PRESSTEK INC /DE/
Form 10-Q
August 07, 2008

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

FORM 10-Q

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

For the quarterly period ended June 28, 2008

Or

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

For the transition period from to

Commission file number 0-17541

PRESSTEK, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or other Jurisdiction of Incorporation or Organization)	02-0415170 (I.R.S. Employer Identification No.)
2 Greenwich Office Park, Suite 300, Greenwich, Connecticut (Address of Principal Executive Offices)	06831 (Zip Code)

(203) 485-7523
Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check One):
Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(do not check if a smaller reporting company)

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

As of August 4, 2008, there were 36,619,078 shares of the Registrant’s Common Stock, $0.01 par value, outstanding.

PRESSTEK, INC.
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This Quarterly Report of Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See "Information Regarding Forward-Looking Statements" under Part 1 – Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Quarterly Report on Form 10-Q.

DI is a registered trademark of Presstek, Inc.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

PRESSTEK, INC.AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)
(Unaudited)

	June 28, 2008	December 29, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,368	$ 13,249
Accounts receivable, net	41,015	42,879
Inventories, net	53,766	49,084
Assets of discontinued operations	20	15
Deferred income taxes	6,941	6,740
Other current assets	5,218	4,666
Total current assets	111,328	116,633
Property, plant and equipment, net	35,167	38,023
Goodwill	19,891	19,891
Intangible assets, net	5,651	6,287
Deferred income taxes	10,627	11,124
Other noncurrent assets	522	869
Total assets	$ 183,186	$ 192,827
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt and capital lease obligation	$ 10,375	$ 7,035
Line of credit	15,000	20,000
Accounts payable	22,572	18,603
Accrued expenses	18,303	23,713
Deferred revenue	6,247	7,196
Liabilities of discontinued operations	566	888
Total current liabilities	73,063	77,435
Long-term debt and capital lease obligation, less current portion	1,644	8,500
Total liabilities	74,707	85,935
Commitments and contingencies (See Note 19)		
Stockholders' equity		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, no shares issued	-	-
Common stock, $0.01 par value, 75,000,000 shares authorized, 36,602,840 and 36,565,474 shares issued and outstanding at June 28, 2008 and December 29, 2007, respectively	366	366

Additional paid-in capital		116,852		115,884
Accumulated other comprehensive income		866		1,032
Accumulated deficit		(9,605)		(10,390)
Total stockholders' equity		108,479		106,892
Total liabilities and stockholders' equity	$	183,186	$	192,827

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

PRESSTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per-share data)
(Unaudited)

	Three months ended June 28, 2008	Three months ended June 30, 2007	Six months ended June 28, 2008	Six months ended June 30, 2007
Revenue				
Product	$ 45,747	$ 58,879	$ 88,774	$ 114,115
Service and parts	8,520	9,872	17,924	19,788
Total revenue	54,267	68,751	106,698	133,903
Cost of revenue				
Product	30,083	41,381	57,477	80,327
Service and parts	6,539	8,773	13,465	16,471
Total cost of revenue	36,622	50,154	70,942	96,798
Gross profit	17,645	18,597	35,756	37,105
Operating expenses				
Research and development	1,538	1,621	3,090	3,255
Sales, marketing and customer support	8,088	10,952	15,688	20,816
General and administrative	5,710	9,003	12,853	15,257
Amortization of intangible assets	334	715	685	1,422
Restructuring and other charges	560	793	1,195	1,128
Total operating expenses	16,230	23,084	33,511	41,878
Operating income (loss)	1,415	(4,487)	2,245	(4,773)
Interest and other income (expense), net	38	(993)	(680)	(1,890)
Income (loss) from continuing operations before income taxes	1,453	(5,480)	1,565	(6,663)
Provision (benefit) for income taxes	922	(626)	843	(943)
Income (loss) from continuing operations	531	(4,854)	722	(5,720)
Income (loss) from discontinued operations, net of tax	36	24	$ 63	(88)
Net income (loss)	$ 567	$ (4,830)	$ 785	$ (5,808)
Earnings (loss) per share - basic				
Income (loss) from continuing operations	$ 0.02	$ (0.13)	$ 0.02	$ (0.16)
Loss from discontinued operations	0.00	0.00	0.00	(0.00)
	$ 0.02	$ (0.13)	$ 0.02	$ (0.16)
Earnings (loss) per share - diluted				
Income (loss) from continuing operations	$ 0.02	$ (0.13)	$ 0.02	$ (0.16)
Loss from discontinued operations	0.00	0.00	0.00	(0.00)

	$ 0.02	$ (0.13)	$ 0.02	$ (0.16)
Weighted average shares outstanding				
Weighted average shares outstanding - basic	36,584	36,046	36,578	35,855
Dilutive effect of options	16	-	12	-
Weighed average shares outstanding - diluted	36,600	36,046	36,590	35,855

