 237,706
Gross profit (loss)	7,670	48,232	(483)		55,419
Operating profit (loss)	14	33,738	(1,131)		32,621
Total assets	268,885	126,937	8,022	528	404,372
Depreciation and amortization	845	4,234	166		5,245
Capital expenditures	6,657	417	36		7,110

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 September 29, 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**
September 29, 2019				
Tax-exempt Municipal Bonds	$ 45,210	$ 45,409	$ 199	$ -
Variable Rate Demand Notes	39,372	39,372	-	-
Total Marketable Securities	$ 84,582	$ 84,781	$ 199	$ -
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 $9,823,000 and $51,866,000 for the three month periods ended September 29, 2019 and September 30, 2018, respectively, and totaled $148,406,000 and $126,532,000 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 ($28,000) and ($39,000) before taxes for the three month periods ended September 29, 2019 and September 30, 2018, respectively, and were $173,000 and $43,000 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 29, 2019 are as follows: $29,913,000 within one year; $15,496,000 beyond one year to five years; $4,146,000 beyond five years to ten years, and $35,226,000 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 29, 2019 and December 31, 2018, $10,615,000 and $6,864,000 of such prepayments, respectively, remained unused and outstanding. At September 29, 2019 and December 31, 2018, $4,056,000 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 September 29, 2019**	**9 Months Ending September 29, 2019**
Operating lease cost	$ 178	$ 514
Short-term and variable lease cost	64	145
Total lease cost	$ 242	$ 659

Operating cash used for operating leases was $242,000 and $659,000 for the three and nine months ended September 29, 2019, respectively. The weighted-average remaining lease term was 7.72 years, and the weighted-average discount rate was 5.5% as of September 29, 2019.

Maturities of operating lease liabilities are as follows:

Years ending December 31:		**(In thousands)**
2019 (remaining three months)	$	175
2020		693
2021		648
2022		648
2023		531
Thereafter		1,824
Total lease payments	$	4,519
Less: future interest expense		869
Lease liabilities	$	3,650

Lease income from operating lease payments for the quarter ended September 29, 2019 was $444,000. Undiscounted cash flows provided by lease payments are expected as follows:

Years ending December 31:		**(In thousands)**
2019 (remaining three months)	$	444
2020		1,761
2021		1,755
2022		1,755
2023		1,755
Thereafter		15,795
Total lease payments	$	23,265

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 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.

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

	Three Months Ended		Nine Months Ended	
(in thousands) (unaudited)	**Sept. 29, 2019**	**Sept. 30, 2018**	**Sept. 29, 2019**	**Sept. 30, 2018**
Cost of sales	$ -	$ 68	$ 4	$ 57
Other income	2,122		2,122	
Earnings from discontinued operations before provision for income taxes	2,122	68	2,126	57
Provision for (benefit from) income taxes from discontinued operations	445	(63)	446	(65)
Earnings from discontinued operations, net of tax	$ 1,677	$ 131	$ 1,680	$ 122

During the third quarter of 2019, the Company recognized Other income from the settlement of a lawsuit for breach of contract. 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)	**Sept. 29, 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 $1,050,000 and $562,000 for the nine months ended September 29, 2019 and September 30, 2018, respectively. Cash provided by investing activities related to discontinued operations was $3,107,000 and $6,134,000 for the nine months ended September 29, 2019 and September 30, 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 amended lease will total $1,755,000. The amounts received from Drylock for rental income are recorded in Other Income on the Consolidated Statements of Comprehensive Income.

NOTE L – 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 $6,855,000, including cash of $4,021,000, 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 $470,000, however, the value of the earn out will vary depending on actual earnings over the seven year period. 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. 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. These estimates are based on a preliminary valuation, which the Company expects to finalize during the first quarter of 2020.

		(in thousands)
Cash	$	287
Receivables		14
Inventory		307
Other current assets		105
Property, plant and equipment		35
Intangibles		1,988
Goodwill		4,338
Right-of-Use Lease Assets		59
Total assets acquired		7,133
Less: Current liabilities assumed		255
Lease Liability - Noncurrent		23
Net assets acquired	$	6,855

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 synergies with the Company's other subsidiary in the Safety segment, Rusoh, Inc. The recorded goodwill is deductible for income tax purposes over a fifteen year period. The Company's results of operations for 2019 include revenue of $13,000 and loss of ($298,000) from the acquired facility 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, 2018.

