PRIMEDIA INC
Form S-4
March 19, 2004

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As filed with the Securities and Exchange Commission on March 19, 2004

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PRIMEDIA Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**2721**	**13-3647573**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

745 Fifth Avenue
New York, New York 10151
(212) 745-0100

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Beverly C. Chell, Esq.
PRIMEDIA Inc.
745 Fifth Avenue
New York, New York 10151
(212) 745-0100

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With a copy to:

Gary I. Horowitz, Esq.
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
(212) 455-2000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: / /

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: / / ________________

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: / / ________________

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
8% Senior Notes due 2013	$300,000,000	100%	$300,000,000	$38,010(3)
Guarantees of 8% Senior Notes due 2013(2)	N/A(3)	N/A(3)	N/A(3)	N/A(3)

(1) Estimated solely for the purpose of calculating the registration fee.

(2) See inside facing page for additional registrant guarantors.

(3) No separate consideration will be received for the guarantees. Pursuant to Rule 457(n) under the Securities Act of 1933, as amended, no separate filing fee for the guarantees is payable.

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

TABLE OF ADDITIONAL REGISTRANT GUARANTORS

Exact Name of Registrant Guarantor as Specified in its Charter	State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification Number	Address Including Zip Code and Telephone Number Including Area Code of Registrant Guarantor's Principal Executive Offices
Canoe & Kayak, Inc.	Delaware	41-1895510	745 Fifth Avenue New York, New York 10151

Exact Name of Registrant Guarantor as Specified in its Charter	State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification Number	Address Including Zip Code and Telephone Number Including Area Code of Registrant Guarantor's Principal Executive Offices
			(212) 745-0100
Channel One Communications Corp.	Delaware	13-3783278	745 Fifth Avenue New York, New York 10151 (212) 745-0100
Cover Concepts Marketing Services, LLC	Delaware	04-3370389	745 Fifth Avenue New York, New York 10151 (212) 745-0100
CSK Publishing Company Inc.	Delaware	13-3023395	745 Fifth Avenue New York, New York 10151 (212) 745-0100
Films for the Humanities & Sciences, Inc.	Delaware	13-1932571	745 Fifth Avenue New York, New York 10151 (212) 745-0100
Haas Publishing Companies, Inc.	Delaware	58-1858150	745 Fifth Avenue New York, New York 10151 (212) 745-0100
Hacienda Productions, Inc.	Delaware	13-4167234	745 Fifth Avenue New York, New York 10151 (212) 745-0100
HPC Brazil, Inc.	Delaware	13-4083040	745 Fifth Avenue New York, New York 10151 (212) 745-0100
PRIMEDIA Business Magazines & Media Inc.	Delaware	48-1071277	745 Fifth Avenue New York, New York 10151 (212) 745-0100
Media Central IP Corp.	Delaware	13-4199107	745 Fifth Avenue New York, New York 10151 (212) 745-0100
Motor Trend Auto Shows Inc.	Delaware	57-1157124	745 Fifth Avenue New York, New York 10151 (212) 745-0100
Paul Kagan Associates, Inc.	Delaware	13-4140957	745 Fifth Avenue New York, New York 10151 (212) 745-0100
PRIMEDIA Finance Shared Services, Inc.	Delaware	13-4144616	745 Fifth Avenue New York, New York 10151 (212) 745-0100
PRIMEDIA Holdings III Inc.	Delaware	13-3617238	745 Fifth Avenue New York, New York 10151 (212) 745-0100
PRIMEDIA Information Inc.	Delaware	13-3555670	745 Fifth Avenue

			New York, New York 10151 (212) 745-0100
PRIMEDIA Magazines Inc.	Delaware	13-3616344	745 Fifth Avenue New York, New York 10151 (212) 745-0100
PRIMEDIA Magazine Finance Inc.	Delaware	13-3616343	745 Fifth Avenue New York, New York 10151 (212) 745-0100
PRIMEDIA Special Interest Publications Inc.	Delaware	52-1654079	745 Fifth Avenue New York, New York 10151 (212) 745-0100
PRIMEDIA Workplace Learning LLC	Delaware	13-4119787	745 Fifth Avenue New York, New York 10151 (212) 745-0100
PRIMEDIA Workplace Learning LP	Delaware	13-4119784	745 Fifth Avenue New York, New York 10151 (212) 745-0100
PRIMEDIA Enthusiast Publications, Inc.	Pennsylvania	23-1577768	745 Fifth Avenue New York, New York 10151 (212) 745-0100
The Virtual Flyshop, Inc.	Colorado	84-1318377	745 Fifth Avenue New York, New York 10151 (212) 745-0100
Go Lo Entertainment, Inc.	Delaware	95-4307031	745 Fifth Avenue New York, New York 10151 (212) 745-0100
IntelliChoice, Inc.	California	77-0168905	745 Fifth Avenue New York, New York 10151 (212) 745-0100
Kagan Media Appraisals, Inc.	California	77-0157500	745 Fifth Avenue New York, New York 10151 (212) 745-0100
Kagan Seminars, Inc.	California	94-2515843	745 Fifth Avenue New York, New York 10151 (212) 745-0100
McMullen Argus Publishing, Inc.	California	95-2663753	745 Fifth Avenue New York, New York 10151 (212) 745-0100
Simba Information Inc.	Connecticut	06-1281600	745 Fifth Avenue New York, New York 10151 (212) 745-0100
Kagan World Media, Inc.	Delaware	77-0225377	745 Fifth Avenue New York, New York 10151 (212) 745-0100

PRIMEDIA Companies Inc.	Delaware	13-4177687	745 Fifth Avenue New York, New York 10151 (212) 745-0100
PRIMEDIA Leisure Group Inc.	Delaware	51-0386031	745 Fifth Avenue New York, New York 10151 (212) 745-0100

PRIMEDIA Specialty Group Inc.	Delaware	36-4099296	745 Fifth Avenue New York, New York 10151 (212) 745-0100

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated March 19, 2004

PROSPECTUS

Offer to exchange $300,000,000 8% Senior Notes due 2013 for $300,000,000 8% Senior Notes due 2013, which have been registered under the Securities Act of 1933

The Exchange Offer

We will exchange all old notes that are validly tendered and not validly withdrawn for an equal principal amount of new notes that are freely tradeable, except in limited circumstances described below.

You may withdraw tenders of old notes at any time before the expiration of the exchange offer.

The exchange offer expires at 5:00 p.m., New York City time, on , 2004, unless extended. We do not currently intend to extend the expiration date.

The exchange of old notes for new notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes.

We will not receive any proceeds from the exchange offer.

The New Notes

The new notes are being offered in order to satisfy certain of our obligations under the registration rights agreement entered into in connection with the placement of the old notes.

The terms of the new notes to be issued in the exchange offer are substantially identical to the old notes, except that the new notes will be freely tradeable, except in limited circumstances described below.

The new notes will be unconditionally guaranteed on a senior basis by all our domestic wholly-owned restricted subsidiaries, other than securitization subsidiaries.

Resales of New Notes

The new notes may be sold in the over-the-counter market, in negotiated transactions or through a combination of those methods.

If you are a broker-dealer and you receive new notes for your own account, you must acknowledge that you will deliver a prospectus in connection with any resale of the new notes. By making that acknowledgment, you will not be deemed to admit that you are an underwriter under the Securities Act of 1933, as amended. Broker-dealers may use this prospectus in connection with any resale of new notes received in exchange for old notes where the old notes were acquired by the broker-dealer as a result of market-making activities or trading activities. We will make this prospectus available to any broker-dealer for use in any such resale for a period of up to 180 days from the date on which the exchange offer is consummated, subject to limited exceptions. A broker-dealer may not participate in the exchange offer with respect to old notes acquired other than as a result of market-making activities or trading activities. See "Plan of Distribution."

If you are an affiliate of ours or are engaged in, or intend to engage in, or have an agreement or understanding to participate in, a distribution of the new notes, you cannot rely on the applicable interpretations of the Securities and Exchange Commission and you must comply with the registration requirements of the Securities Act in connection with any resale transaction.

You should consider carefully the risk factors beginning on page 11 of this prospectus before participating in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2004.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and file reports, proxy and information statements and other information with the Commission. Those reports, proxy and information statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington D.C. 20549. You may obtain information on the operation of the Commission's Public Reference Room by

calling the Commission at 1-800-SEC-0330. Copies of those materials also can be obtained from the Public Reference Room of the Commission at 450 Fifth Street, N.W., Washington D.C. 20549, at prescribed rates. The Commission also maintains a web site at http://www.sec.gov, which contains reports, proxy statements and other information regarding registrants that file electronically with the Commission. In addition, reports, proxy statements and other information concerning us may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Commission allows us to "incorporate by reference" into this prospectus, which means that we can disclose important business and financial information about us that is not included in or delivered with the document. We incorporate by reference into this prospectus the following documents filed with the Commission:

(a) our Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

All documents that we file with the Commission under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus will be deemed to be incorporated by reference in this prospectus and to be a part of this prospectus from the date of the filing of those documents.

You may obtain copies of those documents from us, free of cost, by contacting us at the following address or telephone number:

Corporate Secretary
PRIMEDIA Inc.
745 Fifth Avenue
New York, New York 10151
(212) 745-0100

In order to obtain timely delivery of these documents, you should make any request no later than five business days before you must make your business decision.

Information that we file later with the Commission and that is incorporated by reference in this prospectus will automatically update and supersede information contained in this prospectus. You will be deemed to have notice of all information incorporated by reference in this prospectus as if that information was included in this prospectus.

SUMMARY

The following summary is qualified in its entirety by the more detailed information and the consolidated financial statements and accompanying notes incorporated by reference in this prospectus. Unless the context otherwise indicates, the term "we" or "PRIMEDIA" means the consolidated business operations of PRIMEDIA Inc. and its subsidiaries. You should carefully consider the risks included under the caption "Risk Factors." Market share data contained in this prospectus are based upon a product's share of advertising or circulation, depending on the product, as compared to its direct competition.

Our Company

PRIMEDIA Inc. is one of the largest targeted media companies in the United States. Our properties deliver content via print (magazines, books and directories), live events (trade and consumer shows), video, as well as the Internet and other marketing solutions in niche markets.

In October 2003, PRIMEDIA appointed Kelly P. Conlin as its President and Chief Executive Officer. Mr. Conlin is now PRIMEDIA's chief operating decision maker. After reviewing the Company's operations, Mr. Conlin and the executive team implemented a change in the Company's reportable segments effective in the fourth quarter of 2003 to conform with the way the Company's businesses are assessed and managed. As a result of this change in reportable segments, as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, all prior periods were restated to conform with the new segment format.

The Company's newly designated segments are comprised of: Enthusiast Media, Consumer Guides, Business Information and Education and Training. The results of these newly established segments will, consistent with past practice, be regularly reviewed by the Company's chief operating decision maker and the executive team to determine how resources will be allocated to each segment and to assess the performance of each segment.

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Summary of Terms of the Exchange Offer

On May 15, 2003, we completed the private offering of $300,000,000 aggregate principal amount of our 8% senior notes due 2013 in a transaction exempt from registration under the Securities Act. On that date, we and our domestic wholly-owned restricted subsidiaries, other than securitization subsidiaries, which we refer to as the guarantors, entered into a registration rights agreement with the initial purchasers in the private offering in which we and the guarantors agreed to deliver to you this prospectus as part of the exchange offer and we agreed to complete the exchange offer within 12 months after the date of original issuance of the old notes. The following summary of the exchange offer is not complete. For a more complete description of the terms of the exchange offer see "The Exchange Offer." You are entitled to exchange in the exchange offer your old notes for new notes which are identical in all material respects to the old notes except:

- the new notes have been registered under the Securities Act of 1933; and
- the additional interest which would be payable on the old notes in specified circumstances are no longer applicable.

