QUESTAR CORP
Form 10-K/A
November 15, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No.1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Year Ended December 31, 2009

QUESTAR CORPORATION
(Exact name of registrant as specified in its charter)

STATE OF UTAH	**001-08796**	**87-0407509**
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(I.R.S. Employer Identification No.)

180 East 100 South, P.O. Box 45433, Salt Lake City, Utah 84145-0433

(Address of principal executive offices)

Registrant's telephone number: **(801) 324-5699**

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

Common stock without par value

The above Securities are listed on the 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 [X]

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 [X]

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 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 information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   [   ]

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

Large accelerated filer	Accelerated filer
[X]	[ ]
Non-accelerated filer	Smaller reporting company
[ ] (Do not check if a smaller reporting company)	[ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ]

No [X]

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. (June 30, 2009): $5.4 billion. Calculated by excluding all shares held by directors and executive officers of the registrant and three nonprofit foundations established by the registrant without conceding that all such persons are affiliates for purposes of federal securities laws.

At January 31, 2010, there were 174,644,902 shares of the registrant's common stock without par value outstanding.

<u>Documents Incorporated by Reference</u>:

Portions of the registrant's definitive Proxy Statement (the "Proxy Statement"), filed in connection with its May 18, 2010, Annual Meeting of Stockholders, are incorporated by reference into Part III of this Annual Report.

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K of Questar Corporation (the Company) amends the Company s Annual Report on Form 10-K for the year ended December 31, 2009, (the Original Filing) which was filed with the Securities and Exchange Commission on March 1, 2010. The Company is filing this Amendment No. 1 for the purposes of including a revised report of oil and gas reserves of Questar Exploration and Production Company, a former subsidiary, provided by independent petroleum engineers. The revised report of oil and gas reserves as well as a report disclosing the qualifications of the technical persons primarily responsible for overseeing the reserves audit are included in Exhibit 23.3 attached to this document.

Except as described above, this Amendment No. 1 does not amend any other information set forth in the Original Filing and the Company has not updated disclosures included therein to reflect any events that occurred subsequent to March 1, 2010.

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Item 15.

EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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SIGNATURES

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) and (c) Financial statements and financial statement schedules filed as part of this report are listed in the index included in Item 8 of this report.

(b) Exhibits. The following is a list of exhibits required to be filed as a part of this report in Item 15(b).

Exhibit No.

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3.2*

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Stipulation and Agreement, dated October 14, 1981, executed by Mountain Fuel; Wexpro; the Utah Department of Business Regulations, Division of Public Utilities; the Utah Committee of Consumer Services; and the staff of the Public Service Commission of Wyoming. (Exhibit No. 10(a) to Mountain Fuel Supply Company's Form 10-K Annual Report for 1981.)

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*Exhibits so marked have been filed with the Securities and Exchange Commission as part of the indicated filing and are incorporated herein by reference.

[1]Exhibit so marked is management contract or compensation plan or arrangement.

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, on the 15th day of November 2010.

QUESTAR CORPORATION

(Registrant)

By /s/Ronald W. Jibson

Ronald W. Jibson

President and Chief Executive Officer

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 date indicated.

/s/Ronald W. Jibson

President and

Ronald W. Jibson

Chief Executive Officer

(Principal Executive Officer)

/s/Martin H. Craven

Vice President and

Martin H. Craven

Chief Financial Officer

(Principal Financial and Accounting Officer)

*Teresa Beck

Director

*R. D. Cash

Director

*Gary G. Michael

Director

*Keith O. Rattie

Chairman of the Board

*Harris H. Simmons

Director

*Bruce A. Williamson

Director

November 15, 2010

/s/Ronald W. Jibson

Ronald W. Jibson, Attorney in Fact

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Cash flows from investing activities:

Marketable securities purchased	(138,113)	(93,965)	(53,472)
Marketable securities - maturities and sales	134,009	74,630	

68,287

Acquisition of property, plant and equipment

(4,370

)

(6,224

)

(7,271

)

Acquisition of businesses and earn-out payments

(6,748

)

(13,834

)

Sale of property, plant and equipment

211

9

Net cash used in investing activities

(8,474

)

(32,096

)

(6,281

)

Cash flows from financing activities:

Dividends paid	(29,067)	(25,958)	(14,476)
Other	190	41	

(76

)

Net cash used in financing activities

(28,877

)

(25,917

)

(14,552

)

Net increase (decrease) in cash and cash equivalents	(2,023)	(19,981)	(15,327)
Cash and cash equivalents at beginning of year	26,715	46,696	

	62,023
Cash and cash equivalents at end of year	
$	24,692
$	26,715
$	46,696

Supplemental disclosures of cash flow information:

Cash paid during the year for:

Income taxes	$	23,930	$	16,586	$	14,608

Supplemental disclosure of non-cash investing and financing activities:

As of December 31, 2008, 2007, and 2006, the unrealized gain (loss) on available for sale securities, net of tax, was $536,000, $176,000, and ($22,000).

