NATIONAL PRESTO INDUSTRIES INC
Form 10-K
March 15, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________________________ to __________________________

Commission File Number 1-2451

NATIONAL PRESTO INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Wisconsin	39-0494170
(State or other jurisdiction of	(IRS Employer

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
$1.00 par value common stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or any amendment to the Form 10-K.

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter: $613,060,092. The number of shares outstanding of each of the registrant's classes of common stock, as of March 1, 2019 was 6,981,085.

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

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PART I

ITEM 1. BUSINESS

A. DESCRIPTION OF BUSINESS

The business of National Presto Industries, Inc. (the “Company" or “National Presto”) consists of two business segments. For a further discussion of the Company’s business, the segments in which it operates, and financial information about the segments, please refer to Note L to the Consolidated Financial Statements. The Housewares/Small Appliance segment designs, markets and distributes housewares and small electrical appliances, including pressure cookers and canners, kitchen electrics, and comfort appliances. The Defense segment manufactures 40mm ammunition, precision mechanical and electro-mechanical assemblies, medium caliber cartridge cases; performs Load, Assemble and Pack (LAP) operations on ordnance-related products primarily for the U.S. Government and prime contractors; and manufactures detonators, booster pellets, release cartridges, lead azide, and other military energetic devices and materials.

On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. (“PAPI”), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. (“Drylock”) in exchange for $68,448,000. The proceeds amount differs from the amount originally disclosed because of the customary post-closing adjustments that were finalized during the second quarter of 2017, totaling $1,448,000. The asset purchase agreement also provided for additional proceeds of $4,000,000 upon the sale of certain delayed assets, consisting of machinery and equipment that were the subject of an involuntary conversion. The sale of the delayed assets was consummated during the second quarter of 2018 and resulted in no gain or loss. As a result of the aforementioned transactions, the Company classified its results of operations for all periods presented to reflect its Absorbent Products business as a discontinued operation and classified the assets and liabilities of its Absorbent Products business as held for sale. See Note P for further discussion. The operations of PAPI previously comprised the Company’s Absorbent Products segment which manufactured and sold private label and branded adult incontinence products.

1. Housewares/Small Appliance Segment

Housewares and electrical appliances sold by the Company include pressure cookers and canners; the Presto Control Master® heat control single thermostatic control line of skillets in several sizes, griddles, woks and multi-purpose cookers; slow cookers; deep fryers of various sizes; air fryers; waffle makers; pizza ovens; slicer/shredders; electric heaters; corn poppers (hot air, oil, and microwave); dehydrators; rice cookers; microwave bacon cookers;

coffeemakers and coffeemaker accessories; electric tea kettles; electric knife sharpeners; a line of kitchen gadgets; and timers. Pressure cookers and canners are available in various sizes and are fabricated of aluminum and, in the case of cookers, of stainless steel, as well. Currently, sales include fire extinguishers sold by its subsidiary, Rusoh, Inc.

For the year ended December 31, 2018, approximately 11% of consolidated net sales were provided by cast products (griddles, waffle makers, die cast deep fryers, skillets and multi-cookers), and approximately 16% by noncast/thermal appliances (stamped cookers and canners, pizza ovens, corn poppers, coffee makers, microwave bacon cookers, dehydrators, rice cookers, slow cookers, tea kettles, electric stainless steel appliances, non-cast fryers, air fryers and heaters). For the year ended December 31, 2017, approximately 12% of consolidated net sales were provided by cast products, and approximately 16% by noncast/thermal appliances. For the year ended December 31, 2016, approximately 12% of consolidated net sales were provided by cast products, and approximately 18% by noncast/thermal appliances. For the years ended December 31, 2018, 2017 and 2016, this segment had one customer which accounted for 10% or more of the Company’s consolidated net sales. That customer was Wal-Mart Stores, Inc., which accounted for 10%, 10%, and 11% of consolidated net sales in the years ended December 31, 2018, 2017, and 2016, respectively. The loss of Wal-Mart Stores as a customer would have a material adverse effect on the segment.

Products are sold primarily in the United States and Canada directly to retailers and also through independent distributors. Although the Company has long established relationships with many of its customers, it does not have long-term supply contracts with them. The loss of, or material reduction in, sales to any of the Company's major customers could adversely affect the Company's business. Most housewares and electrical appliances are sourced from vendors in the Orient. (See Note J to the Consolidated Financial Statements.)

The Company has a sales force of 12 employees that sell to and service most customers. A few selected accounts are handled by manufacturers' representatives who may also sell other product lines. Sales promotional activities are conducted primarily through the use of newspaper advertising, in store promotions, and digital advertising. The business is seasonal, with the normal peak sales period occurring in the fourth quarter of the year prior to the holiday season. This segment operates in a highly competitive and extremely price sensitive environment. Increased costs that cannot be fully absorbed into the price of products or passed along in the form of price increases to the retail customer can have a significant adverse impact on operating results. Several companies compete for sales of housewares and small electrical appliances, some of which are larger than the Company’s segment and others which are smaller. In addition, some customers maintain their own private label, as well as purchase brokered product directly from the Orient. Product competition extends to special product features, product pricing, product quality, marketing programs, warranty provisions, service policies and other factors. New product introductions are an important part of the Company's sales to offset the morbidity rate of other products and/or the effect of lowered acceptance of seasonal products due to weather conditions. New products entail unusual risks. Engineering and tooling costs are increasingly expensive, as are finished goods that may not have a ready market or achieve widespread consumer acceptance. High-cost advertising commitments which may accompany such new products or may be required to maintain sales of existing products may not be fully absorbed by ultimate product sales. Initial production schedules, set in advance of introduction, carry the possibility of excess unsold inventories. New product introductions are further subject to delivery delays from supply sources, which can impact availability for the Company's most active selling periods.

Research and development costs related to new product development for the years 2018, 2017, and 2016 were expensed in operations of these years and were not a material element in the aggregate costs incurred by the Company.

Products are generally warranted to the original owner to be free from defects in material and workmanship for a period of one to twelve years from date of purchase, depending on the product. The Company allows a sixty-day over-the-counter initial return privilege through cooperating dealers. Products are serviced through a corporate service repair operation. The Company's service and warranty programs are competitive with those offered by other manufacturers in the industry.

The Company primarily warehouses and distributes its products from distribution centers located in Canton and Jackson, Mississippi. Selective use is made of leased tractors and trailers.

The Company invests funds not currently required for business activities (see Note A(5) to the Consolidated Financial Statements). Income from invested funds is included in Other Income in the accompanying Consolidated Financial Statements.

Earnings from investments may vary significantly from year to year depending on interest yields on instruments meeting the Company's investment criteria, and the extent to which funds may be needed for internal growth, acquisitions, newly identified business activities, and reacquisition of Company stock.

2. Defense Segment

AMTEC Corporation was acquired on February 24, 2001, and manufactures 40mm ammunition, and precision mechanical and electro-mechanical products for the U.S. Department of Defense (DOD) and DOD prime contractors. AMTEC’s 106,000 square foot manufacturing facility located in Janesville, Wisconsin,

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which includes the Company’s 2016 construction of 31,000 square feet of manufacturing space to meet anticipated production needs, is focused on producing niche market ordnance products (such as training ammunition, fuzes, firing devices, and initiators). AMTEC is also the prime contractor for the 40mm ammunition system to the DOD (more fully described below).

Spectra Technologies LLC, a subsidiary of AMTEC, was acquired on July 31, 2003, and is engaged in the manufacture and delivery of munitions and ordnance-related products for the DOD and DOD prime contractors. Spectra maintains 372,000 square feet of space located in East Camden, Arkansas, dedicated primarily to Load, Assemble and Pack (LAP) type work.

Amron, a division of AMTEC, holds the assets that were purchased from Amron LLC on January 30, 2006. Amron manufactures cartridge cases used in medium caliber ammunition (20mm, 25mm, 30mm and 40mm) primarily for the DOD and DOD prime contractors, which includes the 40mm systems program previously mentioned and referenced below. The Amron manufacturing facility is 208,000 square feet and is located in Antigo, Wisconsin.

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

AMTEC Less Lethal Systems, Inc., a subsidiary of AMTEC Corporation, held the assets that were purchased from ALS Technologies, Inc, a small Arkansas manufacturer of less lethal ammunition, on November 1, 2011. The subsidiary’s products included smoke and tear gas grenades, specialty impact munitions, diversionary devices and stun munitions, support accessories like launchers and gas masks, as well as training for the use of its products. The subsidiary’s state-of-the-art less lethal ammunition manufacturing and training facility, which was completed in 2013, was 54,000 square feet and was located in Perry, Florida. In October of 2018, the Company divested itself of the less lethal business. See Note Q to the Consolidated Financial Statements.

The Defense segment competes for its business primarily on the basis of technical competence, product quality, manufacturing experience, and price. This segment operates in a highly competitive environment with many other organizations, some of which are larger and others that are smaller.

On April 25, 2005, AMTEC Corporation was awarded the high volume, five-year prime contract for management and production of the Army’s 40mm Ammunition System. The Army selected AMTEC as one of two prime contractors responsible for supplying all requirements for 40mm practice and tactical ammunition for a period of five years. Deliveries under the contract exceeded $671,000,000, with final deliveries completed in 2013. On February

18, 2010, the Army awarded AMTEC a second five-year contract for the management and production of the 40mm Ammunition System. As in the original five-year contract, AMTEC was awarded the majority share of the 40mm requirement. Deliveries under this contract exceeded $566,000,000, with the final deliveries completed in 2018. In addition, as part of an acquisition of a group of assets from DSE, Inc, a 40mm competitor, which was completed on November 7, 2013, AMTEC acquired through a novation agreement an additional $188,000,000, representing the remaining undelivered portion of the award that had been given to AMTEC's competitor under the second five-year contract mentioned above. Total deliveries for the systems program under the novated DSE 40mm contract were completed in 2018. The Company submitted its bid for a third contract, and although the FY15 (Army's fiscal year beginning October 1, 2014) bid request was subsequently cancelled, the 40mm program requirements remained and were subsequently awarded to AMTEC as the Army's FY16 40mm requirements in a single award valued at $84,500,000. Total deliveries for the FY16 contract were $82,000,000 through 2018. Additional shipments under this contract will be made in 2019. On August 30, 2017, the Army awarded AMTEC, as the sole prime contractor, a third five-year 40mm system contract covering FY17-21 requirements. The value to date is approximately $199,000,000 for FY17 and FY18, with deliveries scheduled to continue in 2019. The actual annual and cumulative dollar volume with the

Army over the balance of the contract will be dependent upon military requirements and funding, as well as government procurement regulations and other factors controlled by the Army and the Department of Defense.