The Exchange Offer	We are offering to exchange up to $300,000,000 aggregate principal amount of old notes for up to $300,000,000 aggregate principal amount of new notes. Old notes may be exchanged only in integral multiples of $1,000.
Resale	Based on an interpretation by the staff of the SEC set forth in no-action letters issued to third parties, including Exxon Capital Holdings Corporation and Morgan Stanley & Co. Incorporated, we believe that the new notes issued in the exchange offer in exchange for old notes may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery provisions of the Securities Act, so long as you:
	are not an affiliate of ours within the meaning of Rule 405 under the Securities Act; and
	are acquiring the new notes in the ordinary course of your business and have not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the new notes.
	Each participating broker-dealer that receives new notes for its own account in the exchange offer in exchange for old notes that were acquired as a result of market-making or other trading activity must acknowledge that it will deliver a prospectus in connection with any resale of the new notes. See "Plan of Distribution."
	Any holder of old notes who:
	is an affiliate of ours within the meaning of Rule 405 under the Securities Act;
	does not acquire new notes in the ordinary course of its business; or
	tenders in the exchange offer with the intention to participate, or for the purpose of participating, in a distribution of new notes

	cannot rely on the position of the staff of the SEC enunciated in *Exxon Capital Holdings Corporation, Morgan Stanley & Co. Incorporated* or similar no-action letters and, in the absence of an exemption from the registration and prospectus delivery requirements of the Securities Act, must comply with those requirements in connection with the resale of the new notes.
Expiration Date; Withdrawal of Tender	The exchange offer will expire at 5:00 p.m., New York City time, on , 2004, or on a later date and time if we decide to extend the exchange offer. We refer to the date on which the exchange offer will expire as the expiration date. We do not currently intend to extend the expiration date. A tender of old notes in the exchange offer may be withdrawn at any time before the expiration date. Any old notes not accepted for exchange for any reason will be returned without expense to the tendering holder promptly after the expiration or termination of the exchange offer.
Material Conditions to the Exchange Offer	The exchange offer is subject to customary conditions, which we may waive. Please read the section captioned "The Exchange Offer Material Conditions to the Exchange Offer" of this prospectus for more information regarding the conditions to the exchange offer.
Procedures for Tendering Outstanding Notes	If you wish to accept the exchange offer, you must:
	complete, sign and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal according to the instructions contained in this prospectus and the letter of transmittal;
	mail or otherwise deliver the letter of transmittal, or a facsimile of the letter of transmittal, together with the old notes and any other required documents, to the exchange agent at the address indicated on the cover page of the letter of transmittal; or
	if you hold old notes through The Depository Trust Company, or DTC, and wish to participate in the exchange offer, you must comply with the Automated Tender Offer Program procedures of DTC, by which you will agree to be bound by the letter of transmittal.
	By signing, or agreeing to be bound by the letter of transmittal, you will represent to us that, among other things:
	any new notes that you receive will be acquired in the ordinary course of your business;
	you have no arrangement or understanding with any person or entity to participate in a distribution of the new notes;

	if you are a broker-dealer that will receive new notes for your own account in exchange for old notes that were acquired as a result of market-making activities, that you will deliver a prospectus, as required by law, in connection with any resale of those new notes; and
	you are not an affiliate, as defined in Rule 405 of the Securities Act, of ours or, if you are an affiliate, you will comply with any applicable registration and prospectus delivery requirements of the Securities Act.
Special Procedures for Beneficial Owners	If you are a beneficial owner of old notes which are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your old notes in the exchange offer, you should contact that registered holder promptly and instruct the registered holder to tender on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of

	transmittal and delivering your old notes, either make appropriate arrangements to register ownership of the old notes in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time and may not be able to be completed before the expiration date.
Guaranteed Delivery Procedures	If you wish to tender your old notes and your old notes are not immediately available or you cannot deliver your old notes, the letter of transmittal or any other documents required by the letter of transmittal or to comply with the applicable procedures under DTC's Automated Tender Offer Program before the expiration date, you must tender your old notes according to the guaranteed delivery procedures set forth in this prospectus under "The Exchange Offer Guaranteed Delivery Procedures."
Effect on Holders of Outstanding Notes	Once we complete the exchange of all validly tendered old notes pursuant to the terms of the exchange offer, we will have fulfilled a covenant contained in the registration rights agreement and, accordingly, there will be no additional interest paid on the old notes under the circumstances described in the registration rights agreement. If you are a holder of old notes and you do not tender your old notes in the exchange offer, you will continue to hold the old notes and you will be entitled to all the rights and limitations applicable to the old notes in the indenture, except for any rights under the registration rights agreement that by their terms terminate upon the completion of the exchange offer.
	We expect that the exchange of new notes for old notes will have a material adverse effect on the trading market for old notes.

Consequences of Failure to Exchange	All untendered old notes will continue to be subject to the restrictions on transfer provided for in the old notes and in the indenture. In general, the old notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the exchange offer, we do not currently anticipate that we will register the old notes under the Securities Act.
Material Income Tax Considerations	The exchange of old notes for new notes in the exchange offer will not be a taxable event for United States federal income tax purposes. See "Certain United States Federal Income Tax Consequences."
Use of Proceeds	We will not receive any cash proceeds from the issuance of new notes in connection with the exchange offer.
Exchange Agent	The Bank of New York is the exchange agent for the exchange offer. The address and telephone number of the exchange agent are provided in the section captioned "The Exchange Offer Exchange Agent" of this prospectus.

Summary of Terms of the New Notes

Maturity	May 15, 2013.
Interest Payment Dates	May 15 and November 15 of each year, commencing November 15, 2004.
Optional Redemption	At any time on or after May 15, 2008, we may redeem all or a part of the new notes at the redemption price specified in this prospectus under "Description of New Notes Optional Redemption."
	At any time before May 15, 2006, we may redeem up to 35% of the new notes with the net proceeds of certain equity offerings at a redemption price of 108%, as long as at least 65% of the aggregate principal amount of the new notes remains outstanding after the redemption. See

	"Description of New Notes Optional Redemption."
	In addition, we may redeem all or a part of the new notes if we become subject to a change of control at any time, at the redemption price described under "Description of New Notes Change of Control Optional Redemption Upon Change of Control."
Change of Control	If we become subject to a change of control, we will be required to make an offer to purchase any new notes that we do not redeem as provided under "Optional Redemption" above, at a purchase price of 101% of the principal amount of those new notes, plus accrued and unpaid interest to the date of purchase.
Guarantees	The new notes will be fully and unconditionally guaranteed, on a senior basis, jointly and severally, by each of our wholly-owned domestic restricted subsidiaries, other than securitization subsidiaries.
Ranking	The new notes will be senior obligations secured as described below and will rank *pari passu* in right of payment to all our existing and future senior indebtedness and senior to any future subordinated indebtedness of ours.
	The guarantees of the new notes will rank *pari passu* in right of payment with all existing and future senior indebtedness of our subsidiary guarantors, including those subsidiaries' guarantees of our obligations under our bank credit facilities and our other outstanding senior notes.

	The new notes will be initially secured, on an equal and ratable basis with indebtedness under our bank credit facilities and our other existing senior notes, by a pledge of the stock of PRIMEDIA Companies Inc., an intermediate holding company owned directly by us which owns directly or indirectly all shares of PRIMEDIA's subsidiaries. The pledge in favor of the lenders under our bank credit facilities may be released by such lenders in certain circumstances or may be terminated when all obligations under the pledge (other than our other senior debt obligations) have been paid in full, and in either case, the pledge securing these notes and our other existing senior notes will be automatically released. See "Description of New Notes Certain Covenants Limitations on Liens" and "Description of New Notes Security."
	As of December 31, 2003, we had approximately $1,604.2 million of senior indebtedness, consisting of $29.5 million of capital leases, $579.5 million of borrowings under our bank credit facilities (including $19.6 million of outstanding letters of credit), $225.4 million of our $7^{5}/_{8}$% senior notes due 2008, $469.8 million of our $8^{7}/_{8}$% senior notes due 2011 and $300 million of the old notes, all of which was guaranteed on a senior basis by our subsidiaries guaranteeing the new notes and secured pursuant to the pledge described above.
	As of December 31, 2003, there was $310.4 million available for borrowing under our bank credit facilities.
	As of December 31, 2003, we had no subordinated indebtedness outstanding. Subject to the financial covenants in our bank credit facilities, we have the option at any time to exchange our outstanding series of preferred stock into subordinated indebtedness, which would currently represent an aggregate principal amount of $639.1 million.
Restrictive Covenants	We will issue the new notes under an indenture containing covenants for your benefit. These covenants restrict our ability and the ability of our subsidiaries, with exceptions, to:
	incur additional debt;
	create or permit to exist certain liens;
	pay dividends on or repurchase or retire capital stock;
	make investments in certain subsidiaries;
	sell assets or equity interests in subsidiaries;

enter into transactions with affiliates; and

consolidate, merge or transfer all or substantially all of our assets.

These covenants are subject to a number of important exceptions and qualifications.

Selected Consolidated Financial Information

The selected consolidated operating and balance sheet data are derived in part from our audited consolidated financial statements contained in our annual reports on Form 10-K for each of the years in the three-year period ended December 31, 2003. The historical data are only a summary and should be read in conjunction with the historical consolidated financial statements and related notes contained in the Annual Report on Form 10-K for the year ended December 31, 2003, which have been incorporated by reference in this prospectus.

	Years Ended December 31,				
	2003	2002	2001	2000	1999
	(dollars in thousands, except per share amounts)				
Operating Data:					
Revenues, net(1)	$ 1,345,622	$ 1,412,552	$ 1,377,774	$ 1,337,052	$ 1,396,900
Depreciation of property and equipment(2)	55,887	68,881	75,714	49,675	44,833
Amortization of intangible assets, goodwill and other(3)(7)	75,953	208,238	677,776	108,765	430,325
Other (income) charges(4)	29,827	67,418	43,125	41,570	(213,580)
Operating income (loss)	82,397	(100,316)	(651,320)	(3,367)	16,542
Provision for impairment of investments(5)	(8,975)	(19,045)	(106,512)	(188,526)	
Interest expense	(124,528)	(139,878)	(145,928)	(143,933)	(164,867)
Loss from continuing operations before income tax expense(12)	(79,572)	(257,696)	(950,265)	(342,773)	(151,361)
Income tax expense(6)	(12,220)	(46,356)	(135,000)	(41,200)	(6,500)
Loss from continuing operations	(91,792)	(304,052)	(1,085,265)	(383,973)	(157,861)
Discontinued operations	130,664	93,137	(26,376)	37,147	37,748
Cumulative effect of a change in accounting principle(7)		(388,508)			
Net Income (loss)	38,872	(599,423)	(1,111,641)	(346,826)	(120,113)
Preferred stock dividends and related accretion, net(8)(12)	(41,853)	(47,656)	(62,236)	(53,063)	(53,062)
Loss applicable to common shareholders	(2,981)	(647,079)	(1,173,877)	(399,889)	(173,175)
Basic and diluted income (loss) applicable to common shareholders per common share(9):					
Loss from continuing operations	$ (0.51)	$ (1.39)	$ (5.30)	$ (2.71)	$ (1.45)
Discontinued operations	0.50	0.37	(0.12)	0.23	0.26
Cumulative effect of a change in accounting principle(7)		(1.53)			
Net loss	$ (0.01)	$ (2.55)	$ (5.42)	$ (2.48)	$ (1.19)
Basic and diluted common shares outstanding	259,230,001	253,710,417	216,531,500	161,104,053	145,418,441
Balance Sheet Data:					
Cash and cash equivalents	$ 8,685	$ 18,553	$ 33,588	$ 23,690	$ 28,661
Working capital deficiency(10)	(205,300)	(248,280)	(221,047)	(346,447)	(200,458)
Other intangible assets and Goodwill, net	1,178,941	1,323,560	2,029,727	1,647,592	1,835,356
Total assets	1,636,121	1,835,620	2,731,219	2,677,479	2,714,552
Long-term debt(11)	1,562,441	1,727,677	1,945,631	1,503,188	1,732,896
Shares subject to mandatory redemption (Exchangeable preferred stock)(12)	474,559	484,465	562,957	561,324	559,689

	Years Ended December 31,				
Total shareholders' deficiency	(1,013,255)	(1,043,798)	(480,592)	(236,026)	(144,238)
Other Data:					
Additions to property, equipment and other, net	$ 39,497	$ 39,163	$ 60,740	$ 77,579	$ 69,488
Net cash provided by (used in) operating activities	63,186	50,281	(101,348)	52,546	107,298
Net cash provided by (used in) investing activities	149,554	194,783	(407,057)	(54,644)	186,081
Net cash provided by (used in) financing activities	(222,608)	(260,099)	518,303	(2,873)	(289,256)
Deficiency of earnings to fixed charges(13)(14)	117,169	299,206	972,740	385,699	203,732
Deficiency of earnings to fixed charges (excluding preferred stock dividends and related accretion)(13)(14)	75,316	251,550	910,504	332,636	150,670
Leverage ratio as calculated under our bank credit facilities(15)	5.11x	4.60x	5.49x	4.90x	5.20x

8

Notes to Selected Financial Data

(1)

In 2003, the Company disposed of several titles, the results of which were required to be reclassified as discontinued operations under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). As such, the related amounts for all years disclosed have been reclassified to discontinued operations.

(2)

Includes an impairment of long-lived assets of $9,739 for the year ended December 31, 2002.

(3)

Includes an impairment of intangible assets, goodwill and other, of $35,253, $146,064, $427,016 and $275,788 for the years ended December 31, 2003, 2002, 2001 and 1999, respectively.

(4)

Represents severance related to separated senior executives of $9,372 for the year ended December 31, 2003, non-cash compensation and non-recurring charges of $11,184, $10,502 (including $2,635 of non-recurring charges), $56,679 (including $28,553 of non-recurring charges) and $35,210 for the years ended December 31, 2003, 2002, 2001 and 2000, respectively, provision for severance, closures and restructuring related costs of $8,673, $49,669, $43,679, $20,798 and $22,000 for the years ended December 31, 2003, 2002, 2001, 2000 and 1999, respectively, and loss (gain) on the sale of businesses and other, net, of $598, $7,247, ($57,233), ($14,438) and ($235,580) for the years ended December 31, 2003, 2002, 2001, 2000, and 1999, respectively.