During 2008, 2007, and 2006, $0, $0, and $500,000, respectively, were recorded for goodwill related to the acquisition of NCN Hygienic Products, Inc. During 2008, 2007, and 2006, $0, $0, and $4,041,000, respectively, were accrued pertaining to the acquisition of certain assets of Amron LLC.

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

F-3

NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands except share and per share data)

For the years ended December 31, 2008, 2007, 2006

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Comprehensive Income (Loss)	Treasury Stock	Total
alance December 31, 2005	$ 7,441	$ 1,135	$ 277,033	$ (141)	$ (18,933)	$ 266,535
et earnings			27,960			27,960
nrealized gain on available-for-sale ecurities, net of tax				119		119
otal comprehensive income						28,079
ividends paid, $2.12 per share			(14,474)			(14,474
ther		142			60	202
alance December 31, 2006	7,441	1,277	290,519	(22)	(18,873)	280,342
umulative effect of adopting FASB nterpretation No. 48			1,062			1,062
et earnings			38,623			38,623
nrealized gain on available-for-sale ecurities, net of tax				198		198
otal comprehensive income						38,821
ividends paid, $3.80 per share			(25,958)			(25,958
ther		219			125	344

alance December 31, 2007	7,441	1,496	304,246	176	(18,748)	294,611
et earnings			44,183			44,183
nrealized gain on available-for-sale ecurities, net of tax				360		360
otal comprehensive income						44,543
ividends paid, $4.25 per share			(29,067)			(29,067
ther		239			279	518
alance December 31, 2008	$ 7,441	$ 1,735	$ 319,362	$ 536	$ (18,469)	$ 310,605

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)

PRINCIPLES OF CONSOLIDATION: 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 N.

(3)

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 Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*).

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 $7,356,000 and $11,711,000 at December 31, 2008 and 2007, are included as reductions of cash and cash equivalents or bank overdrafts in accounts payable, as appropriate.

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

At December 31, 2008 and 2007, 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 table. Fair values are determined using significant other observable inputs (Level 2, as defined by Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*), which include quoted prices in markets that are not active, quoted prices of similar securities, or other inputs that are observable.

(In Thousands)

MARKETABLE SECURITIES

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
December 31, 2008				
Tax-exempt Government Bonds	$ 120,392	$121,217	$833	$8
December 31, 2007				
Tax-exempt Government Bonds	$ 116,288	$116,559	$279	$8

Proceeds from sales of marketable securities totaled $134,009,000 in 2008, $74,630,000 in 2007, and $68,287,000 in 2006. Gross gains related to sales of marketable securities totaled $118,000, $0, and $0 in 2008, 2007 and 2006, respectively. There were no gross losses related to sales of marketable securities in 2008, 2007, and 2006. Net unrealized gains and losses are reported as a separate component of accumulated other comprehensive income and were gains (losses) of $825,000, $271,000 and ($33,000) before taxes at December 31, 2008, 2007, and 2006, respectively. Unrealized gains of $74,000, $0, and $0 were reclassified out

of accumulated other comprehensive income (loss) during the years ended December 31, 2008, 2007, and 2006, respectively.

The contractual maturities of the marketable securities held at December 31, 2008 are as follows: $40,535,000 within one year; $41,967,000 beyond one year to five years; $20,617,000 beyond five years to ten years, and $18,098,000 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.

(4)

FAIR VALUE OF FINANCIAL INSTRUMENTS: 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.

(5)

ACCOUNTS RECEIVABLE: The Company's accounts receivable are 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 30 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.

(6)

INVENTORIES: Housewares/Small Appliance segment inventories are stated at the lower of cost or market with cost being determined principally on the last-in, first-out (LIFO) method. Inventories for the Defense and Absorbent Products segments are stated at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method.

(7)

PROPERTY, PLANT AND EQUIPMENT: Property, plant and equipment are stated at cost. For machinery and equipment, all amounts which are fully depreciated have been eliminated from both the asset and allowance accounts. Straight-line depreciation is provided in amounts sufficient to relate 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.