	(unaudited) (in thousands, except per share data)			
	Quarter Ended		Nine Months Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Net sales	$ 78,011	$ 81,673	$ 213,652	$ 237,795
Net earnings	16,196	6,017	29,069	26,962
Net earnings per share (basic and diluted)	$ 2.31	$ 0.86	$ 4.14	$ 3.85
Weighted average shares outstanding (basic and diluted)	7,020	7,007	7,018	7,004

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.

NOTE M – 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.

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 Third 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 three business segments for the quarters ended September 29, 2019 and September 30, 2018.

On a consolidated basis, net sales decreased by $3,647,000 (5%), gross profit increased by $8,150,000 (52%), selling and general expenses increased by $780,000 (13%), and impairment of long-lived assets decreased by $3,021,000. There were no impairments recorded in 2019. Other income increased by $209,000 (18%), while earnings from continuing operations before provision for income taxes increased by $10,605,000 (132%), and earnings from continuing operations increased by $8,472,000 (136%). Change in earnings from discontinued operations, net of tax, was positive by $1,546,000. Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales decreased by $1,108,000 from $22,705,000 to $21,597,000, or 5%, primarily attributable to an increase in allowances and a decrease in shipments. Defense net sales decreased by $2,544,000 from $58,939,000 to $56,395,000, or 4%, primarily reflecting a decrease in units shipped, partially offset by proceeds from the settlement of a customer termination of $9,412,000.

Housewares/Small Appliance gross profit decreased $494,000 from $3,317,000 to $2,823,000, primarily reflecting less favorable product margins. Defense gross profit increased $8,706,000 from $12,657,000 to $21,363,000, primarily reflecting the proceeds from the customer termination agreement 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 increased $951,000, primarily reflecting higher accruals for self-insurance reserves of $177,000, higher legal & professional expense of $289,000 and charges related to the vesting of stock upon the retirement of long-term employees of $448,000. Selling and general expenses for the Defense segment decreased $643,000, 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/A. Safety segment selling and general expenses increased by $473,000, primarily reflecting the selling and general expenses of OneEvent, whose assets were acquired during the reported quarter. See note L to the Company's Consolidated Financial Statements.

There were no impairments recorded in 2019. In contrast, in third quarter 2018, as the carrying value of the assets and liabilities included with the divestiture of AMTEC Less Lethal (mentioned above) exceeded the selling price less selling costs, the Company recorded an impairment on the related long-lived assets of $3,021,000.

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

The $209,000 increase in other income was primarily attributable to an increase in interest income on marketable securities stemming from higher yields offset by a lower average daily investment.

Earnings from continuing operations before provision for income taxes increased $10,605,000 from $8,031,000 to $18,636,000. The provision for income taxes from continuing operations increased from $1,791,000 to $3,924,000, which resulted in an effective income tax rate of 21% in 2019 vs. 22% in 2018. Earnings from continuing operations increased $8,472,000 from $6,240,000 to $14,712,000, or 136%.

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 from discontinued operations, net of tax, for the three months ended September 29, 2019 and September 30, 2018 was $1,677,000 and $131,000, respectively. The earnings stemmed from the settlement of a lawsuit for breach of contract.

Net earnings increased $10,018,000 from $6,371,000 to $16,389,000.

Comparison of First Nine 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 three business segments for the first nine months ended September 29, 2019 and September 30, 2018.

On a consolidated basis, sales decreased by $24,105,000 (10%), gross profit decreased by $4,404,000 (8%), selling and general expenses increased by $1,481,000 (8%), intangibles amortization decreased by $2,166,000 (100%), and impairment of long-lived assets decreased by $3,021,000. There were no impairments recorded in 2019. Other income increased by $1,587,000 (52%), while earnings from continuing operations before provision for income taxes increased by $889,000 (3%), and earnings from continuing operations increased by $806,000 (3%). Earnings from discontinued operations, net of tax, increased $1,558,000 (1,277%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales increased by $3,695,000 from $56,721,000 to $60,416,000, or 7%, primarily attributable to an increase in shipments. Defense net sales decreased by $27,824,000 from $180,957,000 to $153,133,000, or 15%, primarily reflecting a decrease in units shipped, partially offset by proceeds from the settlement of a customer termination of $9,412,000.