The Company adopted SFAS 123, "Accounting for Stock-Based Compensation," in the fourth quarter of 2003 and began recording employee stock-based compensation under the fair value method effective January 1, 2003. The adoption resulted in a non-cash compensation charge of $5,980.

(5)

Represents impairments of the Company's investment in CMGI, Inc. of $7,029 and $155,474 for the years ended December 31, 2001 and 2000, respectively, the Company's investment in Liberty Digital of $658 and $21,869 for the years ended December 31, 2001 and 2000, respectively, the Company's investments in various assets-for-equity transactions of $8,975, $10,783 and $83,959 for the years ended December 31, 2003, 2002 and 2001, respectively, and various other PRIMEDIA investments of $8,262, $14,866 and $11,183 for the years ended December 31, 2002, 2001 and 2000, respectively.

(6)

Historically, the Company did not need a valuation allowance for the portion of the tax effect of net operating losses equal to the amount of deferred income tax liabilities related to tax-deductible goodwill and trademark amortization expected to occur during the carryforward period of the net operating losses based on the timing of the reversal of these taxable temporary differences. As a result of the adoption of SFAS 142, "Goodwill and Other Intangible Assets", the Company records a valuation allowance in excess of its net deferred tax assets to the extent the difference between the book and tax basis of indefinite-lived intangible assets is not expected to reverse during the net operating loss carryforward period. With the adoption of SFAS 142, the Company no longer amortizes the book basis in the indefinite-lived intangibles, but will continue to amortize these intangibles for tax purposes. For 2003 and 2002, income tax expense primarily consists of deferred income taxes of $11,864 and $49,500, respectively, related to the increase in the Company's net deferred tax liability for the tax effect of the net increase in the difference between the book and tax basis in the indefinite-lived intangible assets. The income tax expense recorded in 2003 and 2002 is net of tax refunds received. During 2001 and 2000, the Company increased its valuation allowance due to continued historical operating losses and the impairment of long-lived assets, primarily goodwill, and investments, resulting in a net provision for income taxes of $135,000 and $41,200, respectively. At December 31, 1999, the Company's management determined that no adjustment to net deferred income tax assets was required. In 1999, the Company recorded income tax expense of

$6,500 related to a provision for current state and local taxes incurred as a result of the gain on the sale of the Supplemental Education Group. At December 31, 2003, the Company had aggregate net operating and capital loss carryforwards of $1,760,785 which will be available to reduce future taxable income.

(7)

In connection with the adoption of SFAS 142 on January 1, 2002, the Company recorded an impairment charge related to its goodwill and certain indefinite lived intangible assets as a cumulative effect of a change in accounting principle. Additionally, SFAS 142 prohibited the amortization of goodwill and indefinite lived intangible assets, effective January 1, 2002. Amortization expense for goodwill and certain trademarks, which ceased being amortized under SFAS 142 (excluding provisions for impairment), was $186,422, $36,904 and $59,799 for the years ended December 31, 2001, 2000 and 1999, respectively.

(8)

Includes the gains on exchanges of exchangeable preferred stock of $944 and $32,788 in 2003 and 2002, respectively, and the issuance of warrants valued at $5,891 and $498 to KKR 1996 Fund during 2002 and 2001, respectively, in connection with the acquisition of the outstanding common stock of EMAP in August 2001.

(9)

Basic and diluted income (loss) per common share, as well as the basic and diluted common shares outstanding, were computed as described in Note 16 of the notes to the consolidated financial statements incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

(10)

Includes current maturities of long-term debt and net assets held for sale, where applicable. Consolidated working capital reflects certain industry working capital practices and accounting principles, including the expensing of certain editorial and product development costs when incurred and the recording of deferred revenue from subscriptions as a current liability. Advertising costs are expensed when the promotional activities occur except for certain direct-response advertising costs which are capitalized and amortized over the estimated period of future benefit.

(11)

Excludes current maturities of long-term debt.

(12)

The Company adopted SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", prospectively, effective July 1, 2003, which requires the Company to classify as long-term liabilities its Series D Exchangeable Preferred Stock, Series F Exchangeable Preferred Stock and Series H Exchangeable Preferred Stock and to

classify dividends from preferred stock as interest expense. Such stock is now described as shares subject to mandatory redemption and dividends on these shares are now described as interest on shares subject to mandatory redemption, whereas previously they were presented below net income (loss) as preferred stock dividends. The adoption of SFAS 150 increased the loss from continuing operations for the year ended December 31, 2003 by $22,547 which represents primarily interest on shares subject to mandatory redemption and amortization of issuance costs which are included in amortization of deferred financing costs on the statement of consolidated operations in our Annual Report on Form 10-K for the year ended December 31, 2003. If SFAS 150 was adopted on July 1, 2002, July 1, 2001, July 1, 2000 and July 1, 1999, loss from continuing operations, in each year, would have increased by $19,763, $27,345, $27,348 and $27,627, respectively. The 2002 increase to loss from continuing operations was reduced by a net gain of $4,488 on exchanges of the Exchangeable Preferred Stock.

(13)

For purposes of determining the deficiency of earnings to fixed charges, "earnings" consist of loss from continuing operations before income taxes, fixed charges and equity in losses of investees, and "fixed charges" consist of interest on all indebtedness (including dividends classified as interest on shares subject to mandatory redemption on our financial statements filed with our Annual Report on Form 10-K for the year ended December 31, 2003), amortization of deferred financing costs, preferred stock dividends and that portion of rental expenses that management believes to be representative of interest.

(14)

Loss from continuing operations before income taxes includes severance related to separated senior executives as well as substantial non-cash charges including depreciation and amortization (including provisions for impairment) of property and equipment, intangible assets, goodwill and other; non-cash compensation and non-recurring charges; certain provisions for severance, closures and restructuring related costs; provision for impairment of investments; and accretion of discount on aquisition obligation and other. These charges totaled $168,672, $315,644, $933,837, $389,949, and $492,918 for the years ended December 31, 2003, 2002, 2001, 2000, and 1999, respectively.

(15)

The leverage ratio is calculated as indebtedness, as defined in our bank credit facilities, minus the cash of our restricted subsidiaries in excess of $5,000 divided by EBITDA as calculated in our bank credit facilities for our restricted subsidiaries, which excludes losses of our unrestricted subsidiaries and restructuring charges, and is adjusted primarily for the trailing four quarters results of acquisitions and divestitures and estimated savings for acquired businesses.

RISK FACTORS

You should carefully consider the following risks and uncertainties and all other information contained in this prospectus, including the documents incorporated by reference, before you decide whether to purchase our securities. Any of the following risks, if they materialize, could adversely affect our business, financial condition and operating results. As a result, the trading price of our securities could decline, and you could lose all or part of your investment.

Risk Factors Relating to Our Business

General economic trends may reduce our advertising revenues.

Our advertising revenues are subject to the risks arising from adverse changes in domestic and global economic conditions. A decline in the level of business activity of our advertisers has had an adverse effect on our revenues and profit margins. Because of the recent economic slowdown in the United States, many advertisers, particularly business-to-business advertisers, have reduced advertising expenditures. Any further impact of this slowdown on us is difficult to predict, but it may result in further reductions in advertising revenue. Additionally, if geopolitical events negatively impact the economy, our results of operations may be adversely affected.

We have substantial indebtedness and other monetary obligations, which consume a substantial portion of the cash flow that we generate.

We have substantial indebtedness and expect to incur additional indebtedness under our bank credit facilities or otherwise. As of December 31, 2003, we had approximately $1,604.2 million of outstanding indebtedness (including capital leases and outstanding letters of credit) and $639.1 million of outstanding preferred stock ($474.6 million of which is referred to as shares subject to mandatory redemption on our financial statements filed with our Annual Report on Form 10-K for the year ended December 31, 2003), all of which is redeemable for cash, or under certain conditions, debt securities of the Company, before the maturity of the notes.

As of December 31, 2003, borrowings under our bank credit facilities including outstanding letters of credit were approximately $579.5 million. These borrowings bear interest at floating rates based on the federal funds rate, the prime lending rate or LIBOR. Increases in interest rates on indebtedness under our bank credit facilities would increase our interest payment obligations and could have an adverse effect on us. The weighted average interest rate on our bank credit facilities was 3.6% at December 31, 2003.

A substantial portion of our cash flow is dedicated to the payment of principal and interest on indebtedness and to the payment of dividends on our preferred stock, which reduces funds available for capital expenditures and business opportunities and may limit our ability to respond to adverse developments in our business or in the economy. For the year ended December 31, 2003, we made $29.8 million of principal repayments (excluding the voluntary redemption of our $8\frac{1}{2}$% Senior Notes due 2006 and our $10\frac{1}{4}$% Senior Notes due 2004 and repayments of revolving loans under our bank credit facilities) and $135.1 million of interest payments related to our indebtedness ($10.9 million of which is presented as cash interest paid on shares subject to mandatory redemption on our financial statements filed with our Annual Report on Form 10-K for the year ended December 31, 2003). In addition, for the year ended December 31, 2003, we made cash dividend payments of $33.9 million on our outstanding exchangeable preferred stock (now classified as shares subject to mandatory redemption on our financial statements filed wiund:#D6F3E8;">

302,006

298,565

289,994

284,076

Dividends paid per common share applicable to current year

1.67

1.17

0.92

0.92

2.00

* Net earnings for 2005 reflect the impairment of the Absorbent Segment goodwill of $2,550,000 ($.37 per basic share), after tax. For 2004 the net effect of the reversal of the LIFO reserve vis a vis 2003 resulted in a net comparative earnings decline of $2,695,000 or $.40 per share which was in part offset by the absence of the $1,137,000 ($.17 per share) plant closing charge taken in 2003. The impact of the pension termination resulted in a net comparative earnings decline of $1,371,000 or $.20 per share. 2003 net earnings reflect after tax charges of $1,137,000 ($.17 per share) related to plant closing expenses and $817,000 ($.12 per share) related to converting a defined benefit pension plan into a defined contribution plan, which were more than offset by the partial reversal of the LIFO reserve stemming from the shut down of domestic plants, net of tax, $3,122,000 ($.46 per share). 2002 includes $2,843,000 -- $.42 per share versus 2001 s $4,771,000 -- $.70 per share for after-tax expenses relating to plant closings. 2002 earnings also reflect $1,040,000 or $.15 per share after-tax charge primarily related to the early retirement of long term employees. The 2002 expenses were largely offset ($3,259,000 or $.48 per share after-tax) by the partial reversal of the LIFO reserve stemming from the shutdown of the domestic manufacturing plants.

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

Forward-looking statements in this Management s Discussion and Analysis of Financial Condition and Results of Operations, elsewhere in this Form 10-K/A, in the Company s 2005 Annual Report to Shareholders, in the Proxy Statement for the annual meeting held October 18, 2005, 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; increases in material, freight/shipping, or production cost which cannot be recouped in product pricing; delays or interruptions in shipping; changes in government requirements and funding of government contracts, and the efficient start-up and utilization of capital equipment investments. Additional information concerning these and other factors is contained in the Company s Securities and Exchange Commission filings, copies of which are available from the Company without charge.

As indicated in Note R of the Consolidated Financial Statements, certain figures have been restated from those reported in the Form 10-K filed in March 2006.

2005 COMPARED TO 2004

Readers are directed to Note N, Business Segments for data on the financial results of the Company s three business segments for the years ended December 31, 2005 and 2004.

On a consolidated basis, sales were up by $25,609,000 (16%), gross profit down by $1,785,000 (5%), and selling and general expense down by $2,965,000 (17%). Other income, principally interest, increased by $760,000 (21%), as did earnings before provision for income taxes by $1,320,000 (6%), and net earnings by $976,000. Details concerning these changes can be found in the comments by segment found below.

Housewares/Small Appliances net sales increased $5,827,000 from $106,160,000 to $111,987,000, or 6%, primarily resulting from an increase in units shipped. Approximately 75% of the actual volume increase was attributable to new product introductions. Defense net sales increased by $12,419,000 from $24,535,000 to $36,954,000, or 51%, primarily reflecting a unit volume increase resulting from partial fulfillment of an augmented backlog. Absorbent Products net sales increased by $7,363,000 from $28,261,000 to $35,624,000, or 26%, primarily reflecting increased volume from the adult incontinence line of products.

Housewares/Small Appliance gross profit for 2005 increased $326,000 from $30,649,000 to $30,975,000, while gross profit as a percentage of sales decreased from 29% in 2004 to 28% in 2005. Defense gross profit dollars increased $1,697,000 from $7,867,000 to $9,564,000, while the gross profit percentage decreased from 32% to 26%. The increase in gross profit dollars is primarily attributable to the increased volume referenced above, while the decrease in percentage relates to a less favorable product sales mix. Absorbent products gross profit dropped from $1,550,000 in 2004 to a loss of $2,258,000 in 2005. The decline stemmed primarily from cost inefficiencies of a startup/learning curve nature related to the installation of new state-of-the-art machinery, and increased material costs.

Housewares/Small Appliance selling and general expenses decreased $4,104,000, with approximately 75% attributable to a decrease in television advertising during 2005. Defense selling and general expenses increased $610,000, reflecting increased compensation and staffing commensurate with the Defense segment s increased sales and earnings levels. Absorbent Product selling and general expense increased $529,000 stemming mainly from increased administrative costs associated with the expansion of the segment.