(8)

GOODWILL: The Company recognizes the excess cost of an acquired entity 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. Goodwill impairments of $0, $0, and $500,000 were recognized during 2008, 2007, and 2006, respectively, related to the Company s Absorbent Products segment. The Company's goodwill as of December 31, 2008 and 2007 was $11,485,000 relating to its Defense Products segment. In addition, the value of goodwill was $0 related to the Housewares/Small Appliances and Absorbent Products segments at both December 31, 2008 and 2007.

The Company's annual impairment testing dates were September 29, 2008, October 1, 2007, and October 2, 2006. As of the testing date in 2006, goodwill for the absorbent products segment was deemed impaired because of the declining profitability and losses experienced by the segment in 2006. Using a multiple of earnings to estimate fair value, it was determined that goodwill was fully impaired. For the defense segment, no impairment was indicated. The Company has no recorded intangible assets, other than goodwill.

(9)

REVENUE RECOGNITION: For all of its segments, the Company generally recognizes revenue when product is shipped or title passes pursuant to customers' orders, the price is fixed and collection is reasonably assured. For the Housewares/Small appliance segment, the Company provides for its 60-day over-the-counter return privilege and warranties at the time of shipment. Net sales for this segment are calculated by deducting early payment discounts and cooperative advertising from gross sales. The Company records cooperative advertising

when revenue is recognized. During the prior year, certain warranty claims were reclassified and accounted for as returns and allowances. See Note A(10) for a description of the Company s policy for sales returns.

(10)

SALES & RETURNS: Sales are recorded net of discounts and returns. The latter 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.

(11)

SHIPPING AND HANDLING COSTS: In accordance with the Emerging Issues Task Force (EITF) issue 00-10, Accounting for Shipping and Handling Fees and Costs, the Company includes shipping and handling revenues in net sales and shipping costs in cost of goods sold.

(12)

ADVERTISING: The Company's policy is to expense advertising as incurred for the year and include it in selling and general expenses. Advertising expense was $4,000, $13,000, and $303,000 in 2008, 2007 and 2006.

(13)

STOCK OPTIONS: The Company adopted FASB Statement No. 123R using the modified prospective method. There was no stock-based compensation expense recognized in 2008, 2007 or 2006 since all previously granted stock options were granted and vested prior to the adoption of FASB Statement No. 123R. See Note F.

(14)

ACCUMULATED OTHER COMPREHENSIVE INCOME: The $536,000 and $176,000 of accumulated comprehensive income at December 31, 2008 and 2007, respectively, relate to the unrealized gain on the Company's available-for-sale marketable security investments. These amounts are recorded net of tax effect of $289,000 and $95,000 for 2008 and 2007, respectively.

(15)

PRODUCT WARRANTY: The Company s Housewares/Small Appliance Segment s products are generally warranted to the original owner to be free from defects in material and workmanship for a period of 1 to 12 years from date of purchase. The Company allows a 60-day over-the-counter initial return privilege through cooperating dealers. The Company services its products through a corporate service repair operation. The Company's service and warranty programs are competitive with those offered by other manufacturers in the industry. The Company determines 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. During the prior year, certain warranty claims were reclassified and accounted for as sales returns and allowances to properly reflect products returned by retailers. The following table shows the changes in product warranty liability for the period:

	(In thousands)	
	2008	2007
Beginning balance January 1,	$ 429	$ 2,692
Reclassification of certain warranty claims as sales returns and allowances	0	(2,597)
Accruals during the period	140	971
Charges / payments made under the warranties	(261)	(637)
Balance December 31	$ 308	$ 429

(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 Statement of Financial Accounting Standards No. 5 "SFAS 5"), "Accounting for Contingencies." 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.

(17)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

FASB 157

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157") which defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). SFAS 157 requires companies to provide additional disclosures based on that hierarchy. SFAS 157 was to be effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157, which delayed for one year the applicability of SFAS 157's fair-value measurements to certain nonfinancial assets and liabilities. The Company adopted SFAS 157 as of January 1, 2008, except as it applies to those nonfinancial assets and liabilities affected by the one-year delay. The financial assets of the Company are primarily comprised of cash equivalents, whose fair value was measured using Level 1 observable inputs, and marketable securities, whose fair value was measured using Level 2 observable inputs. The partial adoption of SFAS 157 did not have a material impact on the Company's consolidated financial position or results of operations. The Company does not expect the adoption of the remaining provisions of SFAS 157 to have a material effect on its consolidated financial statements.

FSP 157-3

In October 2008, the FASB issued FASB Staff Position 157-3 Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarifies the application of SFAS No. 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with SFAS No. 157. The adoption of FSP 157-3 did not have a significant impact on the Company s consolidated financial statements.