During 2018, almost all of the work performed by this segment directly or indirectly for the DOD was performed on a fixed-price basis. Under fixed-price contracts, the price paid to the contractor is awarded based on competition at the outset of the contract and therefore is generally not subject to adjustments reflecting the actual costs incurred by the contractor, with the exception of some limited escalation clauses, which on the 2017 contract applied to only three materials – steel, aluminum and zinc. The Defense segment's contracts and subcontracts contain the customary provision permitting termination at any time for the convenience of the government, with payment for any work completed, associated profit and inventory/work in progress at the time of termination. The segment's business does not tend to be seasonal.

B. OTHER COMMENTS

1. Sources and Availability of Materials

See Note J to the Consolidated Financial Statements.

2. Patents, Trademarks, and Licenses

Patents, particularly on new products, trademarks and know-how are considered significant to the Company's Housewares/Small Appliance segment. The Company's current and future success depends upon judicial protection of its intellectual property rights (patents, trademarks and trade dress). Removal of that protection would expose the Company to competitors who seek to take advantage of the Company's innovations and proprietary rights. The Company has dozens of U.S. and foreign patents pending and granted. Of those U.S. patents granted, the following is a non-exhaustive list of those relevant to current products and their expiration dates, assuming continued payment of maintenance fees (the date is the latest expiration date of the corresponding patents): Quick Release Appliance Cord Assemblies (US 6,719,576, December 2022, and 6,527,570, October 2021), Coffee Brewer (US D695,064, December 2027), Cooking Apparatus with Safety Device (US 7,635,827, November 2027), Griddle with Attached Warming Tray (US D674,656, January 2027), Low Profile Griddle (US D575,098, August 2022), Stirring Popcorn Maker (US D615,797, May 2024), and Parabolic Heater (US D633,189, February 2025). The Company also has dozens of U.S. and foreign trademarks pending and granted. Of those U.S. trademarks granted, the following is a non-exhaustive list of those relevant to current products and their grant dates: Presto (February 1941), FryDaddy (November 1977), SaladShooter (September 1988), Pizzazz (July 1999), PopLite (June 1989), ControlMaster (November 1956), Pan Gogh (December 2018), Nomad (August 2018) and HeatDish (November 1989).To date, the Company has vigorously protected its rights and enjoyed success in all its intellectual property suits. The Defense segment holds a United States patent related to its non-dud signature training round (US 8,640,621, Oct 2029), which would be deemed significant to its respective operations.

3. Effects of Compliance with Environmental Regulations

In May 1986, the Company's Eau Claire, Wisconsin site was placed on the United States Environmental Protection Agency's (EPA) National Priorities List (NPL) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) because of hazardous waste deposited on the property. At year end 1998, all remediation projects at the Eau Claire, Wisconsin, site had been installed, were fully operational, and restoration activities had been completed.

Based on factors known as of December 31, 2018, it is believed that the Company's environmental liability reserve will be adequate to satisfy on-going remediation operations and monitoring activities; however, should environmental agencies require additional studies or remediation projects, it is possible the existing accrual could be inadequate.

Management believes that in the absence of any unforeseen future developments, known environmental matters will not have any material effect on the results of operations or financial condition of the Company.

4. Number of Employees of the Company

As of December 31, 2018, the Company and its subsidiaries had 949 employees compared to 982 employees at the end of December 2017.

Approximately 170 employees of Amron are members of the United Steel Workers union. The most recent contract between Amron and the union is effective through February 29, 2020.

5. Industry Practices Related to Working Capital Requirements

The major portion of the Company's sales was made with terms of 60 days or shorter.

For the Housewares/Small Appliance segment, inventory levels increase in advance of the selling period for products that are seasonal, such as pressure canners, heaters, and major new product introductions. Inventory build-up also occurs to create stock levels required to support the higher sales that occur in the latter half of each year. Buying practices of the Company's customers require "just-in-time" delivery, necessitating that the Company carry large finished goods inventories.

The ability to meet U.S. Department of Defense demands also necessitates the carrying of large inventories in the Defense segment.

6. Order Backlog

Shipment of most of the Company's Housewares/Small Appliance products occurs within a relatively short time after receipt of the order and, therefore, there is usually no substantial order backlog. New product introductions may result in order backlogs that vary from product to product and as to timing of introduction.

The contract backlog of the Defense segment was approximately $333,592,000, $308,173,000, and $358,931,000 at December 31, 2018, 2017, and 2016, respectively. Backlog is defined as the value of orders from the customer less the amount of sales recognized against the orders. It is anticipated that the backlog will be produced and shipped during an 18 to 24-month period, after December 31, 2018.

C. AVAILABLE INFORMATION

The Company has a web site at www.gopresto.com. The contents of the Company's web site are not part of, nor are they incorporated by reference into, this annual report.

The Company makes available on its web site its annual reports on Form 10-K or 10-K/A and, beginning with its second quarter filing in 2011, quarterly reports on Form 10-Q or 10-Q/A. It does not provide its current reports on Form 8-K or amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act on its web site. The Company does not do so because these and all other reports it files with the SEC are readily available to the public on the SEC web site at www.sec.gov and can be located with ease using the link provided on the Company’s web site. The Company provides paper copies of its annual report free of charge upon request.

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

ITEM 1A. RISK FACTORS

The Company’s two business segments described above are all subject to a number of risk factors, the occurrence of any one or more of which could have a significant adverse impact on the business, financial condition, or results of operations of the Company as a whole.

Housewares/Small Appliance Segment:

Increases in the costs for raw materials, energy, transportation and other necessary supplies could adversely affect the results of the Company's operations.

The Company's suppliers purchase significant amounts of metals, plastics, and energy to manufacture the Company's products. Also, the cost of fuel has a major impact on transportation costs. Any increased costs that cannot be fully absorbed or passed along in the form of price increases to the retail customer can have a material adverse impact on the Company's operating results.

Reliance on third-party suppliers in Asia makes this segment vulnerable to supply interruptions and foreign business risks.

The majority of the housewares/small appliance products are manufactured by a handful of third-party suppliers in Asia, primarily in the People's Republic of China. The Company's ability to continue to select and develop relationships with reliable vendors who provide timely deliveries of quality parts and products will impact its success in meeting customer demand. Most products are procured on a "purchase order" basis. As a result, the Company may be subject to unexpected changes in pricing or supply of products. There is no assurance that it could quickly or effectively replace any of its vendors if the need arose. Any significant failure to obtain products on a timely basis at an affordable cost or any significant delays or interruptions of supply may disrupt customer relationships and have a material adverse effect on the Company's business.

In addition, international manufacturing is subject to significant risks, including, among others, labor unrest, adverse social, political and economic conditions, interruptions in international shipments, tariffs and other trade barriers, legal and regulatory constraints and fluctuations in currency exchange rates. Although China currently enjoys "most favored nation" trading status with the United States, the U.S. Government has in the past proposed to revoke that status and to impose higher tariffs on products imported from China, which could have a material adverse effect on the Company's business. Currently, it has imposed a 10% tariff on some imports and has threatened to impose a 25% tariff on all products. The latter, if imposed, would have a material adverse effect on the Company's business.

The Housewares/Small Appliance segment is dependent on key customers, and any significant decline in business from one or more of its key customers could adversely affect the segment's operating results.

Although the Company has a long-established relationship with its major customers, it does not have any long-term supply agreement or guaranty of minimum purchases. As a result, the customers may fail to place anticipated orders, change planned quantities, delay purchases, or change product assortments for reasons beyond the Company's control, which could prove detrimental to the segment's operating results.

The sales for this segment are highly seasonal and dependent upon the United States retail markets and consumer spending.

Traditionally, this segment has recognized a substantial portion of its sales during the Holiday selling season. Any downturn in the general economy, shift in consumer spending away from its housewares/small appliances, or deterioration in the financial health of its customer base could adversely affect sales and operating results.

The Company may not be successful in developing and introducing new and improved consumer products.

The development and introduction of new housewares/small appliance products is very important to the Company's long-term success. The ability to develop new products is affected by, among other things, whether the Company can develop and fund technological innovations and successfully anticipate consumer needs and preferences, as well as the intellectual property rights of others. The introduction of new products may require substantial expenditures for advertising and marketing to gain marketplace recognition or to license intellectual property. There is no guarantee that the Company will be aware of all relevant intellectual property in the industry and may be subject to claims of infringement, which could preclude it from producing and selling a product. Likewise, there is no guarantee that the Company will be successful in developing products necessary to compete effectively in the industry or that it will be successful in advertising, marketing and selling any new products.

Product recalls or lawsuits relating to defective products could have an adverse effect on the Company, as could the imposition of industry sustainability standards.

As distributors of consumer products in the United States, the Company is subject to the Consumer Products Safety Act, which empowers the U.S. Consumer Products Safety Commission to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the U.S. Consumer Products Safety Commission could require the Company to repair, replace or refund the purchase price of one or more of its products, or it may voluntarily do so. Any repurchase or recall of products could be costly and damage the Company's reputation, as well as subject it to a sizable penalty that the Commission is empowered to impose. If the Company removed products from the market, its reputation or brands could be tarnished and it might have large quantities of finished products that could not be sold.

The Company could also face exposure to product liability claims if one of its products were alleged to have caused property damage, bodily injury or other adverse effects. It is self-insured to specified levels of those claims and maintains product liability insurance for claims above the self-insured levels. The Company may not be able to maintain such insurance on acceptable terms, if at all, in the future. In addition, product liability claims may exceed the amount of insurance coverage. Moreover, many states do not allow insurance companies to provide coverage of punitive damages, in the event such damages are imposed. Additionally, the Company does not maintain product recall insurance. As a result, product recalls or product liability claims could have a material adverse effect on the Company's business, results of operations and financial condition.