In the third quarter of 2003 the Company announced its decision to terminate its defined benefit pension plan (see Note G). As a result, the Company recorded a pre-tax charge of $3,528,000 for 2004 upon settlement of the pension obligation. Note G also includes information regarding assumptions used to value the pension plan.

During the fourth quarter of 2005, goodwill for the absorbent products segment was deemed impaired because of the losses experienced by the segment. Using a multiple of earnings to estimate fair value, it was determined that goodwill was fully impaired. This resulted in a charge to the current year s earnings of $2,550,000, net of tax.

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

Other income, principally interest, increased $760,000 reflecting the interest rate increases implemented by the Federal Reserve over the past several quarters, only partially offset by a decrease in average daily investment balance, stemming primarily from the use of funds for the expansion of the Absorbent Products and Defense segments.

Earnings before provision for income taxes increased $1,320,000 from $22,706,000 to $24,026,000. The provision for income taxes increased from $7,265,000 to $7,609,000, which resulted in an effective income tax rate of 32% for both years. Net earnings increased $976,000 from $15,441,000 to $16,417,000.

2004 COMPARED TO 2003

Readers are directed to Note N, Business Segments for data on the financial results of the Company s three business segments for the years ended December 31, 2004 and 2003.

On a consolidated basis, sales were up by $33,212,000 (26%), gross profit by $2,605,000 (7%), and selling and general expense by $1,956,000 (13%). Other income, principally interest decreased by $649,000 (15%), as did earnings before provision for income taxes by $377,000 (2%), and net earnings by $36,000. Details concerning these changes can be found in the comments by segment found below.

Housewares/Small Appliance net sales increased $1,914,000 from $104,246,000 to $106,160,000, or 2%, primarily resulting from an increase in unit volume offset in large part by decreased pricing, which reflected the competitive nature of the housewares/small appliance business. Defense net sales increased by $14,539,000 from $9,996,000 to $24,535,000, or 145%, primarily reflecting a unit volume increase resulting from the satisfaction of a significant portion of the 2003 backlog. Absorbent Products net sales increased by $16,759,000 from $11,502,000 to $28,261,000, or 146%, primarily reflecting the addition of revenues stemming from the October 2003 acquisition of the assets of NCN Hygienic Products, Inc. which were in turn augmented by a competitor s sudden decision to exit the adult incontinent business.

Housewares/Small Appliance gross profit for 2004 decreased $2,970,000 from $33,619,000 to $30,649,000, or 32% in 2003 versus 29% in 2004 as a percentage of sales. The gross profit decrease was primarily attributable to a comparatively smaller benefit received in 2004 from the partial reversal of Manufactured Product LIFO reserve (as discussed in Notes B & M), offset in part by two elements which were approximately equal the margin increase stemming from the increased sales volume and a reduction in the warranty reserve (see Note A(14)). Defense gross profit increased $4,741,000 from $3,126,000 to $7,867,000, primarily due to increased volume referenced above. Gross margin was largely unchanged 32% in 2004 versus 31% in 2003. Absorbent products gross profit increased $834,000 from $716,000 to $1,550,000, reflecting the increased volume stated above. Gross margin as a percentage of sales decreased from 6.2% to 5.5%, largely as a result of the effort to fill orders created by the above mentioned competitor s exit from the business without having the requisite machine capacity in place to efficiently handle the added volume. As mentioned in the Liquidity section below, efforts were in process to expand that capacity.

Housewares/Small Appliance selling and general expenses were relatively unchanged. Defense selling and general expenses increased $1,626,000 reflecting increased compensation and staffing commensurate with the Defense segment s increased sales and earnings levels, and a full year versus five months of activity at Spectra. Absorbent Product selling and general expenses increased $304,000 primarily reflecting the October 2003 acquisition of assets noted above.

Fiscal year 2003 included pre-tax plant closing charges of $1,834,000 relating to the closing of the Company s Housewares/Small Appliance manufacturing operations in Jackson, Mississippi, and Alamogordo, New Mexico (See Note M). Also, in the third quarter of 2003, the Company announced its decision to terminate its defined benefit pension plan (See Note G). As a result, the Company recorded pre-tax charges of $3,528,000 and $1,317,000 for fiscal years 2004 and 2003, respectively. Note G also includes information regarding assumptions used to value the pension plan.

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

Other income, principally interest, decreased $649,000 from $4,234,000 to $3,585,000, primarily due to a decreased average daily investment balance, stemming from the use of funds for expansion in the Defense and Absorbent Products segments.

Earnings before provision for income taxes decreased $377,000 from $23,083,000 to $22,706,000. The provision for income taxes decreased from $7,606,000 to $7,265,000, which resulted in an effective income tax rate decrease from 33% to 32% as a result of decreased earnings subject to tax. Net earnings decreased $36,000 from $15,477,000 to $15,441,000.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities was $22,337,000 during 2005 compared to $5,779,000 during the comparable period in the prior year. The principal factors behind the increase can be found in the changes in the components of working capital and the pension charge element within the statement of cash flows.

Cash provided by investing activities was $33,574,000 during 2005 compared to $13,144,000 used during 2004. The change in cash flow is primarily attributable to two factors. First, more marketable securities were converted into cash and cash equivalents during 2005 than in 2004, either as a result of tendering of demand instruments with put options or through the maturity of securities. Second, payments for fixed asset additions were higher during 2004 than in 2005, reflecting the timing of payments for the equipment for the absorbent product expansion and the modification of the Jackson, Mississippi plant to a warehousing and shipping facility.

Based on the accounting profession s latest interpretation of cash equivalents under FASB Statement No. 95, the company s variable rate demand notes which had previously been included in cash and cash equivalents on the 2005 and 2004 consolidated financial statements, were reclassified as marketable securities. (See Note R of the Notes to Consolidated Financial Statements, *infra)*. 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), and subsequent reclassification has resulted in a presentation of the Company s consolidated balance sheet that the Company believes understates the true liquidity of the Company s portfolio. As of December 31, 2005, the portfolio included $39,444,000 of variable rate demand notes 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 used in financing activities for 2005 and 2004 increased primarily as a result of the $.50 per share increase in the extra dividend paid during those years.

As a result of the foregoing factors, cash and cash equivalents increased in 2005 by $44,507,000 to $62,023,000.

Working capital decreased by $2,041,000 to $212,721,000 at December 31, 2005, reflecting an increase in the current income tax liability stemming from the increase in current year earnings. The Company s current ratio was 6.3 to 1.0 at fiscal 2005 year-end, compared to 6.5 to 1.0 at the end of fiscal 2004.

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 if the appropriate return on investment is projected.

The Company has substantial liquidity in the form of cash and cash equivalents and marketable securities to meet all of its anticipated capital requirements, to make dividend payments, and to fund future growth through acquisitions and other means. The Company intends to continue its investment strategy of safety and short-term liquidity throughout its investment holdings. The interest rate increases over the past several quarters, partially offset by the reduction in the Company s investment holdings, currently has resulted in increased levels of interest income for the Company. There can be no assurance that interest rates will not decline. The interest rate environment is a function of national and international monetary policies as well as the growth and inflation rates of the U.S. and foreign economies, and is not controllable by the Company.

DEFENSE SEGMENT BACKLOG

The Company s Defense segment contract backlog was approximately $150,000,000 at December 31, 2005, and $43,000,000 at December 31, 2004. Backlog is defined as the value of funded orders from the customer less the amount of sales recognized against the funded order. It is anticipated that the backlog will be performed during a 14 to 18-month period.

CONTRACTUAL OBLIGATIONS

The below table discloses a summary of the Company s specified contractual obligations at December 31, 2005:

	Payments Due By Period (In Thousands)				
Contractual Obligations	**Total**	**Under 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Operating lease obligations	$2,366	$592	$410	$201	$1,163
Purchase obligations[1]	92,696	92,696			
Earn-out and incentive payments[2]	16,592	375	16,217		
Total	$111,654	$93,663	$16,627	$201	$1,163

[1] Purchase obligations include outstanding purchase orders at December 31, 2005. Included are purchase orders issued to the Company s housewares manufacturers in the Orient, and to material suppliers in the Defense and Absorbent Products segment. 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 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.

[2] The Company has agreed to make certain payments dependent upon the future performance of the companies in the defense and absorbent products segments. The expected payments noted above were based upon the anticipated future levels of earnings of these companies.

CRITICAL ACCOUNTING POLICIES

The preparation of the 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 2005, 2004 or 2003; 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.

Self-Insured Product Liability and Health Insurance

The Company is subject to product liability claims in the normal course of business and is self-insured for health care costs. The Company is partly insured for product liability claims, and therefore 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. An increase in the number or magnitude of claims could have a material impact on the Company s financial condition and results of operations.

NEW ACCOUNTING PRONOUNCEMENTS

Please refer to Note A(16) for information related to the future effect of adopting new accounting pronouncements on the Company s consolidated financial statements.

SEC LITIGATION

Please refer to Footnote I in the Notes to the Consolidated Financial Statements for discussion on this item.

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 include money market funds. As a result of the restatement referenced in Note R of the Notes to Consolidated Financial Statements, 7-day variable rate demand notes are now categorized as marketable securities. 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 balance of the

Company s investments are held primarily in fixed and variable rate municipal bonds with an average life of less than one year. 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. 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 2005, 2004 and 2003. There is no similar provision applicable to the Chinese Yuan which until 2005 had been tied to the U.S. Dollar. To the extent there are further revaluations of the Yuan vis-à-vis the U.S. Dollar, it is anticipated that any potential material impact from such revaluations 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 Reports of its Independent Registered Public Accountants are contained on pages F-1 through F-21 of this report.

B. Quarterly financial data is contained in Note P in Notes to Consolidated Financial Statements.

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

There have no disagreements with accountants on accounting and financial disclosure, but there has been a change in accountants. The change stemmed from the lawsuit that the Securities and Exchange Commission (SEC) filed in July 2002 in the federal district court in Chicago, Illinois, against National Presto Industries, Inc. alleging the Company operated as an unregistered investment company from 1992 through 2002. The case did not involve fraud, deceptive practices, or questionable accounting methods. The federal district judge granted the SEC s motion for summary judgment on October 31, 2005. On December 23, 2005, the judge ordered the Company to register under the Investment Company Act. As he barred the Company from operating in interstate commerce until the filing was completed, the Company immediately filed the requisite application, albeit under protest, indicating that it did not meet the filing criteria. The Company filed a notice of appeal from the decision to the Federal Circuit Court of Appeals in the 7th Circuit. On May 15, 2007, the appellate court reversed the lower court, ruling that the Company is not and has never been an investment company and that the Company was free to drop its registration under the Investment Company Act and operate under the Securities Exchange Act of 1934 whether or not the SEC gave its formal approval to that step.

Prior to the appellate court s decision, there was considerable discussion between the Company s outside counsel and the SEC staff on the manner in which financial information was to be presented during the period in which the appeal was pending. As a result of the controversy surrounding the SEC s staff s ultimate mandate that an investment company footnote be inserted into the Company s financial statements for the

year ended December 31, 2005, Grant Thornton withdrew its opinion for the years ending December 31, 2005, 2004, and 2003. Subsequently, the firm withdrew from the audit engagement as well. Despite the 7th Circuit Court of Appeals decision, Grant Thornton would not reinstate its opinions, necessitating the reaudit of all three years by the successor auditor, Virchow Krause & Co. LLP

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, 2005.

Management has reviewed the restatements of the insurance reserve and goodwill and noted that they are part of a reaudit in which the parties have the luxury of hindsight. The actual verdict or settlement value of many of the product liability claims that were open at the time of the earlier audits were known by the time the reaudits occurred, as was the future year s performance of the absorbent product business and the decision to close the Atlanta facility. The line between change in audit estimate or a misapplication of Generally Accepted Accounting Principles (GAAP) is a fine one. For purposes of this control review, Management has elected to deem the level of the product liability reserve and the failure to recognize the impairment of goodwill as a misapplication of GAAP and hence an error and a material weakness under Paragraph Number 140 of the PCAOB Auditing Standard No. 2. In the future, management will correct these weaknesses by a) Using the best point in the range or a low point rather than a judgmental mid-point in determining the portion of the insurance reserve applicable to product liability and b) Performing a more robust review as of the beginning of the fourth quarter to determine whether any goodwill impairment has occurred.

Accordingly, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company had a material weakness in internal control over financial reporting solely relating its use of a judgmental mid-point in determining its reserve for insurance and its failure to perform a robust review of goodwill and that, solely for this reason, its internal control over financial reporting and its disclosure controls and procedures were not effective as of that date.

There were no significant changes in internal controls over financial reporting during the quarter ended December 31, 2005 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. (NPI) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934. NPI 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.

NPI management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2005. 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. Based on our assessment and those criteria, we believe that, as of December 31, 2005, the Company had a material weakness in internal control over financial reporting solely relating to its use of a judgmental mid-point in determining its reserve for product liability insurance and its failure to perform a robust review of goodwill and that, solely for these reasons, its internal control over financial reporting and its disclosure controls and procedures were not effective as of that date.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors

National Presto Industries, Inc.