FASB 159

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Liabilities Including an amendment of FASB Statement No. 115 ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Under SFAS 159, a company may elect to use fair value to measure eligible items at specified election dates and

report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Eligible items include, but are not limited to, accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and firm commitments. On January 1, 2008, the Company adopted SFAS 159 and has not elected to use fair value measurement on any assets or liabilities under this statement.

FASB 141(R)

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (revised 2007) Business Combinations ("SFAS 141(R)"). SFAS 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. SFAS 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest at their fair values as of the acquisition date. SFAS 141(R) also requires that acquisition-related costs be recognized separately from the acquisition. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of SFAS 141(R) to have a material impact on its current consolidated financial position and results of operations. However, depending upon the size, nature

and complexity of future acquisition transactions, the adoption of SFAS 141(R) could materially impact the Company s consolidated financial statements.

FASB 160

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51 ("FAS 160"), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. FAS 160 is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008. The Company does not have any noncontrolling interests and, accordingly, does not expect the adoption of SFAS No. 160 to have a material impact on the Company s consolidated financial position or results of operations.

FASB 161

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133 to enhance disclosures about an entity s derivative and hedging activities and improve the transparency of financial reporting. Entities will be required to provide enhanced disclosures about (a) how and why derivatives instruments are used, (b) how derivative instruments are accounted for, and (c) how derivative instruments affect the entities financial position, financial performance and cash flows. These disclosures better convey the purpose of derivative use in terms of the risks that the entity is intending to manage by requiring fair value disclosures in a tabular format, providing more information about an entity s liquidity and requiring cross-referencing within the footnotes. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company does not hold the applicable derivative instruments and does not expect the adoption of SFAS 161 to have a material impact on the Company s consolidated financial position or results of operations.

FASB 162

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States of America (the GAAP hierarchy). This Statement became effective November 15, 2008. The Company does not expect the adoption of SFAS 162 to have a material effect on the Company s consolidated financial statements or related disclosures.

B. INVENTORIES:

The amount of inventories valued on the LIFO basis was $27,303,000 and $25,891,000 as of December 31, 2008 and 2007, respectively, and consists of housewares/small appliance finished goods. Under LIFO, inventories are valued at approximately $4,437,000 and $2,419,000 below current cost determined on a first-in, first-out (FIFO) basis at December 31, 2008 and 2007, respectively. 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)	
	Cost of	Net	Earnings
Year	Sales	Earnings	Per Share
2008	$ (2,018)	$ 1,297	$ 0.19
2007	$ (1,425)	$ 933	$ 0.14
2006	$ (818)	$ 507	$ 0.07

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

Inventory for defense, absorbent products, and raw materials of the housewares/small appliance segments are valued under the first-in-first-out method and total $44,417,000 and $39,594,000 at December 31, 2008 and 2007. The 2008 FIFO total is comprised of $2,919,000 of finished goods, $33,976,000 of work in process, and $7,522,000 of raw material and supplies. At December 31, 2007 the FIFO total was comprised of $5,790,000 of finished goods, $25,831,000 of work in process, and $7,973,000 of raw material and supplies.

C.

ACCRUED LIABILITIES:

At December 31, 2008 accrued liabilities consisted of payroll $4,814,000, product liability $6,030,000, environmental $2,700,000, plant closing costs $70,000, and other $1,733,000. At December 31, 2007, accrued liabilities consisted of payroll $20,824,000, product liability $5,350,000, environmental $2,810,000, plant closing costs $180,000, and other $1,435,000.

The Company is self-insured for health care costs, although it does carry stop loss and other insurance to cover 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 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, 2008, the Company has authority from the Board of Directors to reacquire an additional 504,600 shares. No shares were reacquired in either 2008 or 2007. Treasury shares have been used for the exercise of stock options and to fund a portion of the Company's 401(k) contributions.

E.

NET EARNINGS PER SHARE:

Basic net earnings per share amounts have been computed by dividing net earnings by the weighted average number of outstanding common shares. Diluted net earnings per share is computed by dividing net earnings by the weighted average number of outstanding common shares and common share equivalents relating to stock options, when dilutive. There were no dilutive shares outstanding at December 31, 2008, 2007, or 2006.

The following is a reconciliation of basic and diluted net income per share for the years ended December 31, 2008, 2007, and 2006:

	(In Thousands)		
	2008	2007	2006
Net earnings (1)	$ 44,183	$ 38,623	$ 27,960
Weighted average common shares outstanding (2)	6,845	6,836	6,831
Common share equivalents relating to stock options			
Adjusted common and common equivalent shares for computation (3)	6,845	6,836	6,831
Net earnings per share:			
Basic (1/2)	$ 6.45	$ 5.65	$ 4.09
Diluted (1/3)	$ 6.45	$ 5.65	$ 4.09

F.