Housewares/Small Appliance gross profit decreased $301,000 from $7,670,000 to $7,369,000, primarily reflecting the increase in sales mentioned above offset by less favorable product margins. Defense gross profit decreased $3,940,000 from $48,232,000 to $44,292,000, primarily reflecting the decrease in sales mentioned above and less favorable product margins, partially offset by the proceeds from the customer termination agreement also 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 increased $2,337,000, primarily reflecting higher accruals for self-insurance of $1,297,000, legal & professional expenses of $575,000, and charges related to the vesting of stock upon the retirement of long-term employees of $448,000. Selling and general expenses for the Defense segment decreased $1,723,000, 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/A. Safety segment selling and general expenses increased by $868,000, primarily reflecting the selling and general expenses of OneEvent and an increase in legal and professional expenses.

Intangibles amortization decreased by $2,166,000. 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 nine months ended September 29, 2019 and September 30, 2018, the Company recorded amortization expense of $0 and $2,150,000, respectively, associated with the customer contract intangible asset.

There were no impairments recorded in 2019. In contrast, in 2018, as the carrying value of the assets and liabilities included with the divestiture of AMTEC Less Lethal (mentioned above) exceeded the selling price less selling costs, the Company recorded an impairment on the related long-lived assets of $3,021,000.

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

The $1,587,000 increase in other income was primarily attributable to an increase in interest income on marketable securities with higher yields stemming from the Federal Reserve’s rate increases.

Earnings from continuing operations before provision for income taxes increased $889,000 from $35,702,000 to $36,591,000. The provision for income taxes from continuing operations increased from $7,692,000 to $7,775,000, which resulted in an effective income tax rate of 21% in 2019 versus 22% in 2018. Earnings from continuing operations increased $806,000 from $28,010,000 to $28,816,000, or 3%.

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 from discontinued operations, net of tax, for the first nine months ended September

29, 2019 and September 30, 2018 were $1,680,000 and $122,000, respectively. The earnings stemmed from the settlement of a lawsuit for breach of contract.

Net earnings increased $2,364,000 from $28,132,000 to $30,496,000.

Liquidity and Capital Resources

Net cash (used in) provided by operating activities was ($3,570,000) and $69,979,000 for the nine months ended September 29, 2019 and September 30, 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 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. Also contributing to the cash used were an increase in inventory levels, deposits with vendors included in other assets and current assets and a net increase 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 was $1,050,000. Of particular note during the first nine months of 2018 were net earnings of $28,132,000, which included total non-cash depreciation and amortization expenses of $5,245,000 and a non-cash impairment of long-lived assets of $3,021,000. Also contributing to the cash provided were decreases in accounts receivable levels stemming from cash collections on customer sales, inventory levels, deposits with raw material suppliers included in other assets and current assets, and a net increase in payable and accrual levels. Cash used in operating activities from discontinued operations was $562,000.

Net cash provided by investing activities was $47,905,000 during the first nine months of 2019 as compared to $40,804,000 during the first nine months of 2018. Significant factors contributing to the change were net maturities and sales of marketable securities in 2019 of $49,990,000, in contrast with net maturities and sales of marketable securities in 2018 of $41,779,000, proceeds from a legal settlement of $2,300,000, 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, proceeds from a note receivable, and acquisition of a business in 2019. Cash provided by discontinued operations for the first nine months of 2019 and 2018 were $3,107,000 and $6,134,000, respectively.

Cash flows from financing activities for the first nine months of 2019 and 2018 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 $22,686,000 during the first nine months of 2019 to $282,081,000 at September 29, 2019 for the reasons stated above. The Company's current ratio was 7.2 to 1.0 at September 29, 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.

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.

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, 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 0.8 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 29, 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 September 29, 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 September 29, 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 September 29, 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: January 28, 2020

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: January 28, 2020

/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: January 28, 2020

/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 September 29, 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: January 28, 2020

/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 September 29, 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: January 28, 2020

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