We were engaged to audit management s assessment included in the accompanying Management s Assessment of Internal Control over Financial Reporting that National Presto Industries, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2005 based on control criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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.

The Company did not engage us until November 28, 2006. Accordingly, we were unable to perform sufficient auditing procedures necessary to form an opinion on either management s assessment or on the effectiveness of the Company s internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness has been identified and included in management s assessment. Management s disclosure of the material weakness is not fairly presented in all material respects. Information necessary to fairly describe the material weakness is as follows:

Controls over the application of generally accepted accounting principles to material account balances and controls over adequacy of analysis and documentation supporting key accounting judgments and estimates The Company did not maintain effective internal controls relating to its processes for determining, monitoring, disseminating, implementing and updating accounting policies that complied with accounting principles generally accepted in the United States of America. The Company did not provide for adequate analysis supporting the development or evaluation of certain key estimates embodied in its financial statements using information available at the time the estimates were formed or subsequently evaluated, nor did it have effective internal controls to ensure that the estimates were properly recorded on its financial statements. Because of this weakness, the Company restated its previously issued 2005, 2004, and 2003 annual financial statements to correct for overstatements of the products liability reserve and restated its previously issued 2005 annual financial statements to account for the impairment of goodwill. Therefore, a reasonable possibility existed that a material misstatement of the Company s annual or interim financial statements would not be prevented or detected on a timely basis by the Company s internal controls over financial reporting and that the Company had not maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2005, of the Company and this report does not affect our report on such consolidated financial statements.

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.

Because of the limitation on the scope of our audit described in the second paragraph of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion either on management s assessment or on the effectiveness of the Company s internal control over financial reporting.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Presto Industries, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005, and our report dated August 23, 2007 expressed an unqualified opinion on those financial statements.

/s/ Virchow Krause & Company, LLP

Minneapolis, Minnesota

August 23, 2007

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

IDENTIFICATION OF EXECUTIVE OFFICERS

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	55
James F. Bartl	Senior Vice President and Secretary	67
Neil L. Brown	Vice President, Purchasing	63
Donald E. Hoeschen	Vice President, Sales	60
Larry Tienor	Vice President, Engineering	59
Randy Lieble	Vice President, Treasurer and Chief Financial Officer	54

Ms. Cohen became Chair of the Board on January 1, 2002. Prior to that date she had been elected Treasurer in September 1983, to the additional positions of 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. Bartl was elected Secretary in May 1978 and the additional position of Executive Vice President in November 1998. Effective January 1, 2005, pursuant to previous planning, he relinquished his responsibilities as Executive Vice President and began working a reduced work schedule. He has been associated with the registrant since 1969. Prior to becoming an officer, he was Resident Counsel and Director of Industrial Relations.

Mr. Brown was elected Vice President in November 1997. He has been associated with the registrant since 1966. Prior to becoming an officer, he was Director of Manufacturing.

Mr. Hoeschen was elected Vice President in May 1997. He has been associated with the registrant since 1971. Prior to becoming an officer, he was Director of Sales.

Mr. Tienor was elected Vice President in November 2003. He has been associated with the registrant since 1971. Prior to becoming an officer, he was Director of Engineering.

Mr. Lieble was elected Secretary in November 2006 and Vice President in October 2004. Prior to 2004, he had been elected Treasurer in November 1995 and the additional position of Chief Financial Officer in November 1999. He has been associated with the registrant since 1977. Prior to becoming an officer, he was Manager of Investments and Government Contracts.

Section 16(a) beneficial ownership reporting compliance information is incorporated by reference to the VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF section of the Company s Proxy Statement for its 2006 Annual Meeting of Stockholders. The Company has adopted a code of ethics, 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.

ITEM 11. EXECUTIVE COMPENSATION

Executive compensation information is incorporated by reference to the EXECUTIVE COMPENSATION AND OTHER INFORMATION of the Company s Proxy Statement for its 2006 Annual Meeting of Stockholders.

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security ownership of certain beneficial owners and management and related stockholder matters information is incorporated by reference to the VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF section of the Company s Proxy Statement for its 2006 Annual Meeting of Stockholders.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information with respect to the Company s equity compensation plans as of December 31, 2005.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,000	$ 38.63	
Equity compensation plans not approved by security holders			
Total	1,000	$ 38.63	

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Principal accountant fees and services information is herein incorporated by reference to the INDEPENDENT PUBLIC ACCOUNTANTS section of the Company s Proxy Statement for its 2006 Annual Meeting of Stockholders.

In connection with the fees paid to Grant Thornton, the information found in the Principal accountant fees and services information is herein incorporated by reference to the INDEPENDENT PUBLIC ACCOUNTANTS section of the Company s Proxy Statement for its 2006 Annual Meeting of Stockholders.

On November 27, 2006, the Audit Committee of the Board of Directors of the Company engaged Virchow, Krause & Company, LLP as the Company s independent registered public accounting firm. As part of its engagement, Virchow Krause was to audit the financial statements for the years ended December 31, 2005 and December 31, 2006. During the two most recent fiscal years, the Company did not consult Virchow Krause with respect to (i) the application of accounting principles to any transaction, either contemplated or proposed, (ii) the type of audit opinion that might be rendered on the Company s financial statements, or any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

Virchow Krause & Company, LLP did not provide any financial information, design or implementation services for the Company during fiscal years ended December 31, 2005 and 2006.

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The Company estimates the following fees have been incurred and will be billed:

	Audit Fees[1]	**Audit Related Fees**	**Tax Fees**	**All Other Fees**
Year ended December 31, 2005	$ 190,000	$	$	$

[1] The Company estimates total billings from Virchow Krause & Co, LLC will be $413,000 related to the reaudits of fiscal years 2003 and 2004.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

	Form 10-K/A Page Reference
1. Consolidated Financial Statements:	
a. Consolidated Balance Sheets - December 31, 2005 and 2004 (Restated)	F-1 & F-2
b. Consolidated Statements of Earnings - Years ended December 31, 2005, 2004 and 2003 (Restated)	F-3
c. Consolidated Statements of Cash Flows - Years ended December 31, 2005, 2004 and 2003 (Restated)	F-4
d. Consolidated Statements of Stockholders Equity - Years ended December 31, 2005, 2004 and 2003 (Restated)	F-5
e. Notes to Consolidated Financial Statements (Restated)	F-6 - F-23
f. Report of Independent Registered Public Accounting Firm	F-24
2. Consolidated Financial Statement Schedules:	
Schedule II Valuation and Qualifying Accounts	F-25

(b) Exhibits:

Exhibit Number		Description
Exhibit 3	(i)	Restated Articles of Incorporation, attached
	(ii)	By-Laws - incorporated by reference from Exhibit 3 (ii) of the Company s quarterly report on Form 10-Q for the quarter ended October 3, 1999
Exhibit 9		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 10.1*		1988 Stock Option Plan - incorporated by reference to Exhibit 10.1 of the Company s quarterly report on Form 10-Q for the fiscal Quarter ended July 6, 1997
Exhibit 10.2*		Form of Incentive Stock Option Agreement under the 1988 Stock Option Plan - Incorporated by reference to Exhibit 10.2 of the Company s quarterly report on Form 10-Q for the fiscal Quarter ended July 6, 1997
Exhibit 11		Statement Re Computation of Per Share Earnings

* Compensatory Plans

Exhibit 21	Parent and Subsidiaries
Exhibit 23.1	Consent of Virchow Krause & Co. LLP
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.

(c) Schedules:

Reference is made to Item 15(a)(2).

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/ Randy F. Lieble
Randy F. Lieble, Vice President
Treasurer, Secretary,
and Chief Financial Officer
(Principal Accounting Officer)

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

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

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

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

By: /S/ Melvin S. Cohen
Melvin S. Cohen
Director

Date: August 24, 2007

NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31 2005 (Restated, See Note R)		2004 (Restated, See Note R)	
CURRENT ASSETS:				
Cash and cash equivalents		$62,023		$17,516
Marketable securities		111,552		163,304
Accounts receivable	$32,764		$34,041	
Less allowance for doubtful accounts	480	32,284	480	33,561
Inventories:				
Finished goods	20,771		17,632	
Work in process	8,431		8,798	
Raw materials	8,477	37,679	7,697	34,127
Other current assets		9,687		5,169
Total current assets		253,225		253,677
PROPERTY, PLANT AND EQUIPMENT:				
Land and land improvements	1,855		1,836	
Buildings	10,878		10,804	
Machinery and equipment	55,369		42,112	
	68,102		54,752	
Less allowance for depreciation	17,618	50,484	13,527	41,225
GOODWILL		3,556		6,954
OTHER ASSETS		150		150
		$307,415		$302,006

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

NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

LIABILITIES	December 31 2005 (Restated, See Note R)		2004 (Restated, See Note R)	
CURRENT LIABILITIES:				
Accounts payable		$18,084		$18,439
Federal and state income taxes		8,282		5,804
Accrued liabilities		14,138		14,672
Total current liabilities		40,504		38,915
DEFERRED INCOME TAXES		376		1,576
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS EQUITY				
Common stock, $1 par value: Authorized: 12,000,000 shares at December 31, 2005 and 2004 Issued: 7,440,518 shares at December 31, 2005 and 2004 Outstanding: 6,828,700 and 6,823,251 shares at December 31, 2005 and 2004, respectively	$7,441		$7,441	
Paid-in capital	1,135		1,050	
Retained earnings	277,033		272,010	
Accumulated other comprehensive income (loss)	(141)		93	
	285,468		280,594	
Treasury stock, at cost, 611,818 shares in 2005 and 617,267 shares in 2004	18,933		19,079	
Total stockholders equity		266,535		261,515
		$307,415		$302,006

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

NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands except per share data)

	For the years ended December 31,		
	2005 (Restated, See Note R)	2004	2003
Net sales	$ 184,565	$ 158,956	$ 125,744
Cost of sales	146,284	118,890	88,283
Gross profit	38,281	40,066	37,461
Selling and general expenses	14,452	17,417	15,461
Plant closing costs			1,834
Pension plan termination		3,528	1,317
Goodwill Impairment	4,148		
Operating profit	19,681	19,121	18,849
Other income, principally interest	4,345	3,585	4,234
Earnings before provision for income taxes	24,026	22,706	23,083
Provision for income taxes	7,609	7,265	7,606
Net earnings	$ 16,417	$ 15,441	$ 15,477
Weighted average shares outstanding:			
Basic	6,826	6,821	6,820
Diluted	6,827	6,823	6,821
Net earnings per share:			
Basic	$ 2.41	$ 2.26	$ 2.27
Diluted	$ 2.40	$ 2.26	$ 2.27

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

NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31,	(Restated, See Note R) In Thousands 2005	2004	2003
Cash flows from operating activities:			
Net earnings	$ 16,417	$ 15,441	$ 15,477
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Provision for depreciation	4,245	3,310	2,353
Deferred income taxes	(1,485)	126	2,252
Pension charges		2,052	322
Plant closing and asset impairment charges			(950)
Goodwill Impairment	4,148		
Other	555	1,160	694
Changes in operating accounts, net of acquisitions:			
Accounts receivable, net	1,277	(4,657)	(572)
Inventories	(3,552)	(9,489)	1,804
Other current assets	(1,607)	(50)	(308)
Accounts payable and accrued liabilities	(139)	(2,256)	(917)
Federal and state income taxes	2,478	142	2,019
Net cash provided by operating activities	22,337	5,779	22,174
Cash flows from investing activities:			
Marketable securities purchased	(89,088)	(111,237)	(75,096)
Marketable securities - maturities and sales	140,482	127,895	72,018
Acquisition of property, plant and equipment	(13,832)	(28,188)	(2,903)
Acquisition of businesses	(1,500)	(2,373)	(7,595)
Deposit for acquisition of business	(2,500)		
Sale of property plant and equipment	12	759	1,434
Other			88
Net cash provided by (used in) investing activities	33,574	(13,144)	(12,054)
Cash flows from financing activities:			
Dividends paid	(11,394)	(7,977)	(6,284)
Purchase of treasury stock			(425)
Other	(10)		
Net cash used in financing activities	(11,404)	(7,977)	(6,709)
Net increase (decrease) in cash and cash equivalents	44,507	(15,342)	3,411
Cash and cash equivalents at beginning of year	17,516	32,858	29,447
Cash and cash equivalents at end of year	$ 62,023	$ 17,516	$ 32,858
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Income taxes	$ 6,617	$ 6,996	$ 3,336

Supplemental disclosure of non-cash investing and financing activities:

As of December 31, 2005, 2004, and 2003, the unrealized gain (loss) on available for sale securities, net of tax was ($141), $93, and $600.

During 2005 and 2004, $750,000 and $1,250,000, respectively, were accrued for goodwill related to the acquisition of NCN Hygienic Products, Inc. Included in accounts payable at December 31, 2003, is $2,623,000 related to the accrued purchase price of NCN Hygienic Products, Inc.

During 2003, an additional $1,095,000 was accrued for the Company s minimum pension liability.