STOCK OPTION PLAN:

The National Presto Industries, Inc. Stock Option Plan reserves 100,000 shares of common stock for grant to key employees. There were no stock options outstanding at December 31, 2008 or 2007. There were 0 shares exercisable at December 31, 2008 and 2007. No options were granted during the years ended December 31, 2008, 2007 or 2006. During 2008 and 2007, 0 and 250 shares, respectively, were exercised.

G.

RETIREMENT PLANS:

Pension Plan: The Company has been contributing to a union-sponsored, multi-employer pension plan on behalf of union employees of the Amron division of its AMTEC subsidiary in accordance with the applicable union labor agreement. In December 2008, the union membership voted in favor of a withdrawal from the plan, and an amendment was made to the labor agreement authorizing the withdrawal. In December 2008, the Company permanently ceased to be obligated to contribute to the multi-employer pension plan, and instead agreed to contribute to a Company 401(k) Plan. (See 401(k) Plan below.) It is possible in the future under the amendment to the labor agreement, if certain conditions are met, that contributions may be made once again to a pension plan rather than to the 401(k) Plan.

During 2008, the pension plan provided Amron with documentation stating that the approximate cost to withdraw from the plan was $239,000. The settlement of the withdrawal liability is expected to occur during the first quarter of 2009. Moreover, should all participants in the plan withdraw within the next two years, some portion of the plan liability could be reallocated to AMTEC. If that were to occur, AMTEC might be assessed retroactively for an additional withdrawal charge. Therefore, the actual cost to withdraw cannot be determined. The Company also agreed to make certain one-time payments to union employees and the Company 401(k) on their behalf totaling $109,000 during the first quarter of 2009. The Company has accrued for these liabilities, which are included in Accrued Liabilities on the Company s consolidated balance sheet.

The Company's contributions to the union pension plan were $402,000, $362,000, and $296,000 during the years ended December 31, 2008, 2007, and 2006, respectively.

401(k) Plan: The Company sponsors a 401(k) retirement plan that covers substantially all 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 the treasury stock, including the Company's related cash dividends, totaled $517,000 in 2008, $475,000 in 2007, and $368,000 in 2006. In addition, the Company made cash contributions of $604,000 in 2008, $583,000 in 2007, and $552,000 in 2006 to the 401(k) Plan.

In addition, the Company will contribute amounts similar to those made to the union pension plan mentioned above to the 401(k) retirement plan covering its union employees at the Amron Division of the AMTEC subsidiary.

H.

INCOME TAXES:

The following table summarizes the provision for income taxes:

		(In thousands)	
	2008	**2007**	**2006**

Current:			
Federal	$ 20,213	$ 13,693	$ 11,396
State	2,205	3,140	1,961
	22,418	16,833	13,357
Deferred:			
Federal	973	2,974	(727)
State	(23)	(223)	(211)
	950	2,751	(938)
Total tax provision	$ 23,368	$ 19,584	$ 12,419

The effective rate of the provision for income taxes as shown in the consolidated statements of earnings differs from the applicable statutory federal income tax rate for the following reasons:

	Percent of Pre-tax Income		
	2008	**2007**	**2006**
Statutory rate	35.0 %	35.0 %	35.0 %
State tax	2.1 %	3.3 %	2.8 %
Tax exempt interest and dividends	(2.0)%	(3.0)%	(3.8)%
Other	(0.5)%	(1.7)%	(3.2)%
Effective rate	34.6 %	33.6 %	30.8 %

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. A valuation allowance for deferred tax assets was deemed necessary at December 31, 2008 and 2007 for certain state attribute carryforwards. The net increase in the valuation allowance during 2008 was $111,000. The tax effects of the cumulative temporary differences resulting in deferred tax assets and liabilities are as follows at December 31:

	(In thousands)	
	2008	**2007**
Deferred tax assets		
Insurance (primarily product liability)	$ 2,080	$ 2,194
Goodwill	1,499	1,307
Environmental	1,083	1,116
State attribute carryforwards	870	746
Vacation	715	850
Customer claims	506	82
Other	444	1,452
Total deferred tax assets	$ 7,197	$ 7,747
Valuation allowance	(709)	(598)
Net deferred tax assets	$ 6,488	$ 7,149
Deferred tax liabilities		
Depreciation	$ (5,049)	$ (4,745)
Other	(289)	-0-
Net deferred tax liabilities	$ (5,338)	$ (4,745)
Net deferred tax assets	$ 1,150	$ 2,404

The Company establishes tax reserves in accordance with FASB Interpretation No. 48 - *Accounting for Uncertainty in Income Taxes* (FIN No. 48), which was adopted at the beginning of 2007. The initial application of FIN No. 48 resulted in a net decrease to the Company s consolidated accrued income tax reserve of $1,062,000, with an offsetting increase to retained earnings. As of December 31, 2008, the estimated value of the Company s gross unrecognized tax

benefits was $1,143,000 which, if recognized, would affect the Company s effective income tax rate. The Company cannot estimate when the unrecognized tax benefits will be settled.