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

The housewares/small appliance industry continues to consolidate, which could ultimately impede the Company's ability to secure product placement at key customers.

Over the past decade, the housewares/small appliance industry has undergone significant consolidation, and, as a result, the industry primarily consists of a limited number of larger companies. Larger companies do enjoy a competitive advantage in terms of the ability to offer a larger assortment of product to any one customer. As a result, the Company may find it more difficult or lose the ability to place its products with its customers.

Defense Segment:

The Company relies primarily on sales to U.S. Government entities, and the failure to procure or the loss of a significant contract or contracts could have a material adverse effect on its results of operations.

As the Company’s sales in the Defense segment are primarily to the U.S. Government and its prime contractors, it depends heavily on the contracts underlying these programs. The loss or significant reduction of a major program in which the Company participates could have a material adverse effect on the results of operations.

A decline in or a redirection of the U.S. defense budget could result in a material decrease in the Defense segment sales and earnings.

Government contracts are primarily dependent upon the U.S. defense budget. During recent years, the Company's sales were augmented by increased defense spending, including supplemental appropriations for operations in Iraq and Afghanistan. However, future defense budgets could be negatively affected by several factors, including U.S. Government budget deficits, administration priorities, U.S. national security strategies, a change in spending priorities, and the reduction of military operations around the world. Any significant decline or redirection of U.S. military expenditures could result in a decrease to the Company's sales and earnings.

U.S. Government contracts are also dependent on the continuing availability of Congressional appropriations. Congress usually appropriates funds for a given program on a fiscal year basis even though contract performance may take more than one year. As a result, at the outset of a major program, the contract is usually incrementally funded, and additional monies are normally committed to the contract by the procuring agency only as Congress makes appropriations for future fiscal years. In addition, most U.S. Government contracts are subject to modification if funding is changed. Any failure by Congress to appropriate additional funds to any program in which the Company participates, or any contract modification as a result of funding changes, could materially delay or terminate the program. This could have a material adverse effect on the results of the Company's operations.

The Company may not be able to react to increases in its costs due to the nature of its U.S. Government contracts.

Substantially all of the Company's U.S. Government contracts are being performed on fixed-price basis. Under fixed-price contracts, the Company agrees to perform the work for a fixed price, subject to limited escalation provisions on specified raw materials. Thus it bears the risk that any increases or unexpected costs may reduce profits or potentially cause losses on the contract, which could have a material adverse effect on results of operations and financial condition. That risk is potentially compounded by the political actions under consideration by federal and state governments, including climate change and labor regulations, which could have an impact if enacted or promulgated on the availability of affordable labor, energy and ultimately, materials, as the effects of the legislation/regulation ripple throughout the economy. In addition, products are accepted by test firing samples from a production lot. Lots typically constitute a sizable amount of product. Should a sample not fire as required by the specifications, the cost to rework or scrap the entire lot could be substantial.

The Company's U.S. Government contracts are subject to termination.

All of the Company's U.S. Government contracts can be terminated by the U.S. Government either for its convenience or if the Company defaults by failing to perform under the contract. Performance failure can occur from a myriad of factors, which include late shipments due to the inability to secure requisite raw materials or components or strikes or other labor unrest, equipment failures or quality issues which result in products that do not meet specifications, etc. Termination for convenience provisions provide only for recovery of costs incurred and profit on the work completed prior to termination. Termination for default provisions provide for the contractor to be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source. If a termination provision is exercised, it could have a material adverse effect on the Company's business, results of operations and financial condition.

Failure of the Company's subcontractors to perform their contractual obligations could materially and adversely impact contract performance.

Key components and services are provided by third party subcontractors, several of which the segment is required to work with by government edict. Under the contract, the segment is responsible for the performance of those subcontractors, many of which it does not control. There is a risk that the Company may have disputes with its subcontractors, including disputes regarding the quality and timeliness of work performed by subcontractors. A failure by one or more of the Company's subcontractors to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact the Company's ability to perform its obligations as the prime contractor.

Acquisition Risks:

The Company may pursue acquisitions of new product lines or businesses. It may not be able to identify suitable acquisition candidates or, if suitable candidates are identified, it may not be able to complete the acquisition on commercially acceptable terms. Even if the Company is able to consummate an acquisition, the transaction would present many risks, including, among others: failing to achieve anticipated benefits or cost savings; difficulty incorporating and integrating the acquired technologies, services or products; coordinating, establishing or expanding sales, distribution and marketing functions, as necessary; diversion of management's attention from other business concerns; being exposed to unanticipated or contingent liabilities or incurring the impairment of goodwill; the loss of key employees, customers, or distribution partners; and difficulties implementing and maintaining sufficient controls, policies and procedures over the systems, products and processes of the acquired company. If the Company does not achieve the anticipated benefits of its acquisitions as rapidly or to the extent anticipated by management, or if others do not perceive the same benefits of the acquisition as the Company does, there could be a material, adverse effect on the Company's business, financial condition or results of operations.

Information Technology System Failure or Security Breach Risks:

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES (Owned Except Where Indicated)

The Company's Eau Claire facility is approximately 522,000 square feet, of which approximately 354,000 square feet was formerly occupied by Presto Absorbent Products, Inc. and subsequently, beginning on January 3, 2017, is leased to Drylock Technologies, LTD mentioned in Item 1 of this Form 10-K. The Company's corporate office occupies the balance of the space in Eau Claire. During 2018, the Company completed construction of a 30,000 square foot office building adjacent to its Eau Claire facility, which it also leases to Drylock Technologies, LTD.

The Company also has Defense manufacturing facilities located in Janesville and Antigo, Wisconsin; East Camden, Arkansas; and Clear Lake, South Dakota. The Company sold its Perry, Florida facility in October 2018 with its divestiture of Amtec Less Lethal Systems, Inc. See Note Q to the Consolidated Financial Statements.

The Janesville, Wisconsin facility is comprised of approximately 106,000 square feet, which includes the Company’s 2016 construction of 31,000 square feet of manufacturing space to meet anticipated needs. The Antigo, Wisconsin facility is comprised of approximately 208,000 square feet and the Perry, Florida facility was comprised of approximately 54,000 square feet. The East Camden, Arkansas operation leases approximately 372,000 square feet. The Clear Lake, South Dakota facility is comprised of approximately 88,000 square feet.

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There are two warehousing facilities located in Jackson and Canton, Mississippi used in the Housewares/Small Appliance segment. The Jackson facility contains 252,000 square feet. The Company also leases a 255,000 square foot building in Canton which is used primarily for warehousing and distribution and some activities for product service functions. An additional 72,000 square feet has been leased in adjacent Canton buildings for warehousing.

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

ITEM 3. LEGAL PROCEEDINGS

See Note I to the Company's Consolidated Financial Statements.

See Item 1-B-3 of this Form 10-K and Note K to the Consolidated Financial Statements for information regarding certain environmental matters.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Record of Dividends Paid and Market Price of Common Stock

	2018 Applicable Dividends Paid per Share	2018 Market Price High	2018 Market Price Low	2017 Applicable Dividends Paid per Share	2017 Market Price High	2017 Market Price Low
First Quarter*	$ 6.00	$ 108.30	$ 88.95	$ 5.50	$ 112.00	$ 91.85
Second Quarter	—	136.50	92.00	—	112.45	98.10
Third Quarter	—	140.25	115.30	—	114.70	95.90
Fourth Quarter	—	133.95	109.95	—	121.00	95.90
Full Year	$ 6.00	$ 140.25	$ 88.95	$ 5.50	$ 121.00	$ 91.85

* First quarter 2018 includes a regular dividend of $1.00 and an extra dividend of $5.00. First quarter 2017 includes a regular dividend of $1.00 and an extra dividend of $4.50.

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

The common stock of National Presto Industries, Inc. is traded on the New York Stock Exchange under the symbol “NPK”. As of March 1, 2019, there were 246 holders of record of the Company’s common stock. This number does not reflect shareholders who hold their shares in the name of broker dealers or other nominees. During the fourth quarter of 2018, the Company did not purchase any of its equity securities.

The information under the heading “Equity Compensation Plan Information,” in the Company’s Proxy Statement for its 2019 Annual Meeting of Stockholders, is incorporated by reference.

The line graph and related information set forth under the heading “Performance Graph” in the Company’s 2018 Annual Report is incorporated by reference.

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ITEM 6. SELECTED FINANCIAL DATA

	(In thousands except per share data)				
For the years ended December 31,	2018	2017	2016	2015	2014
Net sales	$ 323,317	$ 333,633	$ 341,905	$ 355,649	$ 347,198
Earnings from continuing operations	$ 39,889	$ 43,314	$ 41,915	$ 42,162	$ 30,752
Earnings (loss) from discontinued operations, net of tax	51	9,645	2,649	(1,666)	(4,275)
Net earnings	39,940	52,959	44,564	40,496	26,477
Earnings (loss) per share - basic and diluted					
From continuing operations	$ 5.69	$ 6.20	$ 6.01	$ 6.07	$ 4.44
From discontinued operations, net of tax	0.01	1.38	0.38	(0.24)	(0.62)
Net earnings per share	5.70	7.58	6.39	5.83	3.82
Total assets	$ 413,618	$ 411,873	$ 417,594	$ 387,384	$ 374,071
Dividends paid per common share applicable to current year					
Regular	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Extra	5.00	4.50	4.05	3.05	4.05
Total	$ 6.00	$ 5.50	$ 5.05	$ 4.05	$ 5.05

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

An overview of the Company's business and segments in which the Company operates and risk factors can be found in Items 1 and 1A of this Form 10-K. Forward-looking statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, elsewhere in this Form 10-K, in the Company's 2018 Annual Report to Shareholders, in the Proxy Statement for the annual meeting to be held 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; shipment of defective product which could result in product liability claims or recalls; work or labor disruptions stemming from a unionized work force; changes in government requirements, military spending, and funding of government contracts which could result, among other things, in the modification or termination of existing contracts; dependence on subcontractors or vendors to perform as required by contract; the efficient start-up and utilization of tooling and equipment investments; political actions of federal and state governments which could have an impact on everything from the value of the U.S. dollar vis-à-vis other currencies to the availability of affordable labor and energy; and security breaches and disruptions to our information technology system. Additional information concerning these and other factors is contained in the Company's Securities and Exchange Commission filings.