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

NATIONAL PRESTO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands except share and per share data)

	For the years ended December 31, 2005, 2004, 2003					
	Common Stock	**Paid-in Capital**	**Retained Earnings**	**Accumulated Comprehensive Income (Loss)**	**Treasury Stock**	**Total**
	Restated, See Note R					
Balance December 31, 2002, as previously reported	$ 7,441	$998	$249,313	$ (698)	$(18,797)	$238,257
Product Liability Restatement Adjustment, net of tax			$6,040			6,040
Balance December 31, 2002, as restated (See Note R)	$ 7,441	$998	$255,353	$ (698)	$(18,797)	$244,297
Net earnings			15,477			15,477
Unrealized gain on available for sale securities, net of tax				(67)		(67)
Minimum pension liability adjustment, net of tax				(674)		(674)
Total comprehensive income						14,736
Dividends paid, $.92 per share			(6,284)			(6,284)
Purchase of treasury stock - 16,300 shares					(425)	(425)
Other		(7)			(8)	(15)
Balance December 31, 2003	7,441	991	264,546	(1,439)	(19,230)	252,309
Net earnings			15,441			15,441
Unrealized loss on available for sale securities, net of tax				(507)		(507)
Minimum pension liability adjustment, net of tax				2,039		2,039
Total comprehensive income						16,973
Dividends paid, $1.17 per share			(7,977)			(7,977)
Other		59			151	210
Balance December 31, 2004	7,441	1,050	272,010	93	(19,079)	261,515

Net earnings			16,417			16,417
Unrealized loss on available for sale securities, net of tax				(234)		(234)
Total comprehensive income						16,183
Dividends paid, $1.67 per share			(11,394)			(11,394)
Other		85			146	231
Balance December 31, 2005	$ 7,441	$ 1,135	$ 277,033	$ (141)	$ (18,933)	$ 266,535

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.

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 $2,308,000 and $3,305,000 at December 31, 2005 and 2004, are included as reductions of cash and cash equivalents.

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. (See Note R.)

At December 31, 2005 and 2004, 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:

	(In Thousands) MARKETABLE SECURITIES Amortized Cost (As restated)	Fair Value (As Restated)	Unrealized Gains	Unrealized Losses
December 31, 2005				
Tax-exempt government bonds	$111,768	$111,552	$13	$229
Equity securities				
Total marketable securities	$111,768	$111,552	$13	$229
December 31, 2004				
Tax-exempt government bonds	$162,020	$162,083	$201	$137
Equity securities	1,142	1,221	226	147
Total marketable securities	$163,162	$163,304	$427	$284

Proceeds from sales of marketable securities totaled $140,482,000 in 2005, $127,895,000 in 2004, and $72,018,000 in 2003. Gross gains related to sales of marketable securities totaled $203,000, $0, and $0 in 2005, 2004, and 2003, respectively. There were no gross losses related to sales of marketable securities in 2005, 2004, and 2003. Net unrealized gains and losses are reported as a separate component of accumulated other comprehensive income and were gains (losses) of ($216,000), $142,000 and $924,000 before taxes at December 31, 2005, 2004, and 2003. No unrealized gains (losses) were transferred out of accumulated other comprehensive income (loss) during the years ended December 31, 2005, 2004, or 2003.

The contractual maturities of the marketable securities held at December 31, 2005 are as follows: $62,355,000 within one year, $12,796,000 beyond one year to five years, $13,235,000 beyond five years to ten years, and $23,166,000 beyond ten years. All of the instruments in the beyond five year range 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 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 customers 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. Impairment losses are recognized whenever the implied fair value of goodwill is less than its carrying value. A goodwill impairment was recognized in the Company s Absorbent Products segment during 2005, 2004, and 2003 in the amount of $4,148,000, $0, and $0, respectively. The 2005 goodwill impairment amount included a $750,000 earn-out accrued during the fourth quarter of 2005. The Company s goodwill as of December 31, 2005 and 2004 was $3,556,000 and $3,556,000 relating to its Defense Products segment. In addition, at December 31, 2005 and 2004, goodwill of $0 and $3,398,000 related to its Absorbent Products segment.

The Company s annual impairment testing date during the current year was October 3, 2005. As of that date, goodwill for one of the Company s reporting units within the Absorbent Products segment was deemed impaired because of the declining profitability experienced by the reporting unit. Using a multiple of earnings to estimate fair value, it was determined that goodwill was fully impaired. (See Note R.) For the defense segment, no impairment was indicated. The Company has no 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 Appliances 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 arrived at by deducting early payment discounts and cooperative advertising from gross sales. The Company records cooperative advertising when revenue is recognized.

(10) 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.

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(11) ADVERTISING: The Company s policy is to expense advertising as incurred and include it in selling and general expenses. Advertising expense was $567,000, $3,665,000 and $4,768,000 in 2005, 2004 and 2003.

(12) STOCK OPTIONS: The intrinsic value method is used for valuing stock options issued. The pro forma effect on earnings of accounting for stock options using the fair value method is not material. See Note F.

(13) ACCUMULATED OTHER COMPREHENSIVE INCOME: At December 31, 2005, the $141,000 of accumulated comprehensive loss relates to the unrealized loss on the Company s available-for-sale marketable security investments. At December 31, 2004, the $93,000 of accumulated comprehensive income relates to the unrealized gain on the Company s available-for-sale marketable security investments. These amounts are recorded net of tax effect of $76,000 and $50,000 for 2005 and 2004, 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 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. The following table shows the changes in product warranty liability for the period:

	(In Thousands)	
	2005	**2004**
Beginning balance January 1,	$1,698	$2,115
Accruals during the period	2,452	1,626
Charges / payments made under the warranties	(2,117)	(2,043)
Balance December 31	$2,033	$1,698

(15) 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 *infra* 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.

(16) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

SFAS No. 154

In June 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections , a replacement of APB Opinion No. 20 and FASB Statement No. 3. The statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made occurring in fiscal years beginning after June 1, 2005. The statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of this statement. The Company does not expect the adoption of SFAS No. 154 to have a material effect on its financial statements.

FIN 48

The Financial Accounting Standards Board (FASB) has published FASB Interpretation (FIN) No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes, to address the noncomparability in reporting tax assets and liabilities resulting from a lack of specific guidance in FASB Statement of Financial Accounting Standards (SFAS) No. 109 (SFAS No. 109), Accounting for Income Taxes, on the uncertainty in income taxes recognized in an enterprise s financial statements. Specifically, FIN No. 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides related guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 will apply to fiscal years beginning after December 15, 2006, with earlier adoption permitted. The Company is currently evaluating the effect of adopting FIN No. 48 on its consolidated financial statements.

FASB 157

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards (SFAS) No. 157 (SFAS No. 157), *Fair Value Measurements,* to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions in GAAP that are dispersed among the many accounting pronouncements that require fair value measurements. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value, but clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or liability in the principal or most advantageous market for the asset or liability. Moreover, the SFAS states that the transaction is hypothetical at the measurement date, considered from the perspective of the market participant who holds the asset or liability. Consequently, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price), as opposed to the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price).

SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes 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). Finally, SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Entities are encouraged to combine the fair value information disclosed under SFAS No. 157 with the fair value information disclosed under other accounting pronouncements, including SFAS No. 107, *Disclosures about Fair Value of Financial Instruments,* where practicable. The guidance in this Statement applies for derivatives and other financial instruments measured at fair value under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* at initial recognition and in all subsequent periods.

SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, although earlier application is encouraged. Additionally, prospective application of the provisions of SFAS No. 157 is required as of the beginning of the fiscal year in which it is initially applied, except when certain circumstances require retrospective application. The Company does not expect the adoption of SFAS No. 157 to have a material effect on its consolidated financial statements.

FASB 158

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards (SFAS) No. 158 (SFAS No. 158), *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans,* to require an employer to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare, and other postretirement plans in their financial statements. Previous standards required an employer to disclose the complete funded status of its plan only in the notes to the financial statements. Moreover, because those standards allowed an employer to delay recognition of certain changes in plan assets and obligations that affected the costs of providing benefits, employers reported an asset or liability that almost always differed from the plan s funded status. Under SFAS No. 158, a defined benefit postretirement plan sponsor that is a public or private company or a nongovernmental not-for-profit organization must (a) recognize in its statement of financial position an asset

for a plan s overfunded status or a liability for the plan s underfunded status, (b) measure the plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions), and (c) recognize, as a component of other comprehensive income, the changes in the funded status of the plan that arise during the year but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, *Employers Accounting for Pensions,* or SFAS No. 106, *Employers Accounting for Postretirement Benefits Other Than Pensions.* SFAS No. 158 also requires an employer to disclose in the notes to financial statements additional information on how delayed recognition of certain changes in the funded status of a defined benefit postretirement plan affects net periodic benefit cost for the next fiscal year. Under SFAS No. 158, an employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. Because the Company terminated its pension plan in 2004, the Company does not expect the adoption of SFAS No. 158 to have a material effect on its consolidated financial statements.

FASB 159

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option may only be made at initial recognition of the asset or liability or upon a re-measurement event that gives rise to new-basis accounting. The decision about whether to elect the fair value option is applied on an instrument-by-instrument basis, is irrevocable and is applied only to an entire instrument and not only to specified risks, cash flows or portions of that instrument. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 159 on its respective financial position and results of operations.

B. INVENTORIES:

The amount of inventories valued on the LIFO basis was $17,967,000 and $14,848,000 as of December 31, 2005 and 2004, respectively, and consists of housewares/small appliance finished goods. Under LIFO, inventories are valued at approximately $176,000 and $0 below current cost determined on a first-in, first-out (FIFO) basis at December 31, 2005 and 2004, 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**
2005	$(176)	$109	$0.02
2004	688	(427)	(0.06)
2003	5,035	(3,122)	(0.46)

This information is provided for comparison with companies using the FIFO basis. The significant reduction in the amount of LIFO inventory below current cost from 2003 to 2004 is attributable to the Company s decision to outsource manufacturing of its Housewares/Small Appliances. See Note M for further information related to the effect of this decision on inventory valuation.

Inventory for Defense, Absorbent Products, and raw materials of the Housewares/Small Appliance segment are valued under the first-in, first-out method and total $19,712,000 and $19,279,000 at December 31, 2005 and 2004. The 2005 FIFO total is comprised of $2,804,000 of finished goods, $8,431,000 of work in process, and $8,477,000 of raw material and supplies. At December 31, 2004 the FIFO total was comprised of $2,784,000 of finished goods, $8,798,000 of work in process, and $7,697,000 of raw material and supplies.

C. ACCRUED LIABILITIES:

At December 31, 2005 accrued liabilities consisted of payroll $4,524,000, product liability $6,087,000, environmental $1,837,000, plant closing costs $385,000, and other $1,305,000. At December 31, 2004 accrued liabilities consisted of payroll $4,201,000, product liability $6,135,000, environmental $2,011,000, plant closing costs $530,000, and other $1,795,000.

The Company is subject to product liability claims in the normal course of business and is self-insured for health care costs. The Company 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. As discussed in Note R, the Company s previously reported product liability accrual was restated. An increase in the number or magnitude of claims could have a material impact on the Company s financial condition and results of operations.

D. TREASURY STOCK:

As of December 31, 2005, the Company has authority from the Board of Directors to reacquire an additional 504,600 shares. No shares were reacquired in either 2005 or 2004. 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. Options to purchase 3,750 shares of common stock with a weighted average exercise price of $39.29 were outstanding at December 31, 2003, but were excluded from the computation of common share equivalents because their exercise prices were greater than the average market price of the common shares. There were no antidilutive options outstanding at December 31, 2005 or 2004.

The following is a reconciliation of basic and diluted net income per share for the years ended December 31, 2005, 2004, and 2003:

	(IN THOUSANDS EXCEPT PER SHARE DATA)		
	2005 (As restated)	**2004**	**2003**
Net earnings (1)	$16,417	$15,441	$15,477
Weighted average common shares outstanding (2)	6,826	6,821	6,820
Common share equivalents relating to stock options	1	2	1
Adjusted common and common equivalent shares for computation (3)	6,827	6,823	6,821
Net earnings per share:			
Basic (1)/(2)	$2.41	$2.26	$2.27
Diluted (1)/(3)	$2.40	$2.26	$2.27

F. STOCK OPTION PLAN:

The National Presto Industries, Inc. Stock Option Plan reserves 100,000 shares of common stock for key employees. Stock options for 1,000 shares at a weighted average price of $38.63 per share were outstanding at December 31, 2005. Stock options for 2,000 shares at a weighted average price of $39.11 per share were outstanding at December 31, 2004. There were 500 shares exercisable at $38.63 at December 31, 2005 and 1,000 shares exercisable at $39.11 at December 31, 2004. No options were granted during the years ended December 31, 2005 or 2004. The pro forma effect of accounting for stock options using the fair value method is not material.

G. RETIREMENT PLANS:

Pension Plans:

During fiscal 2004, National Presto Industries, Inc. terminated its defined benefit pension plan and settled the benefit obligation through lump sum distributions and the purchase of nonparticipating annuity contracts. The effect of the settlement was a charge of $3,528,000. As a result, there were no plan assets or benefit plan obligations remaining at December 31, 2004.