The following is a reconciliation of the Company s unrecognized tax benefits for the years ended December 31, 2008 and 2007:

	(In thousands)	
	2008	2007
Balance at January 1	$ 551,000	$ 0
Balance upon adoption of FIN 48	0	538,000
Additions for tax positions taken related to the current year	106,000	0
Additions for tax positions taken related to prior years	486,000	13,000
Balance at December 31	$ 1,143,000	$ 551,000

It is the Company s practice to include interest and penalties in tax expense. During the years ended December 31, 2008 and 2007, the Company accrued approximately $230,000 and $18,000 in interest, respectively.

The Company is subject to U.S. federal income tax as well as income taxes of multiple states. The Company is currently under audit by the Internal Revenue Service for the tax years 2002 through 2006, as well as a single state for the same period. For all other states in which it does business, the Company is subject to state audit statutes.

I.

COMMITMENTS AND CONTINGENCIES

The Company is involved in 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 11%, 11% and 15% of consolidated net sales for the years ended December 31, 2008, 2007 and 2006. In the Absorbent Products segment, one customer accounted for 12%, 12% and 14% of consolidated net sales for the years ended December 31, 2008, 2007 and 2006.

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. In addition, the Company's manufacturing contracts with its foreign suppliers contain provisions to share the impact of fluctuations in the exchange rate between the U.S. dollar and the Hong Kong dollar above and below a fixed range contained in the contracts. All transactions with the foreign suppliers were within the exchange rate range specified in the contracts during 2008, 2007 and 2006.

There is no similar provision applicable to the Chinese Yuan**,** which until 2005 had been tied to the U.S. Dollar, but which has since been allowed to float and has appreciated in value. To date, any material impact from the change in the value of the currency has been to the cost of products secured via purchase orders issued subsequent to the currency value change. Foreign translation 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 2008, 2007, and 2006, 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, 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, with the award 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

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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.

Raw materials for the Absorbent Products segment are commodities that are available from multiple sources.

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 and at this time, 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, 2008, 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 affect on the results of operations or financial condition of the Company. The Company s environmental accrued liability on an undiscounted basis was $2,700,000 and $2,810,000 as of December 31, 2008 and 2007, respectively, and is included in accrued liabilities on the balance sheet.

Expected future payments for environmental matters are as follows:

		(In Thousands)
Years Ending December 31:		
2009	$	360
2010		299
2011		288
2012		277
2013		266
Thereafter		1,210
	$	2,700

L.

BUSINESS ACQUISITION:

On January 30, 2006, the Company purchased certain assets of Amron, LLC, an Antigo, Wisconsin defense manufacturer of cartridge cases used in medium caliber (20-40mm) ammunition. The acquisition enhanced the Company's position as a viable competitive force in medium caliber ammunition programs of the U.S. Department of Army. The original purchase price was $24,000,000, consisting of a $16,000,000 payment at closing and an $8,000,000 earn-out amount, which was to be paid based upon certain earnings targets through December 31, 2010. Based on 2006 earnings, a $4,000,000 earn-out was accrued at December 31, 2006 and paid during the 1st quarter of 2007. On April 13, 2007, the Company reached an agreement with the seller, whereby the remaining $4,000,000 earnout obligation was settled by a payment of $2,400,000. Accordingly, the adjusted purchase price is $22,400,000. The accrued earn-out at December 31, 2006 was added to goodwill. Likewise, the earn-out settlement payment made during the second quarter of 2007 was also added to goodwill.

The acquisition was accounted for as a purchase with all assets recorded at fair market value. The excess of the purchase price over the net tangible assets has been recorded as goodwill and is included as part of the Company's defense products segment. The amounts allocated to goodwill are deductible for income tax purposes. Based upon the purchase price and fair value of the assets acquired, the following represents the allocation of the aggregate purchase price to the acquired net assets of Amron, LLC.

	(in 000's)
Receivables	$ 224
Inventory	1,909
Prepaids	68
Fixed Assets	13,748
Goodwill	1,529
Total Assets Acquired	17,478
Less: Current Liabilities Assumed	(1,478)
Net Assets Acquired	16,000

The results of operations for the Company include those of Amron, LLC as of the date of closing. The following pro forma condensed consolidated results of operations have been prepared as if the acquisition of Amron had occurred as of January 1, 2006.