DISCONTINUED OPERATIONS

On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. ("PAPI"), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. As a result of this transaction, 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.

2018 COMPARED TO 2017

Readers are directed to Note L, "Business Segments," to the Company's Consolidated Financial Statements for data on the financial results of the Company's two business segments for the years ended December 31, 2018 and 2017.

On a consolidated basis, sales decreased by $10,316,000 (3%), gross profit decreased by $11,351,000 (13%), selling and general expense increased by $386,000 (2%), intangibles amortization decreased by $463,000 (18%), and loss on divestiture, net increased by $2,528,000. Other income increased by $856,000 (24%), while earnings from continuing operations before provision for income taxes decreased by $12,946,000 (20%), and earnings from continuing operations decreased by $3,425,000 (8%). Earnings from discontinued operations, net of tax, decreased $9,594,000 (100%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales decreased by $3,528,000, from $97,299,000 to $93,771,000, or 4%, primarily due to a decrease in shipments. Defense net sales decreased by $6,788,000, from $236,334,000 to $229,546,000, or 3%, reflecting a decrease in units shipped.

Housewares/Small Appliance gross profit decreased $1,946,000 from $16,850,000 (17% of sales) in 2017 to $14,904,000 (16% of sales) in 2018, primarily reflecting the decrease in sales mentioned above and higher product costs. Defense gross profit decreased $9,405,000 from $70,384,000 (30% of sales) to $60,979,000 (27% of sales), primarily reflecting the decrease in sales mentioned above, a less favorable product mix, and comparatively less efficient operations on certain programs vis-à-vis 2017.

Selling and general expenses for the Housewares/Small Appliance segment increased $1,327,000, primarily reflecting higher employee compensation and benefit cost accruals of $1,142,000, higher provisions for bad debt of $421,000, partially offset by lower environmental cost accruals of $201,000. Defense segment selling and general expenses decreased $941,000, primarily reflecting lower legal and professional costs of $410,000, with the remainder stemming from decreases in a variety of miscellaneous expense categories.

Intangible assets primarily consist of the value of an acquired government sales contract and the value of trademarks and trade secrets. The intangible assets are all attributable to the Defense segment. The government sales contract intangible asset is amortized based on units fulfilled under the applicable contract, while the other intangible assets are amortized on a straight-line basis that approximates economic use, over periods ranging from 2 to 10 years. As of December 31, 2018, the Company determined that the trade secrets, which were acquired during 2017, had an indefinite life. The decrease in amortization is primarily attributable to fewer units shipped under the acquired government sales contract in 2018 than in 2017. The government sales contract intangible asset was fully amortized as of December 31, 2018.

On October 17, 2018, the Company, through its wholly owned subsidiary AMTEC Corporation, sold the outstanding stock of its wholly owned subsidiary AMTEC Less Lethal Systems, Inc. (“ALS”) to PACEM Defense LLC (“PACEM”), a third party, in exchange for cash and promissory notes totaling $10,636,000, subject to customary post-closing adjustments. The Company tested long-lived assets for recoverability in the quarter ending September 30, 2018 and recorded an impairment charge of $3,021,000. The pre-tax loss on divestiture, including the impairment charge, recorded in 2018 was $2,528,000. See Note Q to the Consolidated Financial Statements.

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

Other income increased $856,000, which was primarily attributable to interest earned on an increase in marketable securities with higher yields stemming from the Federal Reserve’s ongoing rate increases. The increase in interest income was partially offset by a $671,000 decrease in transition services income mentioned in Note P to the Company’s Consolidated Financial Statements.

Earnings from continuing operations before provision for income taxes decreased $12,946,000 from $65,285,000 to $53,339,000. In December 2017, the United States enacted changes to its tax laws, which included a reduction of the corporate income tax rate from 35% to 21%, beginning in 2018. The reduction in the tax rate resulted in a revaluation of the Company’s deferred tax assets and liabilities held at December 31, 2017, causing an increase in its 2017 income tax provision of $534,000. The provision for income taxes from continuing operations decreased from $21,971,000 to $12,450,000, which resulted in an effective income tax rate of 24% and 34% for the years ended December 31, 2018 and 2017, respectively. Earnings from continuing operations decreased $3,425,000 from $43,314,000 to $39,889,000.

On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. (“PAPI”), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. As a result of this transaction, the Company classified its results of operations for all periods presented to reflect its Absorbent Products business as a discontinued operation and classified the assets and liabilities of its Absorbent Products business as held for sale. Income from discontinued operations decreased $9,594,000, from $9,645,000 to $51,000, which was primarily attributable to the 2017 gain recognized on the divestiture of PAPI and a gain on the involuntary conversion of machinery and equipment. Readers are directed to Note P, “Discontinued Operations,” to the Company’s Consolidated Financial Statements for further information regarding the divestiture.

Net earnings decreased $13,019,000 from $52,959,000 to $39,940,000.

2017 COMPARED TO 2016

Readers are directed to Note L, “Business Segments,” to the Company’s Consolidated Financial Statements for data on the financial results of the Company’s two business segments for the years ended December 31, 2017 and 2016.

On a consolidated basis, sales decreased by $8,272,000 (2%), gross profit increased by $1,572,000 (2%), selling and general expense increased by $471,000 (2%), and intangibles amortization increased by $1,909,000 (265%). Other income increased by $2,771,000 (342%), while earnings from continuing operations before provision for income taxes increased by $1,963,000 (3%), and earnings from continuing operations increased by $1,399,000 (3%). Earnings from discontinued operations, net of tax, increased $6,996,000 (264%). Details concerning these changes can be found in the comments by segment below.

Housewares/Small Appliance net sales decreased by $10,829,000, from $108,128,000 to $97,299,000, or 10%, primarily due to a decrease in shipments. Defense net sales increased by $2,557,000, from $233,777,000 to $236,334,000, or 1%, reflecting an increase in units shipped.

Housewares/Small Appliance gross profit decreased $4,113,000 from $20,963,000 (19% of sales) in 2016 to $16,850,000 (17% of sales) in 2017, primarily reflecting the decrease in sales mentioned above. Defense gross profit increased $5,685,000 from $64,699,000 (28% of sales) to $70,384,000 (30% of sales), primarily reflecting the increase in sales mentioned above and an improved product mix and increased efficiency.

Selling and general expenses for the Housewares/Small Appliance segment decreased $700,000, primarily reflecting lower employee compensation and benefit costs of $443,000 and legal costs of $314,000. Defense segment selling and general expenses increased $1,171,000, primarily reflecting increased employee compensation-related costs totaling $983,000.

Intangible assets primarily consist of the value of an acquired government sales contract and the value of trademarks and trade secrets. The intangible assets are all attributable to the Defense segment. The government sales contract intangible asset is amortized based on units fulfilled under the applicable contract, while the other intangible assets are amortized on a straight-line basis that approximates economic use, over periods ranging from 2 to 10 years. As of December 31, 2017, the Company determined that the trade secrets, which were acquired during 2017, had an indefinite life. The increase in amortization is primarily attributable to more units shipped under the acquired government sales contract in 2017 than in 2016.

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

Other income increased $2,771,000, approximately a third of which was attributable to interest income, reflecting increased interest rates and funds invested. The balance of the increase was primarily attributable to lease and transition services income mentioned in Note P to the Company's Consolidated Financial Statements.

Earnings from continuing operations before provision for income taxes increased $1,963,000 from $63,322,000 to $65,285,000. In December 2017, the United States enacted changes to its tax laws, which included a reduction of the corporate income tax rate from 35% to 21%, beginning in 2018. The reduction in the tax rate resulted in a revaluation of the Company’s deferred tax assets and liabilities held at December 31, 2017, causing an increase in its 2017 income tax provision of $534,000. The provision for income taxes from continuing operations increased from $21,407,000 to $21,971,000, which resulted in an effective income tax rate of 34% for both years. Earnings from continuing operations increased $1,399,000 from $41,915,000 to $43,314,000.

On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. (“PAPI”), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. As a result of this transaction, the Company classified its results of operations for all periods presented to reflect its Absorbent Products business as a discontinued operation and classified the assets and liabilities of its Absorbent Products business as held for sale. Income from discontinued operations increased $6,996,000, from $2,649,000 to $9,645,000, which was primarily attributable to the gain recognized on the divestiture of PAPI and a gain on the involuntary conversion of machinery and equipment. Readers are directed to Note P, “Discontinued Operations,” to the Company’s Consolidated Financial Statements for further information regarding the divestiture.

Net earnings increased $8,395,000 from $44,564,000 to $52,959,000.

LIQUIDITY AND CAPITAL RESOURCES

2018 COMPARED TO 2017

Cash provided by operating activities was $76,248,000 during 2018 as compared to $24,278,000 during 2017. The principal factors behind the increase in cash provided can be found in the changes in the components of working capital within the Consolidated Statements of Cash Flows. Of particular note during 2018 were net earnings of $39,940,000, which included total non-cash depreciation and amortization expenses of $6,219,000 and the net loss and impairment on divestiture of business of $2,528,000; a decrease in accounts receivable and inventory levels; a decrease in deposits with vendors included in other assets and current assets; and an increase in net payable levels. Cash used in discontinued operations was $636,000. Of particular note during 2017 were net earnings of $52,959,000, which included total non-cash depreciation and amortization expenses of $9,888,000, the deferred income tax benefit of $4,001,000, the gain on divestiture of business of $11,413,000, and the net gain on involuntary conversion of machinery and equipment of $2,713,000; and a decrease in accounts receivable levels. These were partially offset by decreases in net payables and increases in inventory levels. Cash used in discontinued operations was $5,447,000.