National Presto Industries, Inc. amended its defined benefit pension plan to freeze benefit accruals effective December 31, 2003. The amendment eliminated the accrual of future defined benefits for all employees, resulting in a curtailment. The effect of the curtailment was a charge of $1,317,000.

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The Company had pension plans which covered the majority of employees. Pension benefits were based on an employee s years of service and compensation near the end of those years of service. The Company s funding policy had been to contribute such amounts as necessary, computed on an actuarial basis, to provide the plans with assets sufficient to meet the benefits to be paid to plan members.

	(In Thousands)		
	Pension Benefits		
	2005	**2004**	**2003**
Net periodic cost:			
Service cost	$	$ 38	$ 361
Interest cost		385	724
Expected return on assets		(369)	(517)
Amortization of prior service cost			167
Actuarial loss		73	270
Settlement charge		3,528	
Curtailment charge	$		1,317
Net periodic benefit cost	$	$ 3,655	$ 2,322
Change in benefit obligation:			
Benefit obligation at beginning of year	$	$ 11,572	
Service cost		38	
Interest cost		385	
Actuarial loss		198	
Settlement		(3,314)	
Benefits and expenses paid		(8,879)	
Benefit obligation at end of year	$	$	
Change in plan assets:			
Fair value of plan assets at beginning of year	$	$ 10,313	
Employer contributions		1,604	
Actual return on plan assets		276	
Settlement		(3,314)	
Benefits and expenses paid		(8,879)	
Fair value of plan assets at end of year	$	$	

National Presto s investment strategy with respect to pension plan assets had changed with the decision to freeze benefit accruals and terminate the pension plan effective December 31, 2003. The investment strategy in effect for 2004 was to convert the equity and debt positions to cash prior to the targeted distribution date in the third quarter of 2004.

Prior to the settlement of the plan in 2004, the expected rate of return on plan assets assumption was based on a multi-year stochastic simulation of projected returns, taking into account the plan s target asset allocation and reasonable expectations of future economic conditions. The simulation model incorporates the capital market conditions prevailing at the starting date of the projection, as well as a wide range of plausible scenarios of future capital market performance.

The Company s accumulated benefit obligation of $11,572,000 at December 2003 exceeded the fair value of the plan s assets at December 31, 2003. This caused the Company to recognize an additional minimum liability in the fourth quarter of 2003 of $1,095,000. The Company s minimum pension liability at December 31, 2003 and 2002 was $3,311,000 and $2,216,000, respectively. There was no unrecognized prior service cost at December 31, 2003. The difference between the additional minimum liability and the intangible asset represents a net loss not yet recognized as net periodic pension cost and was recorded net of tax in other comprehensive income. This additional minimum liability was reversed out of other comprehensive income upon recording the settlement of the plan s obligations in 2004.

	Weighted-average assumptions used to determine net periodic cost for the years ended December 31:		
	2005	**2004**	**2003**
Discount rate	N/A	6.00%	6.50%
Expected return on plan assets	N/A	6.50%	6.50%
Rate of compensation increase	N/A	N/A	4.00%

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 $305,000 in 2005, $240,000 in 2004, and $192,000 in 2003. In addition, the Company contributed $528,000, $481,000, and $0 in cash during 2005, 2004, and 2003, respectively, to the 401(k) plan.

H. INCOME TAXES:

The following table summarizes the provision for income taxes:

	(In Thousands)		
	2005 (As restated)	**2004**	**2003**
Current:			
Federal	$7,514	$5,751	$4,381
State	1,580	1,388	974
	9,094	7,139	5,355
Deferred:			
Federal	(977)	347	1,958
State	(508)	(221)	293
	(1,485)	126	2,251
Total tax provision	$7,609	$7,265	$7,606

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 (As restated)					
	2005		**2004**		**2003**	
Statutory rate	35.0	%	35.0	%	35.0	%
State tax	2.9	%	3.3	%	3.6	%
Tax exempt interest	(6.0	)%	(4.8	)%	(5.2	)%
Other	(0.2	)%	(1.5	)%	(0.4	)%
Effective rate	31.7	%	32.0	%	33.0	%

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) **2005** **(As restated)**		**2004** **(As restated)**	
Current Deferred Tax Assets				
Insurance (primarily products liability)	$2,089		$2,319	
Deferred Compensation	1,280		610	
Environmental	716		774	
Vacation	553		499	
Other	724		750	
Total Current Deferred Tax Asset	$5,362		$4,952	
Long-Term Deferred Tax Assets				
Goodwill	$1,541		$14	
State Attribute Carryforward	132			
Long-Term Deferred Tax Liability				
Depreciation	(2,049	)	(1,590	)
Net Long-Term Deferred Tax Liability	$(376	)	$(1,576	)

On October 22, 2004, Congress passed the American Jobs Creation Act of 2004 (the Act). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010, as well as other tax implications. The domestic production deduction will be accounted for as a special deduction and as such, will have no effect on deferred tax assets and liabilities existing at the date of enactment. The Act did not have a material effect on 2005, and management does not expect the provisions of the Act to have a material impact on the 2006 financial statements.

I. COMMITMENTS AND CONTINGENCIES:

On July 16, 2002, the Securities and Exchange Commission (SEC) filed a lawsuit in the federal district court in Chicago, Illinois, against National Presto Industries, Inc. alleging the Company operated as an unregistered investment company from 1992 through 2002. The case did not involve fraud, deceptive practices, or questionable accounting methods. The federal district judge granted the SEC s motion for summary judgment on October 31, 2005. On December 23, 2005, the judge ordered the Company to register under the Investment Company Act. As he barred the Company from operating in interstate commerce until the filing was completed, the Company immediately filed the requisite

application, albeit under protest, indicating that it did not meet the filing criteria. The Company filed a notice of appeal from the decision to the Federal Circuit Court of Appeals in the 7th Circuit. On May 15, 2007, the appellate court reversed the lower court, ruling that the Company is not and has never been an investment company and that the Company was free to drop its registration under the Investment Company Act and operate under the Securities Exchange Act of 1934 whether or not the SEC gave its formal approval to that step. The decision is final as the time to request a rehearing en banc before the full panel of judges of the 7th Circuit and to petition the Supreme Court for a writ of mandamus has expired.

Prior to the appellate court s decision, there was considerable discussion between the Company s outside counsel and the SEC staff on the manner in which financial information was to be presented during the period in which the appeal was pending. As a result of the controversy surrounding the SEC s staff s ultimate mandate that an investment company footnote be inserted into the Company s financial statements for the year ended December 31, 2005, the Company s predecessor independent registered public accountant, Grant Thornton LLP withdrew its opinion for the years ending December 31, 2005, 2004, and 2003. Subsequently, the firm withdrew from the audit engagement as well. Despite the 7th Circuit Court of Appeals decision, Grant Thornton would not reinstate its opinions, necessitating the reaudit of all three years which in turn has delayed the re-filing of the Form 10-K/A for 2005, the filing of the Form 10-K for 2006, and the Form 10-Q s for 2006 and 2007. Timely filing of annual reports is a New York Stock Exchange requirement for maintenance of a listing. The Exchange has provided the Company with an extension until September 15, 2007 to file its 2006 annual report.

In addition, the Company is involved in other 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 27%, 30% and 33% of consolidated net sales for the years ended December 31, 2005, 2004 and 2003. In the Absorbent Products segment, one customer accounted for 14% and 11% of consolidated net sales for the years ended December 31, 2005 and 2004.

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 2005, 2004, and 2003. 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 2005 and 2004, 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 any adjustments reflecting the actual costs incurred by the contractor. 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.

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. Based on factors known as of December 31, 2005, it is believed that the Company s existing environmental accrued liability reserve will be adequate to satisfy on-going remediation operations and monitoring activities; 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 was $1,837,000 and $2,011,000 on an undiscounted basis as of December 31, 2005 and 2004, 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:	
2006	$ 350
2007	270
2008	270
2009	270
2010	270
Thereafter	407
	$ 1,837

L. BUSINESS ACQUISITIONS:

On July 31, 2003, the Company finalized the acquisition of Spectra Technologies LLC of East Camden, Arkansas, which served to augment the Company s presence in the defense industry. Spectra is a start-up company engaged in the manufacture, distribution, and delivery of munitions and ordnance-related products. Payment of the purchase price will be made in the form of a cumulative earn-out over a period of time commencing as of the closing and ending on December 31, 2007. The earn-out will be 40% of the first $6.4 million of net income of Spectra and 20% of net income in excess of $6.4 million. Earn-out amounts of $849,000 and $330,000 in 2005 and 2004 were accrued and included in Selling and General Expense.

On October 6, 2003, the Company purchased the assets of NCN Hygienic Products, Inc., a Marietta, Georgia, manufacturer of adult incontinence products and training pads for pets. The acquisition, which facilitated the Company s entrance into the adult incontinence products market, 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 Absorbent Products segment. 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 NCN Hygienic Products, Inc.

	(In Thousands)
Receivables	$ 433
Inventory	1,455
Fixed assets	6,180
Goodwill	2,150
Total purchase price	$ 10,218

An earn-out amount of $750,000 was paid as a result of 2005 performance and was included in the amount of impaired goodwill at December 31, 2005. Goodwill was deemed fully impaired as of October 3, 2005, the annual impairment testing date. (See Goodwill in Note A(8) and Note R.) An earn-out payment of $1,250,000 was added to goodwill in 2004. An additional earn-out amount of $500,000 was paid based upon certain performance targets met through December 31, 2006. The amounts allocated to goodwill are deductible for income tax purposes.

The following unaudited pro forma condensed consolidated results of operations have been prepared as if the acquisition of NCN Hygienic Products, Inc. had occurred as of January 1, 2003:

	(In Thousands Except Per Share Data)
Year Ended December 31, 2003	
Net revenues	$ 134,160
Net income	15,743
Net income per share:	
Basic	$ 2.31
Diluted	2.31
Weighted average shares outstanding:	
Basic	6,820
Diluted	6,821

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, 2003, nor are they necessarily indicative of the results that may occur in the future.

M. PLANT CLOSING:

In November 2001, the Company announced that continued erosion of product pricing resulted in its decision to cease manufacturing Housewares/Small Appliances in its U.S. plants, close those facilities, and purchase products from the Orient. This transition from U.S. plant production to the Orient was completed during late 2002. The Company closed its manufacturing facilities in Alamogordo, New Mexico, during the third quarter of 2002 and subsequently donated the facility to the Otero County Economic Development Council during the fourth quarter of 2004. The Company closed its Jackson, Mississippi, plant during the fourth quarter of 2002 and has modified this plant to serve as a warehousing and shipping facility.

As a result of the Company s transition from U.S. plant production to Orient sourcing, the Company recorded charges in 2005, 2004, and 2003, which are summarized in the table below.

	(In Thousands) Employee Termination Benefits	Inventory Write-Down	Other Exit Cost	Total
Balance January 1, 2003	$2,148	$	$521	$2,669
Additions in 2003	81	322	1,431	1,834
Charges in 2003	(1,393)	(322)	(1,157)	(2,872)
Balance December 31, 2003	836		795	1,631
Charges in 2004	(464)		(494)	(958)
Changes in estimates	98		(241)	(143)
Balance December 31, 2004	470		60	530
Charges in 2005	(85)		(60)	(145)
Balance December 31, 2005	$385	$	$	$385

A change in estimates was recorded during the fourth quarter of 2004, increasing the employee termination benefit accrual and decreasing other exit costs. The estimated changes were primarily due to higher than expected health care costs associated with employee termination benefits offset by lower than expected costs associated with the shutdown activities. The remaining employee termination benefits are for health care costs for workers who accepted early retirement at the time of the plant closing and will be extinguished over, approximately, the next two years.

During the fourth quarter of 2003, the Company recorded a charge of $1,834,000 which included $81,000 for health care costs associated with early retirement, $322,000 for write-off of raw material, $1,233,000 for other exit costs, and $198,000 additional impairment of machinery and equipment. The additions to the plant closing accrual were primarily due to lower than expected inventory liquidation proceeds and higher than expected costs associated with the shutdown of the Jackson, Mississippi, manufacturing facility and disposition efforts associated with the Alamogordo, New Mexico, manufacturing facility.

The total outsourcing of all Company Housewares/Small Appliance product manufacturing resulted in the creation of a new LIFO inventory category for the outsourced products. The previous LIFO inventory reserve of approximately $11,000,000 (Manufactured LIFO Reserve), which was associated with the manufactured Housewares/Small Appliance inventories prior to plant closings, has been realized as this inventory category was sold. During 2005, 2004, and 2003, the Company recognized approximately $0, $700,000, and $5,000,000 (or $0, $.06, and $.46 per share, net of tax) reduction in cost of goods sold resulting from the liquidation of the Manufactured LIFO Reserve occurring in these periods.

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.

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 40mm practice and tactical ammunition rounds 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 Absorbent Products 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 retail outlets, 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 pads for dogs.