	(unaudited) (in thousands, except per share data) 2006
Net Revenues	$307,452
Net Income	28,022
Net Income per Share:	
Basic	$4.10
Diluted	4.10
Weighted Average Shares Outstanding:	
Basic	6,831
Diluted	6,831

The unaudited pro forma condensed consolidated results of operations are not necessarily indicative of results that would have occurred had the acquisition occurred as of January 1, 2006, nor are they necessarily indicative of the results that may occur in the future.

M.

DISPOSAL ACTIVITIES:

On October 9, 2006, the Company decided to consolidate its adult incontinence production capabilities in its Absorbent Products segment and, as a result, began the process of relocating its adult incontinence manufacturing equipment from its Marietta, Georgia facility to its Eau Claire, Wisconsin facility. This consolidation, which began during the 4th quarter of 2006, was completed during the 1st quarter of 2007 and served to improve the segment's

long-term manufacturing efficiencies. As a result of the consolidation, the Georgia facility has been closed. The Company issued a W.A.R.N. (Worker Adjustment and Retraining Notification) notice on October 9, 2006. The total cost of the relocation activities was $950,000, including $760,000 for the disassembly, transportation, installation of machinery and equipment and other related costs and $190,000 for one-time termination benefits to affected employees. During 2007, $320,000 was incurred for the disassembly, transportation, installation of machinery and equipment and other related costs, and $180,000 was incurred for one-time termination benefits to affected employees. Expenses related to the above disposal activities are included in Cost of Sales for 2007 and 2006. With the exception of one time termination benefits and capital expenditures related to the shut-down of the Georgia facility, costs were expensed as incurred, consistent with the requirements of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, as employee services were performed and other associated costs were incurred.

At December 31, 2006, the Company had accrued $79,000 related to the one-time termination benefit, all of which was paid during 2007.

N.

BUSINESS SEGMENTS:

The Company operates in three 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 Appliances, Defense Products, and Absorbent Products.

The Housewares/Small Appliances Segment designs, markets, and distributes housewares and small appliances. These products are sold directly to retail outlets throughout the United States and also through

independent distributors. As more fully described in Note J, the Company primarily sources its Housewares/Small Appliance products from nonaffiliated 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 February 2001 with the acquisition of AMTEC Corporation which manufactures precision mechanical and electromechanical assemblies for the U.S. government and prime contractors. During 2005, 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. AMTEC's manufacturing plant is located in Janesville, Wisconsin. During 2003, this 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. The segment was further augmented with the acquisition of certain assets of Amron, LLC of Antigo, Wisconsin during 2006.This facility primarily manufactures cartridge cases used in medium caliber (20-40mm) ammunition. See Note L.

The Absorbent Product Segment was started on November 19, 2001 with the acquisition of certain assets from RMED International, Inc, forming Presto Absorbent Products, Inc. This company manufactures diapers and, starting in 2004, adult incontinence products at the Company's facilities in Eau Claire, Wisconsin. The products are sold to distributors and other absorbent product manufacturers. During 2003, this segment was expanded with the purchase of the assets of NCN Hygienic Products, Inc., a Marietta, Georgia, manufacturer of adult incontinence products and training pads for dogs. The Company has since decided to close the Georgia facility and consolidate the absorbent products manufacturing in the Eau Claire, Wisconsin facility. It no longer manufactures dog pads. See Note M.

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

	(in thousands)			
	Housewares/ Small Appliances	**Defense Products**	**Absorbent Products**	**Total**
Year ended December 31, 2008				
External net sales	$ 136,814	$ 238,752	$ 72,661	$ 448,227
Gross profit (loss)	30,297	50,232	(315)	80,214
Operating profit (loss)	20,896	43,550	(1,165)	63,281
Total assets	218,783	106,837	40,263	365,883
Depreciation and amortization	792	3,211	4,791	8,794
Capital expenditures	788	2,603	979	4,370
Year ended December 31, 2007				
External net sales	$ 131,267	$ 224,384	$ 65,065	$ 420,716

Gross profit	29,658	48,294	(1,597)	76,355
Operating profit	19,931	36,700	(2,671)	53,960
Total assets	223,115	103,653	47,908	374,676
Depreciation and amortization	790	2,729	4,966	8,485
Capital expenditures	916	4,821	487	6,224
Year ended December 31, 2006				
External net sales	$ 124,455	$ 126,849	$ 53,377	$ 304,681
Gross profit	32,809	28,762	(5,228)	56,343
Operating profit	22,441	20,262	(6,673) [1]	36,030
Total assets	213,032	80,043	51,901	344,976
Depreciation and amortization	812	2,007	5,072	7,891
Capital expenditures	1,314	18,627	1,078	21,019

(1)

The operating profit reflects goodwill impairment of $500,000 in 2006, which is more fully described in Note A(8).