Net cash provided by investing activities was $10,844,000 during 2018 as compared to cash used of $2,090,000 used during 2017. During 2018 the Company received net proceeds of $9,410,000 from the divestiture of it less lethal business, and $2,630,000 from an insurance settlement. Also of note during 2018 were net sales and maturities of marketable securities of $9,789,000; the purchase of plant and equipment of $8,686,000, which primarily included expenditures in the Housewares/Small Appliance segment to build additional facilities related to the amended lease mentioned in Note P to the consolidated Financial Statements, and to augment the Company’s production facilities in the Defense segment; and the issuance of a note receivable of $2,300,000. Cash provided by discontinued operations was $6,290,000. During 2017, the Company received net proceeds of $64,033,000 from the divestiture of its Absorbent Products business, and $2,104,000 from an insurance settlement. Also of note during 2017 were net purchases of marketable securities of $59,832,000; the purchase of plant and equipment of $7,396,000, which included expenditures to rebuild impaired machinery and equipment, improvements to the Company’s Eau Claire, Wisconsin facility, and augmentation of the Company’s production facilities in the Defense segment; and the acquisition of an intangible asset of $1,000,000. Cash provided by discontinued operations was $61,891,000.

Based on the accounting profession’s 2005 interpretation of cash equivalents under Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) 230, the Company’s variable rate demand notes have been classified as marketable securities. This interpretation, which is contrary to the interpretation that the Company’s representative received directly from the FASB (which indicated it would not object to the Company’s classification of variable rate demand notes as cash equivalents), has resulted in a presentation of the Company’s Consolidated Balance Sheets that the Company believes understates the true liquidity of the Company’s income portfolio. As of December 31, 2018 and 2017, $94,416,000 and $114,258,000, respectively, of variable rate demand notes are classified as marketable securities. These notes have structural features that allow the Company to tender them at par plus interest within any 7-day period for cash to the notes’ trustees or remarketers and thus provide the liquidity of cash equivalents.

Cash flows from financing activities for 2018 and 2017 primarily differed as a result of the $0.50 per share increase in the extra dividend paid during those years. Cash flows for both years also reflected the proceeds from the sale of treasury stock to a Company sponsored retirement plan.

As a result of the foregoing factors, cash and cash equivalents increased in 2018 by $45,625,000 to $56,847,000.

Working capital increased by $11,756,000 to $304,767,000 at December 31, 2018 for the reasons stated above. The Company's current ratio was 7.4 to 1.0 at both December 31, 2018 and 2017.

In December 2017, the United States enacted changes to its tax laws, which included a reduction of the corporate income tax rate from 35% to 21%, beginning in 2018. The lower tax rate had a positive effect on the Company's liquidity and cash flow.

The Company expects to continue to evaluate acquisition opportunities that align with its business segments and will make further acquisitions, as well as continue to make capital investments in these segments per existing authorized projects and for additional projects if the appropriate return on investment is projected. See Item 1-A-2.

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

2017 COMPARED TO 2016

Cash provided by operating activities was $24,278,000 during 2017 as compared to $66,376,000 during 2016. The principal factors behind the decrease in cash provided can be found in the changes in the components of working capital within the Consolidated Statements of Cash Flows. Of particular note during 2017 were net earnings of $52,959,000, which included total non-cash depreciation and amortization expenses of $9,888,000, the deferred income tax benefit of $4,001,000, the gain on divestiture of business of $11,413,000, and the net gain on involuntary conversion of machinery and equipment of $2,713,000; and a decrease in accounts receivable levels. These were partially offset by decreases in net payables and increases in inventory levels. Cash used in discontinued operations was $5,447,000. Of particular note during 2016 were net earnings of $44,564,000, which included total non-cash depreciation and amortization expenses of $14,683,000 and the deferred income tax provision of $6,360,000; increases in net payables; and a decrease in deposits with vendors included in other assets and current assets. These were partially offset by increases in accounts receivable and inventory levels. Cash provided by discontinued operations was $4,477,000.

Net cash used in investing activities was $2,090,000 during 2017 as compared to $60,846,000 used during 2016. During 2017, the Company received net proceeds of $64,033,000 from the divestiture of its Absorbent Products business, and $2,104,000 from an insurance settlement. Also of note during 2017 were net purchases of marketable securities of $59,832,000, the purchase of plant and equipment of $7,396,000, which included expenditures to rebuild impaired machinery and equipment, improvements to the Company's Eau Claire, Wisconsin facility, and augmentation of the Company's production facilities in the Defense segment, and the acquisition of an intangible asset of $1,000,000. Cash provided by discontinued operations was $61,891,000. During 2016, the Company expanded its Defense segment's Janesville, Wisconsin facility, as noted in Item 2 of this 10-K, and continued its expansion of its Absorbent Products business by purchasing plant and equipment, in the combined amount of $6,950,000. Also of significance were net purchases of marketable securities of $52,256,000; the issuance of a note receivable of $2,419,000; and the acquisition of intangible assets in the Defense segment of $211,000. These cash outflows were partially offset by proceeds from an insurance settlement of $987,000. Cash used in discontinued operations was $1,139,000.

Based on the accounting profession's 2005 interpretation of cash equivalents under Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 230, the Company's variable rate demand notes have been classified as marketable securities. This interpretation, which is contrary to the interpretation that the Company's representative received directly from the FASB (which indicated it would not object to the Company's classification of variable rate demand notes as cash equivalents), has resulted in a presentation of the Company's Consolidated Balance Sheets that the Company believes understates the true liquidity of the Company's income portfolio. As of December 31, 2017 and 2016, $114,258,000 and $46,306,000, respectively, of variable rate demand notes are classified as marketable securities. These notes have structural features that allow the Company to tender them at par plus interest within any 7-day period for cash to the notes' trustees or remarketers and thus provide the liquidity of cash equivalents.

Cash flows from financing activities for 2017 and 2016 primarily differed as a result of the $0.45 per share increase in the extra dividend paid during those years. Cash flows for both years also reflected the proceeds from the sale of treasury stock to a Company sponsored retirement plan.

As a result of the foregoing factors, cash and cash equivalents decreased in 2017 by $15,812,000 to $11,222,000.

Working capital increased by $16,870,000 to $293,011,000 at December 31, 2017 for the reasons stated above. The Company's current ratio was 7.4 to 1.0 at December 31, 2017, compared to 5.3 to 1.0 at December 31, 2016.

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DEFENSE SEGMENT BACKLOG

The Company's Defense segment contract backlog was approximately $333,592,000 at December 31, 2018, and $308,173,000 at December 31, 2017. Backlog is defined as the value of orders from the customer less the amount of sales recognized against the orders. It is anticipated that the backlog will be produced and shipped during an 18 to 24-month period.

CONTRACTUAL OBLIGATIONS

The table below discloses a summary of the Company's specified contractual obligations at December 31, 2018:

	Payments Due by Period (in thousands)				
Contractual Obligations	Total	Under 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Lease Obligations	$ 1,729	$ 610	$ 686	$ 393	$ 40
Purchase obligations(1)	219,689	219,689	0	0	0
Total	$ 221,418	$ 220,299	$ 686	$ 393	$ 40

(1)Purchase obligations includes outstanding purchase orders at December 31, 2018. Included are purchase orders issued to the Company's housewares manufacturers in the Orient and to material suppliers and building contractors in the Defense segment and discontinued operations of the Company's Absorbent Products business (see Note P to the Company's Consolidated Financial Statements). The amount related to discontinued operations is approximately $183,000. The Company can cancel or change many of these purchase orders, but may incur costs if its supplier cannot use the material to manufacture the Company's or other customers' products in other applications or return the material to their supplier. As a result, the actual amount the Company is obligated to pay cannot be estimated.

Critical accounting policies

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

Inventories

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

Self Insured Product Liability & Health Insurance

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

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, trademarks, trade secrets, and consulting agreements. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, the amounts of the cash flows and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. The Company uses internal discounted cash flows estimates, quoted market prices when available and independent appraisals, as appropriate, to determine fair value. The Company derives the required cash flow estimates from its historical experience and its internal business plans.

NEW ACCOUNTING PRONOUNCEMENTS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's interest income on cash equivalents and marketable securities is affected by changes in interest rates in the United States. Cash equivalents primarily consist of money market funds. Based on the accounting profession's interpretation of cash equivalents under FASB ASC 230, the Company's 7-day variable rate demand notes are classified as marketable securities rather than as cash equivalents. The demand notes are highly liquid instruments with interest rates set every 7 days that can be tendered to the trustee or remarketer upon 7 days notice for payment of principal and accrued interest amounts. The 7-day tender feature of these variable rate demand notes is further supported by an irrevocable letter of credit from highly rated U.S. banks. To the extent a bond is not remarketed at par plus accrued interest, the difference is drawn from the bank's letter of credit. The Company has had no issues tendering these notes to the trustees or remarketers. Other than a failure of a major U.S. bank, there are no known risks of which the Company is aware that relate to these notes in the current market. The balance of the Company's investments is held primarily in fixed rate municipal bonds with an average life of 1.3 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

A. The Consolidated Financial Statements of National Presto Industries, Inc. and its subsidiaries and the related Report of Independent Registered Public Accounting Firm can be found on pages F-1 through F-20.
B. Quarterly financial data is contained in Note N to the Consolidated Financial Statements.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company's management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the “1934 Act”) as of December 31, 2018. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of that date.

There were no changes to internal control over financial reporting during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

MANAGEMENT’S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013). Based on our assessment and those criteria, management concluded that, as of December 31, 2018, the Company's internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the 1934 Act, was effective.

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors

National Presto Industries, Inc.

Eau Claire, Wisconsin

Opinion on Internal Control over Financial Reporting

We have audited National Presto Industries Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in Item 15 and our report dated March 15, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ BDO USA, LLP

Milwaukee, Wisconsin

March 15, 2019

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

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

NAME	TITLE	AGE
Maryjo Cohen	Chair of the Board, President, and Chief Executive Officer	66
Randy F. Lieble	Vice President, Chief Financial Officer, Treasurer, and Director	65
Douglas J. Frederick	Chief Operating Officer, Vice President, Secretary and General Counsel	48
Jeffery A. Morgan	Vice President, Engineering	61
Richard L. Jeffers	Vice President of Sales	66

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

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

Mr. Frederick was elected Corporate Secretary on November 17, 2009, Vice President on May 15, 2018, and Chief Operating Officer on December 11, 2018. He has been associated with the registrant since 2007 as an in-house attorney with expertise in litigation and intellectual property matters and in the capacity of General Counsel since January 2009. Prior to his employment with the registrant, Mr. Frederick was a litigation attorney with the firm Rider Bennett, LLP.