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) 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, 2005 (As restated)				
External net sales	$111,987	$36,954	$35,624	$184,565
Gross profit (loss)	30,975	9,564	(2,258)	38,281
Operating profit (loss)	21,139	5,797	(7,255) (6)	19,681
Total assets	232,458	28,471	46,486	307,415
Depreciation and amortization	927	305	3,013	4,245
Capital expenditures	802	2,137	10,893	13,832
Year ended December 31, 2004 (As restated)				
External net sales	$106,160	$24,535	$28,261	$158,956
Gross profit	30,649 (4)	7,867	1,550	40,066

Operating profit	13,181	(4) (5)	4,710		1,230		19,121
Total assets	232,999		24,972		44,035		302,006
Depreciation and amortization	1,233		216		1,861		3,310
Capital expenditures	4,067		1,756		22,365		28,188
Year ended December 31, 2003 (As restated)							
External net sales	$104,246		$9,996	(2)	$11,502	(3)	$125,744
Gross profit	33,619	(4)	3,126		716		37,461
Operating profit	16,554	(1)(4)(5)	1,595		700		18,849
Total assets	272,176		13,828		12,561		298,565
Depreciation and amortization	1,164		142		1,047		2,353
Capital expenditures	934		1,389		580		2,903

(1) The operating profit in small appliances includes a charge for plant closing costs of $1,834,000 in 2003 which is more fully described in Note M.

(2) Net sales in 2003 include five months sales of $250,000 related to the acquisition of Spectra Technologies LLC described in Note L.

(3) Net sales in 2003 include three months sales of $2,900,000 related to the acquisition of the assets from NCN Hygienic Products, Inc. described in Note L.

(4) The Company recognized reductions of cost of goods sold of $700,000 in 2004 and $5,000,000 in 2003 resulting from liquidation of its manufacturing LIFO reserve, which is more fully described in Note M.

(5) The operating profit includes pension charges of $3,528,000 in 2004 and $1,317,000 in 2003 which is more fully described in Note G.

(6) The operating profit includes goodwill impairment of $4,148,000 in 2005 which is more fully described in Note A(8).

O. OPERATING LEASES:

The Company leases office, manufacturing, and warehouse facilities under noncancelable operating leases. Rent expense was approximately $773,000, $854,000, and $491,000 for the years ended December 31, 2005, 2004, and 2003, respectively. Future minimum annual rental commitments are as follows:

Years Ending December 31:	(In Thousands)
2006	$ 592
2007	205
2008	205
2009	110
2010	91
Thereafter	1,163
	$ 2,366

P. INTERIM FINANCIAL INFORMATION (UNAUDITED):

The following represents quarterly unaudited financial information for 2005 and 2004. The fourth quarter of 2005 net earnings have been restated from previously reported information filed on Forms 10-Q and Form 10-K as a result of the restatement of goodwill as discussed in Note R.

Quarter	(In Thousands) Net Sales	Gross Profit	Net Earnings	Earnings per Share (Basic)	Earnings Per Share (Diluted)
2005 (As restated)					
First	$ 35,359	$5,140	$1,276	$0.19	$0.19
Second	34,669	4,931	1,574	0.23	0.23
Third	39,545	7,061	2,657	0.39	0.39
Fourth	74,992	21,149	10,910	1.60	1.59
Total	$ 184,565	$38,281	$16,417	$2.41	$2.40
2004					
First	$ 25,914	$4,461	$1,495	$0.22	$0.22
Second	24,789	4,323	1,393	0.20	0.20
Third	38,798	9,873	1,989	0.29	0.29
Fourth	69,455	21,409	10,564	1.55	1.55
Total	$ 158,956	$40,066	$15,441	$2.26	$2.26

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 non-seasonal.

The amounts shown in the preceding table differ from those originally as a result of the goodwill impairment more fully described in Note A(8).

	Net Earnings			Earnings per Share (Basic)			Earnings per Share (Diluted)		
Quarter	As Previously Reported	Adjustment	Restated	As Previously Reported	Adjustment	Restated	As Previously Reported	Adjustment	Restated
2005									
First	$1,276	$	$1,276	$0.19	$	$ 0.19	$0.19	$	$ 0.19
Second	1,574		1,574	0.23		0.23	0.23		0.23
Third	2,657		2,657	0.39		0.39	0.39		0.39
Fourth	13,460	(2,550)	10,910	1.97	(0.37)	1.60	1.97	(0.38)	1.59
Total	$18,967	$ (2,550)	$16,417	$2.78	$ (0.37)	$ 2.41	$2.78	$ (0.38)	$ 2.40

Q. SUBSEQUENT EVENTS:

On January 30, 2006, the Company purchased the assets of Amron, LLC, an Antigo, Wisconsin, defense manufacturer of cartridge cases used in medium caliber (20-40mm) ammunition. The acquisition enhances 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 earnout amount, which was to be paid based upon certain earnings targets through December 31, 2010. A $4,000,000 earn-out was paid during the first quarter of 2007. On April 13, 2007, the Company reached an agreement with the seller, whereby the remaining earnout obligation was settled by a payment of $2,400,000. Accordingly, the adjusted purchase price is $22,400,000. The earnout and earnout

settlement payments will be added to goodwill.

Amron is the primary producer of cartridge cases for the Department of Army s five-year 40mm Systems Program for which AMTEC Corporation, a Presto subsidiary, is one of two prime contractors. Amron s key customers include two Army prime contractors, General Dynamics and Alliant Techsystems. Amron sales for calendar year 2005 were approximately $28,000,000.

R. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

The Company is restating its consolidated balance sheets as of December 31, 2005 and 2004, its related Consolidated Statements of Operations for the year ended December 31, 2005, and its related Consolidated Statements of Stockholders Equity and Cash Flows for each of the fiscal years ended December 31, 2005, 2004 and 2003, and quarterly financial data for 2005. The restatements relate to the Company s accounting for products liability reserves, variable rate demand notes, and impairment of goodwill.

Products Liability The Company is partly self-insured for products liability. Historically, the Company s reserve has been developed using a reasonable range of possible losses from products liability claims based on an analysis of known claims and claims incurred but not reported. Using judgment, a mid-point of the range was selected as the estimate and in turn used as the accrual. FIN 14, *Reasonable Estimation of the Amount of a Loss* states that if no amount within the range represents a better estimate than any other amount, an entity should accrue the minimum amount in the range. As the use of the mid-point of the range was based on judgment rather than on a figure that had a specific auditable source, the accrual in this submission has been restated so it falls at the low end of the range consistent with the dictates of the aforementioned Interpretation. Accordingly, the products liability accrual was reduced by $9,812,000 on a pre-tax basis which resulted in an increase in retained earnings of $6,040,000 as of the beginning of 2003.

Variable Rate Demand Notes Historically, the Company had classified its portfolio of variable rate demand notes as cash equivalents. These notes were used for cash management, as they can be tendered to the instrument s trustee or remarketer in seven days or less for cash at par plus interest. Nevertheless, based on recent developments concerning the interpretation of cash equivalents under FASB Statement No. 95, the Company s variable rate demand notes, which had previously been included in cash and cash equivalents on the 2005 and 2004 consolidated financial statements, have been reclassified as marketable securities. The reclassifications resulted in a decrease in cash and cash equivalents and a corresponding increase in marketable securities of $39,444,000 and $87,208,000 on the balance sheets for years ended December 31, 2005 and 2004, respectively.

Goodwill On the first day of its fourth quarter 2005, the Company had concluded that there was no need to make a detailed determination of the fair value of one of the reporting units in its Absorbent Products segment based on its review of the requirements of FAS 142. In light of declining profitability that took place during 2005 through the impairment measurement date (first day of the fourth quarter of each fiscal year), the Company concluded that a detailed determination should have been performed. Use of a multiple of current earnings of the segment, indicated that the goodwill was fully impaired as of the annual impairment date for 2005. The recognition of the impairment, resulted in a $4,148,000 reduction in the carrying amount of goodwill and a charge to income of $2,550,000, net of income tax.

The following is a summary of the effects of the restatements and adjustments on the accompanying consolidated financial statements.

	As of December 31, 2005			**As of December 31, 2004**		
	As Reported	**Adjustment**	**As Restated**	**As Reported**	**Adjustment**	**As Restated**

Cash and Cash Equivalents	101,467	(39,444)	62,023	104,724	(87,208)	17,516
Marketable Securities	72,108	39,444	111,552	76,096	87,208	163,304
Accounts Receivable	32,284	0	32,284	33,561	0	33,561
Inventories	37,679	0	37,679	34,127	0	34,127
Other Current Assets	13,650	(3,963)	9,687	8,991	(3,822)	5,169
Total Current Assets	257,188	(3,963)	253,225	257,499	(3,822)	253,677
Property Plant and Equipment	50,484	0	50,484	41,225	0	41,225
Goodwill	7,704	(4,148)	3,556	6,954	0	6,954
Other Assets	150	0	150	150	0	150
Total Assets	315,526	(8,111)	307,415	305,828	(3,822)	302,006
Total Current Liabilities	50,317	(9,813)	40,504	48,727	(9,812)	38,915
Deferred Income Taxes	2,164	(1,788)	376	1,626	(50)	1,576
Total Liabilities	52,481	(11,601)	40,880	50,353	(9,862)	40,491
Common Stock	7,441	0	7,441	7,441	0	7,441
Paid-in Capital	1,135	0	1,135	1,050	0	1,050
Retained Earnings	273,543	3,490	277,033	265,970	6,040	272,010
Accumulated Other Comprehensive Income	(141)	0	(141)	93	0	93
Treasury Stock	(18,933)	0	(18,933)	(19,079)	0	(19,079)
Total Stockholders Equity	263,045	3,490	266,535	255,475	6,040	261,515
Total Liabilities and Stockholders Equity	315,526	(8,111)	307,415	305,828	(3,822)	302,006

	For the Year Ended December 31, 2005		
	As Reported	**Adjustment**	**As Restated**
Net Sales	184,565	0	184,565
Cost of Sales	146,284	0	146,284
Gross Profit	38,281	0	38,281
Selling & General Expenses	14,452	0	14,452
Goodwill Impairment	0	4,148	4,148
Operating Profit	23,829	(4,148)	19,681
Other Income	4,345	0	4,345
Earnings Before Income Taxes	28,174	(4,148)	24,026
Provision for Income Taxes	9,207	(1,598)	7,609
Net Earnings	18,967	(2,550)	16,417
Weighted Average Shares Outstanding:			
Basic	6826	0	6826
Diluted	6827	0	6827
Net Earnings per Share:			
Basic	2.78	(0.37)	2.41
Diluted	2.78	(0.38)	2.40

	For the Year Ended December 31, 2005			For the Year Ended December 31, 2004		
	As Reported	**Adjustment**	**As Restated**	**As Reported**	**Adjustment**	**As Restated**
Cash Flows from Operating Activities*	19,087	3,250	22,337	4,806	973	5,779
Cash Flows from Investing Activities	(10,940)	44,514	33,574	(35,870)	22,726	(13,144)
Cash Flows from Financing Activities	(11,404)	0	(11,404)	(7,977)	0	(7,977)
Increase (Decrease) in Cash and Cash Equivalents	(3,257)	47,764	44,507	(39,041)	23,699	(15,342)
Cash and Cash Equivalents at Beginning of Year	104,724	(87,208)	17,516	143,765	(110,907)	32,858

Cash and Cash Equivalents at End of Year	101,467	(39,444)	62,023	104,724	(87,208)	17,516

	For the Year Ended December 31, 2003		
	As Reported	**Adjustment**	**As Restated**
Cash Flows from Operating Activities*	24,797	(2,623)	22,174
Cash Flows from Investing Activities	11,040	(23,094)	(12,054)
Cash Flows from Financing Activities	(6,709)	0	(6,709)
Increase (Decrease) in Cash and Cash Equivalents	29,128	(25,717)	3,411
Cash and Cash Equivalents at Beginning of Year	114,637	(85,190)	29,447
Cash and Cash Equivalents at End of Year	143,765	(110,907)	32,858

*Included in adjustments to restate operating and investment cash flows for the years ended 2005, 2004, and 2003 are revisions for operating cash flows totaling $3,250, $973, and $(2,823) and revisions to investing cash flows totaling $(3,250), $(973), and $2,823, respectively, to reflect certain amounts associated with the Company s acquisitions that were accrued for or paid as a deposit as of year end.

S. 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 second quarter. As of both December 31, 2005 and 2004, the line of credit limit was set at $5,000,000, with $0 outstanding. 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.

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 balance sheets of National Presto Industries, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. 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 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 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 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. as of December 31, 2005 and 2004 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note R of the consolidated financial statements, the Company has restated its consolidated balance sheets as of December 31, 2005 and 2004, its related consolidated statement of earnings for the year ended December 31, 2005, and its related consolidated statements of stockholders' equity and cash flows for each of the years ended December 31, 2005, 2004 and 2003.

Our audits were conducted 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.

/s/ 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, 2005, 2004 and 2003

Column A	(In Thousands) 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, 2005	$ 480	$ 1	$ 1	$ 480
Year ended December 31, 2004	$ 480	$ (45)	$ (45)	$ 480
Year ended December 31, 2003	$ 480	$ (239)	$ (239)	$ 480

Notes:

(A) Amounts charged (credited) to selling and general expenses

(B) Principally bad debts written off, net of recoveries