O.

OPERATING LEASES

The Company leases office, manufacturing, and warehouse facilities and equipment under noncancelable operating leases. Rent expense was approximately $1,133,000, $1,113,000, and $963,000 for the years ended December 31, 2008, 2007, and 2006, respectively. Future minimum annual rental commitments are as follows:

Years ending December 31:	(In Thousands)	
2009	$	574
2010		482
2011		485
2012		470
2013		397
Thereafter		3,183
	$	5,591

P.

INTERIM FINANCIAL INFORMATION (UNAUDITED):

The following represents quarterly unaudited financial information for 2008 and 2007:

			(In thousands)		
Quarter	**Net Sales**	**Gross Profit**	**Net Earnings**	**Earnings Per Share (basic)**	**Earnings Per Share (Diluted)**
2008					
First	$ 77,598	$ 13,391	$ 6,250	$ 0.91	$ 0.91
Second	111,072	18,771	9,582	1.40	1.40
Third	113,183	20,152	10,201	1.49	1.49
Fourth	146,374	27,900	18,150	2.65	2.65
Total	448,227	80,214	44,183	6.45	6.45
2007					
First	81,070	12,314	5,021	0.73	0.73

Second	96,186	15,469	6,949	1.02	1.02
Third	99,492	18,429	8,712	1.27	1.27
Fourth	143,968	30,143	17,941	2.63	2.63
Total	420,716	76,355	38,623	5.65	5.65

As shown above, fourth quarter sales are significantly impacted by the holiday driven seasonality of the Housewares/Small Appliance segment. This segment builds inventory during the first three quarters to meet the sales demand of the fourth quarter. The other segments are typically non-seasonal.

Q.

LINE 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 both December 31, 2008 and 2007, the line of credit limit was set at $10,000,000, 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.

R.

SUBSEQUENT EVENT

On February 20, 2009, the Company s Board of Directors announced a regular dividend of $1.00 per share, plus an extra of $4.55. On March 13, 2009, a payment of $38,008,000 was made to the shareholders of record as of March 3, 2009.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

National Presto Industries, Inc.

Eau Claire, Wisconsin

We have audited the accompanying consolidated balance sheets of National Presto Industries, Inc. as of December 31, 2008 and 2007 and the related consolidated statements of earnings, stockholders equity, and cash flows for the years then ended. In connection with our audits of the financial statements, we have also audited the accompanying Schedule II, Valuation and Qualifying Accounts for the year ended December 31, 2008 and 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Presto Industries, Inc. at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note H to the financial statements, effective January 1, 2007 the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB No. 109*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Presto Industries, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2009 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Milwaukee, Wisconsin

March 16, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders, Audit Committee and Board of Directors

National Presto Industries, Inc.

Eau Claire, Wisconsin

We have audited the accompanying consolidated statements of earnings, stockholders equity and cash flows of National Presto Industries, Inc. for the year ended December 31, 2006. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of National Presto Industries, Inc. for the year ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information, Schedule II - Valuation and Qualifying Accounts, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Virchow, Krause & Company, LLP

Minneapolis, Minnesota

August 23, 2007

NATIONAL PRESTO INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 2008, 2007 and 2006

	(In thousands)			
Column A	**Column B**	**Column C**	**Column D**	**Column E**
Description	**Balance at Beginning of Period**	**Additions (A)**	**Deductions (B)**	**Balance at End of Period**
Deducted from assets:				
Allowance for doubtful accounts:				
Year ended December 31, 2008	$ 703	$ 253	$ 476	$ 480
Year ended December 31, 2007	$ 703	$ 2	$ 2	$ 703
Year ended December 31, 2006	$ 480	$ 417	$ 194	$ 703

Notes:

(A)

Amounts charged (credited) to selling and general expenses

(B)

Principally bad debts written off, net of recoveries

	(In thousands)			
Column A	**Column B**	**Column C**	**Column D**	**Column E**
Description	**Balance at Beginning of Period**	**Additions**	**Deductions**	**Balance at End of Period**

Valuation allowance for deferred tax assets								
Year ended December 31, 2008	$	598	$	111	$		$	709
Year ended December 31, 2007	$		$	598	$		$	598
Year ended December 31, 2006	$		$		$		$	