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

Mr. Jeffers was elected Vice President of Sales in September 2017. He has almost 40-years of experience in the housewares/small appliance industry, has held executive sales positions at Windmere, Applica, and Salton, and owned and operated a successful manufacturer's representative firm. Prior to Vice President of Sales, Mr. Jeffers served as National Account Sales Manager for the Company. He has been with the Company for a total of 14 (non-consecutive) years.

The information under the headings "Section 16(a) Beneficial Ownership Reporting Compliance," "Information Concerning Directors and Nominees" and "Corporate Governance" in the Company's Proxy Statement for its 2019 Annual Meeting of Stockholders is incorporated by reference.

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

ITEM 11. EXECUTIVE COMPENSATION

The information under the headings "Compensation Committee Interlocks and Insider Participation," "Director Compensation," "Executive Compensation and Other Information" and "Summary Compensation Table" in the Company's Proxy Statement for its 2019 Annual Meeting of Stockholders is incorporated by reference.

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

The security ownership and related stockholder matters information set forth under the heading "Voting Securities and Principal Holders Thereof" in the Company's Proxy Statement for its 2019 Annual Meeting of Stockholders is incorporated by reference.

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

The certain relationships and related transactions and director independence information set forth under the heading "Corporate Governance" in the Company's Proxy Statement for its 2019 Annual Meeting of Stockholders is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The principal accountant fees and services information set forth under the heading "Independent Registered Public Accountants" in the Company's Proxy Statement for its 2019 Annual Meeting of Stockholders is incorporated by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

(b) Exhibits:

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

	Company's report on Form 10-K/A for the year ended December 31, 2005
Exhibit 3(ii)	By-Laws - incorporated by reference from Exhibit 3(ii) of the Company's current report on Form 8-K dated July 6, 2007
Exhibit 9.1	Voting Trust Agreement - incorporated by reference from Exhibit 9 of the Company's quarterly report on Form 10-Q for the quarter ended July 6, 1997
Exhibit 9.2	Voting Trust Agreement Amendment – incorporated by reference from Exhibit 9.2 of the Company's annual report on Form 10-K for the year ended December 31, 2008

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Exhibit Number	Description
Exhibit 10.1*	Incentive Compensation Plan – incorporated by reference from Exhibit 10.1 of the Company's quarterly report on Form 10-Q for the quarter ended July 4, 2010
Exhibit 10.2*	Form of Restricted Stock Award Agreement – incorporated by reference from Exhibit 10.2 of the Company's quarterly report on Form 10-Q for the quarter ended July 4, 2010
Exhibit 10.3*	2017 Incentive Compensation Plan – incorporated by reference from Exhibit 10.1 of the Company's quarterly report on Form 10-Q for the quarter ended July 2, 2017
Exhibit 10.4*	Form of Restricted Stock Award Agreement –

	2017 Incentive Compensation Plan - incorporated by reference from Exhibit 10.2 of the Company's quarterly report on Form 10-Q for the quarter ended July 2, 2017
Exhibit 21	Subsidiaries of the Registrant
Exhibit 31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 101	The following financial information from National Presto Industries, Inc.'s annual report on Form 10-K for the period ended December 31, 2018, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Stockholders' Equity, (v) Notes to Consolidated Financial Statements, and (vi) Schedule II - Valuation and Qualifying Accounts.
	* Compensatory Plans

(c) Schedules:

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

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the Requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL PRESTO INDUSTRIES, INC.
(registrant)

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

Date: March 15, 2019

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

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

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

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

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

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

Date: March 15, 2019

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NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except share and per share data)

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

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

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NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except share and per share data)

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

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

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NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands except per share data)

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

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

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NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

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

Net cash used in financing activities	(41,467)	(38,000)	(34,718)
Net increase (decrease) in cash and cash equivalents	45,625	(15,812)	(29,188)
Cash and cash equivalents at beginning of year	11,222	27,034	56,222
Cash and cash equivalents at end of year	$ 56,847	$ 11,222	$ 27,034
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	$ 14,968	$ 32,837	$ 17,278

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

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NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands except per share data)

	Shares of Common Stock Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Comprehensive Income (Loss)	Treasury Stock	Total
Balance December 31, 2015	6,935	$ 7,441	$ 6,775	$ 340,799	$ (9)	$ (15,752)	$ 339,254
Net earnings				44,564			44,564
Unrealized loss on available-for-sale securities, net of tax					(38)		(38)
Dividends paid March 15, $1.00 per share regular, $4.05 per share extra				(35,161)			(35,161)
Other	16		1,138	1		478	1,617
Balance December 31, 2016	6,951	7,441	7,913	350,203	(47)	(15,274)	350,236
Net earnings				52,959			52,959
Unrealized loss on available-for-sale securities, net of tax					(39)		(39)
Dividends paid March 15, $1.00 per share regular, $4.50 per share extra				(38,405)			(38,405)
Other	17		1,161	-		464	1,625
Balance December 31, 2017	6,968	7,441	9,074	364,757	(86)	(14,810)	366,376

Net earnings				39,940			39,940
Unrealized gain on available-for-sale securities, net of tax					107		107
Dividends paid March 15, $1.00 per share regular, $5.00 per share extra				(41,989)			(41,989)
Other	13		1,286	1		402	1,689
Balance December 31, 2018	6,981	$ 7,441	$ 10,360	$ 362,709	$ 21	$ (14,408)	$ 366,123

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

NATIONAL PRESTO INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

(3) RECLASSIFICATIONS: Certain reclassifications have been made to the prior periods' financial statements to conform to the current period’s financial statement presentation. These reclassifications did not affect net earnings or stockholders’ equity as previously reported.

(4) FAIR VALUE OF FINANCIAL INSTRUMENTS: The Company utilizes the methods of determining fair value as described in Financial Accounting Standard Board (“FASB”) Accounting Standard Codification (“ASC”) 820, Fair Value Measurements and Disclosures to value its financial assets and liabilities. ASC 820 utilizes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active

markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The carrying amount for cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximates fair value due to the immediate or short-term maturity of these financial instruments. The fair value of marketable securities are discussed in Note A(5).

(5) CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES:

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

The Company's cash management policy provides for its bank disbursement accounts to be reimbursed on a daily basis. Checks issued but not presented to the bank for payment of $3,057,000 and $3,157,000 at December 31, 2018 and 2017, respectively, are included as reductions of cash and cash equivalents or book overdrafts in accounts payable, as appropriate.

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

At December 31, 2018 and 2017, cost for marketable securities was determined using the specific identification method. A summary of the amortized costs and fair values of the Company's marketable securities at December 31 is shown in the following table. All of the Company’s marketable securities are classified as Level 2, as defined by FASB ASC 820, with fair values determined using significant other observable inputs, which include quoted prices in markets that are not active, quoted prices of similar securities, recently executed transactions, broker quotations, and other inputs that are observable.

(In thousands)
MARKETABLE SECURITIES

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

Proceeds from sales and maturities of marketable securities totaled $173,060,000 in 2018, $132,752,000 in 2017, and $33,863,000 in 2016. There were no realized gross gains or losses related to sales of marketable securities during the years ended December 31, 2018, 2017 and 2016. Net unrealized gains (losses) included in other comprehensive income were $135,000, $(37,000) and $(57,000) before taxes for the years ended December 31, 2018, 2017, and 2016, respectively. No unrealized gains or losses were reclassified out of accumulated other comprehensive income during the same periods.

The contractual maturities of the marketable securities held at December 31, 2018 are as follows: $21,787,000 within one year; $35,857,000 beyond one year to five years; $17,538,000 beyond five years to ten years, and $59,416,000 beyond ten years. All of the instruments in the beyond five year ranges are variable rate demand notes which, as noted above, can be tendered for cash at par plus interest within seven days. Despite the stated contractual maturity date, to the extent a tender is not honored, the notes become immediately due and payable.

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

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

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(8) PROPERTY, PLANT AND EQUIPMENT: Property, plant and equipment are stated at cost. Straight-line depreciation is provided in amounts sufficient to charge the costs of depreciable assets to operations over their service lives which are estimated at 15 to 40 years for buildings, 3 to 10 years for machinery and equipment, and 15 to 20 years for land improvements. The Company reviews long-lived assets consisting principally of property, plant, and equipment, for impairment when material events and changes in circumstances indicate the carrying value may not be recoverable. As a result of the divestiture of one of its operating facilities in the Defense segment during 2018, the Company recorded an impairment of $2,975,000 during the third quarter of 2018. See Note Q for further explanation. Approximately $264,000 of construction in progress in the Company's Housewares/Small Appliance segment is presented on the Consolidated Balance Sheet as Machinery and Equipment at December 31, 2018, and approximately $1,437,000 of construction in progress in the Company's Defense segment is presented on the Consolidated Balance Sheet as Buildings at December 31, 2018. The construction in progress is expected to be completed by the third quarter of 2019. Approximately $374,000 and $764,000 of construction in progress in the Company's Defense segment is presented on the Consolidated Balance Sheet as Buildings and Machinery and Equipment, respectively, at December 31, 2017.

(9) GOODWILL: The Company recognizes the excess cost of acquired entities over the net amount assigned to the fair value of assets acquired and liabilities assumed as goodwill. Goodwill is tested for impairment on an annual basis at the start of the fourth quarter and between annual tests whenever an impairment is indicated, such as the occurrence of an event that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Impairment losses are recognized whenever the implied fair value of goodwill is less than its carrying value. No goodwill impairments were recognized during 2018, 2017, or 2016.

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

(10) INTANGIBLE ASSETS: Intangible assets primarily consist of the value of an acquired government sales contract and the value of trademarks and trade secrets. The intangible assets are all attributable to the Defense segment. The government sales contract intangible asset is amortized based on units fulfilled under the applicable contract, while the other intangible assets are amortized on a straight-line basis that approximates economic use, over periods ranging from 2 to 10 years. As of December 31, 2018, the Company determined that the trade secrets, which were acquired during 2017, had an indefinite life.

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

There were no intangible assets subject to amortization at December 31, 2018. The gross carrying amounts of the government sales contract and other intangible assets subject to amortization were $21,690,000 and $211,000, respectively, totaling $21,901,000 at December 31, 2017. Accumulated amortization was $0 and $19,570,000 at December 31, 2018 and 2017, respectively. Amortization expense was $2,167,000, $2,630,000, and $721,000 during the years ended December 31, 2018, 2017, and 2016, respectively.

(11) OTHER ASSETS: Other assets includes prepayments that are made from time to time by the Company for certain materials used in the manufacturing process in the Housewares/Small Appliance segment. The Company expects to utilize the prepayments and related materials over an estimated period of up to two years. As of December 31, 2018 and 2017, $6,864,000 and $11,567,000 of such prepayments, respectively, remained unused and outstanding. At December 31, 2018 and 2017, $5,190,000 and $5,930,000 of these amounts, respectively, are included in Other Current Assets, representing the Company's best estimate of the expected utilization of the prepayments and related materials during the twelve-month periods following those dates.

(12) REVENUES: The Company's revenues are derived from short-term contracts and programs that are typically completed within 3 to 24 months and are recognized in accordance with ASC Topic 606, Revenue from Contracts with Customers. The standard was adopted on January 1, 2018 and did not result in any change to the Company's pattern of revenue recognition. The Company's contracts each contain one or more performance obligations: the physical delivery of distinct ordered product or products. The Company provides an assurance type product warranty on its products to the original owner. In addition, for the Housewares/Small Appliances

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

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

Revenue is recognized at a point in time. 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 recognized when the customer has legal title and formally documents that it has accepted the products. In some situations, the customer may obtain legal title and accept the products at the Company’s facilities, arranging for transportation at a later date, typically in one to four weeks. The Company does not consider the short-term storage of the customer owned products to be a material performance obligation, and no part of the transaction price is allocated to it.

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

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

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

(14) PRODUCT WARRANTY: The Company’s Housewares/Small Appliance segment’s products are generally warranted to the original owner to be free from defects in material and workmanship for a period of 1 to 12 years from date of purchase. The Company allows a 60-day over-the-counter initial return privilege through cooperating dealers. The Company services its products through a corporate service repair operation. The

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Company estimates its product warranty liability based on historical percentages which have remained relatively consistent over the years.

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

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

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

(16) INCOME TAXES: Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported. Income tax contingencies are accounted for in accordance with FASB ASC 740, Income Taxes. See Note H for summaries of the provision, the effective tax rates, and the tax effects of the cumulative temporary differences resulting in deferred tax assets and liabilities. In December 2017, the United States enacted changes to its tax laws, which included a reduction of the corporate income tax rate from 35% to 21%, beginning in 2018. The reduction in the tax rate resulted in a revaluation of the Company's deferred tax assets and liabilities held at December 31, 2017.

(17) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

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

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

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

Other pronouncements issued but not effective until after December 31, 2018, are not expected to have a material impact on the Company's consolidated financial statements.

B. INVENTORIES:

The amount of inventories valued on the LIFO basis was $27,788,000 and $26,019,000 as of December 31, 2018 and 2017, respectively, and consists of housewares/small appliance finished goods. Under LIFO, inventories are valued at approximately $4,024,000 and $3,835,000 below current cost determined on a first-in, first-out (FIFO) basis at December 31, 2018 and 2017, respectively. During the years ended December 31, 2018, 2017, and 2016, $26,000, $64,000, and $2,451,000, respectively, of a LIFO layer was liquidated. The Company uses the LIFO method of inventory accounting to improve the matching of costs and revenues for the Housewares/Small Appliance segment.

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

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

Year	Cost of Sales	Net Earnings	Earnings Per Share
2018	$ (189)	$ 143	$ 0.02
2017	$ (1,250)	$ 830	$ 0.12
2016	$ 443	$ (292)	$ (0.04)

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

Inventory for Defense and raw materials of the Housewares/Small Appliance segments are valued under the FIFO method and total $66,200,000 and $78,420,000 at December 31, 2018 and 2017, respectively. At December 31, 2018, the FIFO total was comprised of $1,003,000 of finished goods, $59,580,000 of work in process, and $5,617,000 of raw material. At December 31, 2017, the FIFO total was comprised of $1,223,000 of finished goods, $72,219,000 of work in process, and $4,978,000 of raw material.

C. ACCRUED LIABILITIES:

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

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

D. TREASURY STOCK:

As of December 31, 2018, the Company has authority from the Board of Directors to reacquire an additional 503,311 shares. During 2018 and 2017, 62 and 1,139 shares, respectively, were acquired from participants in the Company's Incentive Compensation Plans described in Note F to cover those participants' tax withholding obligations related to vested stock grants in accordance with the Plans' rules. No shares were reacquired in 2016. Treasury shares have been used for stock based compensation and to fund a portion of the Company's 401(k) contributions.

E. NET EARNINGS PER SHARE:

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

F. STOCK-BASED COMPENSATION:

The Company, from time to time, enters into separate non-vested share-based payment arrangements with employees and executive officers under the Incentive Compensation Plan approved by stockholders on May 18, 2010 and the 2017 Incentive Compensation Plan approved by shareholders on May 16, 2017, which authorized 50,000 and 150,000 shares, respectively, to be available for grants. The Compensation Committee of the Company's Board of Directors approves all stock-based compensation awards for employees and executive officers of the Company. The Company grants restricted stock that is subject to continued employment and vesting conditions, but has dividend and voting rights, and uses the fair-market value of the Company's common stock on the grant date to measure the fair value of the awards. The fair value of restricted stock is recognized as expense ratably over the requisite serviced period, net of estimated forfeitures.

During 2018, 2017, and 2016, the Company granted 3,886 shares, 7,837 shares, and 3,162 shares of restricted stock, respectively, to 23 employees and executive officers of the Company. Unless otherwise vested early in accordance with the Incentive Compensation Plans, the restricted stock vests on specified dates in 2021 through 2024, subject to the recipients' continued employment or service through each applicable vesting date.

The Company recognized pre-tax compensation expense in the Consolidated Statements of Comprehensive Income related to stock-based compensation of $469,000, $545,000, and $391,000 in 2018, 2017, and 2016, respectively. As of December 31, 2018, there was approximately $1,406,000 of unrecognized compensation cost related to the restricted stock awards that is expected to be recognized over a weighted-average period of 3.8 years. There were 1,359, 6,492, and 1,284 shares of restricted stock that vested during 2018, 2017, and 2016, respectively.

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

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

G. 401(K) PLAN:

The Company sponsors a 401(k) retirement plan that covers substantially all non-union employees. Historically, the Company matched up to 50% of the first 4% of salary contributed by employees to the plan. This matching contribution was made with common stock. Starting in 2004, the Company began to match, in cash, an additional 50% of the first 4% of salary contributed by employees plus 3% of total compensation for certain employees. Contributions made from treasury stock, including the Company's related cash dividends, totaled $1,218,000 in 2018, $1,194,000 in 2017, and $1,225,000 in 2016. In addition, the Company made cash contributions of $821,000 in 2018, $817,000 in 2017, and $924,000 in 2016 to the 401(k) Plan. The Company also contributed $352,000, $369,000, and $358,000 to the 401(k) retirement plan covering its union employees at the Amron Division of the AMTEC subsidiary during the years ended December 31, 2018, 2017, and 2016, respectively.

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H. INCOME TAXES:

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

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

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

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

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

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

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

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

The Company establishes tax reserves in accordance with FASB ASC 740, Income Taxes. As of December 31, 2018, the carrying amount of the Company's gross unrecognized tax benefits was $320,000 which, if recognized, would affect the Company's effective income tax rate.

The following is a reconciliation of the Company's unrecognized tax benefits for the years ended December 31, 2018 and 2017:

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

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

The Company is subject to U.S. federal income tax as well as income taxes of multiple states. During 2018, the state of Wisconsin completed its audits of the tax years 2013 through 2016. During June of 2016, the Internal Revenue Service completed its audits of the tax years 2012 and 2013. As a result of the audits, the tax amortization period of certain intangible assets was shortened. For all states in which it does business, the Company is subject to state audit statutes.

I. COMMITMENTS AND CONTINGENCIES:

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

J. CONCENTRATIONS:

In the Housewares/Small Appliance segment, one customer accounted for 10%, 10%, and 11% of consolidated net sales for the years ended December 31, 2018, 2017, and 2016, respectively.

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

The Company's Defense segment manufactures products primarily for the U.S. Department of Defense (DOD) and DOD prime contractors. As a consequence, this segment's future business essentially depends on the product needs and governmental funding of the DOD. During 2018, 2017, and 2016, substantially all of the work performed by this segment directly or indirectly for the DOD was performed on a fixed-price basis. Under fixed-price contracts, the price paid to the contractor is awarded based on competition at the outset of the contract and therefore, with the exception of limited escalation provisions on specific materials, is generally not subject to any adjustments reflecting the actual costs incurred by the contractor. In addition, in the case of the 40mm systems contract, key components and services are provided by third party subcontractors, several of which the segment is required to work with by government edict. Under the contract, the segment is responsible for the performance of those subcontractors, many of which it does not control. The Defense segment's contracts and subcontracts contain the customary provision permitting termination at any time for the convenience of the government, with payment for any work completed, associated profit, and inventory/work in process at the time of termination. Materials used in the Defense segment are available from multiple sources. As of December 31, 2018, 170 employees of Amron, or 18% of the Company’s and its subsidiaries’ total workforce, are members of the United Steel Workers union. The most recent contract between Amron and the union is effective through February 29, 2020.

K. ENVIRONMENTAL

In May 1986, the Company’s Eau Claire, Wisconsin site was placed on the United States Environmental Protection Agency’s National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 because of hazardous waste deposited on the property. As of December 31, 1998, all remediation projects required at the Company's Eau Claire, Wisconsin site had been installed, were fully operational, and restoration activities had been completed. In addition, the Company is a member of a group of companies that may have disposed of waste into an Eau Claire area landfill in the 1960s and 1970s. After the landfill was closed, elevated volatile organic compounds were discovered in the groundwater. Remediation plans were established, and the costs associated with remediation and monitoring at the landfill are split evenly between the group and the City of Eau Claire. As of December 31, 2018, there does not appear to be exposure related to this site that would have a material impact on the operations or financial condition of the Company.

Based on factors known as of December 31, 2018, it is believed that the Company's existing environmental accrued liability reserve will be adequate to satisfy on-going remediation operations and monitoring activities both on- and off-site; however, should environmental agencies require additional studies, extended monitoring, or remediation projects, it is possible that the existing accrual could be inadequate. Management believes that in the absence of any unforeseen future developments, known environmental matters will not have any material effect on the results of operations or financial condition of the Company. The Company’s environmental accrued liability on an undiscounted basis was $1,120,000 and $1,150,000 as of December 31, 2018 and 2017, respectively, and is included in accrued liabilities on its balance sheet.

Expected future payments for environmental matters are as follows:

	(In thousands)
Years Ending December 31:	
2019	$ 230
2020	165
2021	150
2022	135
2023	120

Thereafter	320
	$ 1,120

L. BUSINESS SEGMENTS:

The Company operates in two business segments. The Company identifies its segments based on the Company's organization structure, which is primarily by principal products. The principal product groups are Housewares/Small Appliance and Defense. Sales for both segments are primarily to customers in North America. On January 3, 2017, the Company and its wholly-owned subsidiary, Presto Absorbent Products, Inc. (“PAPI”), entered into an asset purchase agreement wherein substantially all PAPI assets were sold and certain liabilities were assigned to Drylock Technologies, LTD. As a result of this transaction, the Company classified its results of operations for all periods presented to reflect its Absorbent Products business as a discontinued operation and classified the assets and liabilities of its Absorbent Products business as held for sale. The operations of PAPI previously comprised the Company’s Absorbent Products segment. See Note P for further discussion.

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

The Defense segment was started in 2001 with the acquisition of AMTEC Corporation, which manufactures precision mechanical and electromechanical assemblies for the U.S. Government and prime contractors. During 2005, and again during 2010, AMTEC Corporation was one of two prime contractors selected by the Army to supply all requirements for the 40mm family of practice and tactical ammunition cartridges for a period of five years. In 2016, AMTEC was awarded a one-year contract, and in 2017, it was awarded a third five-year contract as the sole prime contractor. AMTEC's manufacturing plant is located in Janesville, Wisconsin. Since the inception of the Defense segment in 2001, the Company has expanded the segment by making several strategic business acquisitions, and has additional facilities located in East Camden, Arkansas; Antigo, Wisconsin; Perry, Florida; and Clear Lake, South Dakota. During 2003, the segment was expanded with the acquisition of Spectra Technologies, LLC of East Camden, Arkansas. This facility performs Load, Assemble, and Pack (LAP) operations on ordnance-related products for the U.S. Government and prime contractors. During 2006, the segment was expanded with the acquisition of certain assets of Amron, LLC of Antigo, Wisconsin, which primarily manufactures cartridge cases used in medium caliber (20-40mm) ammunition. In 2011 the segment was further augmented with the purchase of certain assets of ALS Technologies, Inc. of Bull Shoals, Arkansas, which manufactures less lethal ammunitions. The Company subsequently relocated this operation to Perry, Florida, and in October of 2018, divested itself of the less lethal business. See Note Q for further explanation. During 2014, the Company continued the expansion of the Defense segment with the purchase of substantially all of the assets of Chemring Energetic Devices, Inc. located in Clear Lake, South Dakota, and all of the real property owned by Technical Ordnance Realty, LLC. The Clear Lake facility manufactures detonators, booster pellets, release cartridges, lead azide, and other military energetic devices and materials. The Defense segment’s collection of facilities enables the Company to deliver in virtually all aspects of the manufacture of medium caliber training and tactical rounds. They include the fuze, the metal parts including the cartridge case, the load, assemble and pack of the final round, and the detonator.

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

	(in thousands) Housewares / Small Appliance	Defense	Assets Held for Sale	Total
Year ended December 31, 2018				
External net sales	$ 93,771	$ 229,546		$ 323,317
Gross profit	14,904	60,979		75,883
Operating profit	2,991	44,911		47,902
Total assets	280,607	132,636	$ 375	413,618
Depreciation and amortization	1,384	4,835		6,219
Capital expenditures	8,010	676		8,686

Year ended December 31, 2017				
External net sales	$ 97,299	$ 236,334		$ 333,633
Gross profit	16,850	70,384		87,234
Operating profit	6,264	55,440		61,704
Total assets	242,815	162,869	$ 6,189	411,873
Depreciation and amortization	1,328	8,511		9,839
Capital expenditures	1,849	1,301		3,150
Year ended December 31, 2016				
External net sales	$ 108,128	$ 233,777		$ 341,905
Gross profit	20,963	64,699		85,662
Operating profit	9,677	52,835		62,512
Total assets	200,639	158,062	$ 58,893	417,594
Depreciation and amortization	1,045	7,830		8,875
Capital expenditures	1,351	3,473		4,824

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M. OPERATING LEASES

The Company leases office, manufacturing, and warehouse facilities and equipment under non-cancelable operating leases, many of which contain renewal options ranging from one to ten years. Rent expense was approximately $1,050,000, $994,000, and $1,040,000 for the years ended December 31, 2018, 2017, and 2016 respectively. Future minimum annual rental payments required under operating leases are as follows:

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

N. INTERIM FINANCIAL INFORMATION (UNAUDITED):

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

(In thousands, except per share data)

						Per Share (basic and diluted)		
Quarter	Net Sales	Gross Profit	Earnings from Continuing Operations	Earnings (Loss) from Discontinued Operations, net of tax	Net Earnings	Earnings from Continuing Operations	Earnings (Loss) from Discontinued Operations, net of tax	Net Earnings
2018								
First	$ 76,826	$ 20,277	$ 10,994	$ (8)	$ 10,986	$ 1.57	$ -	$ 1.57
Second	79,227	19,445	10,776	(1)	10,775	1.54	-	1.54
Third	81,653	15,697	6,240	131	6,371	0.89	0.02	0.91
Fourth	85,611	20,464	11,879	(71)	11,808	1.69	(0.01)	1.68
Total	$ 323,317	$ 75,883	$ 39,889	$ 51	$ 39,940	$ 5.69	$ 0.01	$ 5.70

2017

First	$ 72,854	$ 20,126	$ 9,973	$ 8,182	$ 18,155	$ 1.43	$ 1.17	$ 2.60
Second	74,561	17,560	8,941	771	9,712	1.28	0.11	1.39
Third	70,614	18,892	8,338	(6)	8,332	1.19	-	1.19
Fourth	115,604	30,656	16,062	698	16,760	2.30	0.10	2.40
Total	$ 333,633	$ 87,234	$ 43,314	$ 9,645	$ 52,959	$ 6.20	$ 1.38	$ 7.58

Fourth quarter sales are significantly impacted by the holiday driven seasonality of the Housewares/Small Appliance segment. This segment orders/purchases inventory during the first three quarters to meet the sales demand of the fourth quarter. The Defense segment is typically non-seasonal. As discussed in Note P, the Company sold its Absorbent Products business on January 3, 2017, and the gain on divestiture was recorded primarily in the first quarter of 2017.

O. LINE OF CREDIT AND COMMERCIAL LETTERS OF CREDIT

The Company maintains an unsecured line of credit for short term operating cash needs. The line of credit is renewed each year at the end of the third quarter. As of December 31, 2018 and 2017, the line of credit limit was set at $5,000,000, with $0 outstanding on both dates. The interest rate on the line of credit is reset monthly to the London Inter-Bank Offered Rate (LIBOR) plus one half of one percent. In addition, the Company had issued commercial letters of credit totaling $1,247,000 and $1,197,000 as of December 31, 2018 and 2017, respectively, related to performance on certain customer contracts. As of December 31, 2018, the entire balance of the issued letters of credit had not been drawn upon.

P. DISCONTINUED OPERATIONS

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

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

	For the years ended December 31,		
(in thousands)	2018	2017	2016
Net sales	$ -	$ 421	$ 76,555
Cost of sales	65	(675)	(70,848)
Selling and general expenses	-	(25)	(2,618)
Gain on divestiture, net	-	11,413	-
Other income (expense)	-	2,753	976
Earnings from discontinued operations before provision for income taxes	65	13,887	4,065
Provision for income taxes from discontinued operations	14	4,242	1,416
Earnings from discontinued operations, net of tax	$ 51	$ 9,645	$ 2,649

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

	Year Ended December 31,	
(in thousands)	2018	2017
Accounts receivable, net	$ 375	$ 2,529

Property, plant and equipment, net	-	3,660
Assets held for sale	$ 375	$ 6,189
Accounts payable	$ -	$ 210
Liabilities held for sale	$ -	$ 210

The Consolidated Statements of Cash Flows do not present the cash flows from discontinued operations separately from cash flows from continuing operations. Cash provided by (used in) operating activities from discontinued operations was $(636,000), $(5,447,000), and $4,477,000 for the years ended December 31, 2018, 2017, and 2016, respectively. Cash provided by (used in) investing activities related to discontinued operations was $6,290,000, $61,891,000, and $(1,139,000) for the years ended December 31, 2018, 2017, and 2016, respectively.

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

Q. DIVESTITURE

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

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

R. OTHER

The Company has entered into a licensing agreement with another firm that holds intellectual property on the Rusoh® self-service/self-reloadable fire extinguisher. Under the agreement, the Company has advanced the entity funds and has agreed to pay royalties to the entity on the commercial sales of the developed products. As of December 31, 2018 and 2017, notes receivable plus accrued interest of $6,966,000 and $6,750,000, respectively, related to the license agreement were classified as Notes Receivable on the Company's Consolidated Balance Sheets. The fire extinguisher was introduced to the commercial market in 2017, and the Company believes that collectability of the notes receivable is probable.

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

S. SUBSEQUENT EVENTS

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

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

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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

National Presto Industries, Inc.

Eau Claire, Wisconsin

Opinion on the Consolidated Financial Statements

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated March 15, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

/s/ BDO USA, LLP

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

Milwaukee, Wisconsin

March 15, 2019

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NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

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

(In thousands)

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

Notes:
(A) Amounts charged to selling and general expenses.
(B) Amounts charged to other accounts. Charged to the loss on divestiture of AMTEC Less Lethal Systems, Inc. (See Note Q to the Consolidated Financial Statements.)
(C) Principally bad debts written off, net of recoveries.