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

PRESSTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Six months ended June 28, 2008	Six months ended June 30, 2007
Operating activities		
Net income (loss)	$ 785	$ (5,808)
Add (income) loss from discontinued operations	(63)	88
Income (loss) from continuing operations	722	(5,720)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	3,171	3,487
Amortization of intangible assets	685	1,375
Restructuring and other charges	166	-
Writedown of asset to net realizable value	421	-
Provision for warranty costs	336	1,988
Provision for accounts receivable allowances	(43)	194
Stock compensation expense	823	2,797
Deferred income taxes	296	(1,662)
Loss on disposal of assets	25	98
Changes in operating assets and liabilities, net of effects from business acquisitions and divestitures:		
Accounts receivable	2,343	(2,646)
Inventories	(4,695)	(6,122)
Other current assets	(552)	(529)
Other noncurrent assets	(72)	(907)
Accounts payable	3,968	445
Accrued expenses	(6,355)	(1,006)
Restructuring and other charges	609	1,128
Deferred revenue	(931)	1,154
Net cash provided by (used in) operating activities	917	(5,926)
Investing activities		
Purchase of property, plant and equipment	(916)	(2,078)
Investment in patents and other intangible assets	(71)	(56)
Net cash used in investing activities	(987)	(2,134)
Financing activities		
Net proceeds from issuance of common stock	145	2,945
Repayments of term loan and capital lease	(3,516)	(3,519)
Net borrowings (repayments) under line of credit agreement	(5,000)	6,000
Net cash provided by (used in) financing activities	(8,371)	5,426
Cash provided by (used in) discontinued operations		
Operating activities	(264)	411
Investing activities	-	-
Financing activites	-	-

Net cash used in discontinued operations	(264)	411
Effect of exchange rate changes on cash and cash equivalents	(176)	93
Net decrease in cash and cash equivalents	(8,881)	(2,130)
Cash and cash equivalents, beginning of period	13,249	9,449
Cash and cash equivalents, end of period	$ 4,368	$ 7,319
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 1,107	$ 1,637
Cash paid for income taxes	$ 182	$ 293

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

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 28, 2008
(Unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements of Presstek, Inc. and its subsidiaries ("Presstek," the "Company," "we" or "us") contain all adjustments, including normal recurring adjustments, necessary to present fairly Presstek's financial position as of June 28, 2008 and December 29, 2007, its results of operations for the three and six months ended June 28, 2008 and June 30, 2007 and its cash flows for the six months ended June 28, 2008 and June 30, 2007, in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and the interim reporting requirements of Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

The results of the three and six months ended June 28, 2008 are not necessarily indicative of the results to be expected for the year ending January 3, 2009. The information contained in this Quarterly Report on Form 10-Q should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures About Market Risk" and the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 29, 2007, filed with the U.S. Securities and Exchange Commission ("SEC") on April 30, 2008.

The Company's operations are currently organized into two segments: (i) Presstek and (ii) Lasertel. The Presstek segment is primarily engaged in the development, manufacture, sale and servicing of the Company's patented digital imaging systems and patented printing plate technologies as well as traditional, analog systems and related equipment and supplies for the graphic arts and printing industries, primarily the short-run, full-color market segment. The Lasertel segment manufactures and develops high-powered laser diodes and related laser products for the Presstek segment and for sale to external customers. Any future changes to this organizational structure may result in changes to the segments currently disclosed.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances have been eliminated.

The Company operates and reports on a 52- or 53-week, fiscal year ending on the Saturday closest to December 31. Accordingly, the accompanying consolidated financial statements include the thirteen and twenty-six week periods ended June 28, 2008 (the "second quarter and first half of fiscal 2008" or "the six months ended June 28, 2008") and June 30, 2007 (the "second quarter and first half of fiscal 2007" or "the six months ended June 30, 2007").

Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. For periods in which there is net income, diluted earnings per share is determined by using the weighted average number of

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 28, 2008
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common and dilutive common equivalent shares outstanding during the period unless the effect is antidilutive. Potential dilutive common shares consist of the incremental common shares issuable upon the exercise of stock options.

Approximately 3,458,700 and 2,056,000 options to purchase common stock were excluded from the calculation of diluted earnings (loss) per share for the three months ended June 28, 2008 and June 30, 2007, respectively, as their effect would be antidilutive. Approximately 3,484,400 and 1,978,000 options to purchase common stock were excluded from the calculation of diluted earnings (loss) per share for the six months ended June 28, 2008 and June 30, 2007, respectively, as their effect would be antidilutive.

Foreign Currency Translation and Transactions

The Company's foreign subsidiaries use the local currency as their functional currency. Accordingly, assets and liabilities are translated into U.S. dollars at current rates of exchange in effect at the balance sheet date. Revenues and expenses from these subsidiaries are translated at average monthly exchange rates in effect for the periods in which the transactions occur. The resulting unrealized gains or losses are reported under the caption "Accumulated other comprehensive income (loss)" in the Company's Consolidated Financial Statements.

Gains and losses arising from foreign currency transactions are reported as a component of Interest and other income (expense), net in the Company's Consolidated Statements of Operations. The Company recorded a gain on foreign currency transactions of approximately $0.3 million and a loss of $0.1 million for the three months ended June 28, 2008 and June 30, 2007, respectively, and a gain of $0.1 million and a loss of $0.2 million for the six months ended June 28, 2008 and June 30, 2007, respectively.

Use of Estimates

The Company prepares its financial statements in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions also affect the amount of reported revenue and expenses during the period. Management believes the most judgmental estimates include those related to product returns; warranty obligations; allowance for doubtful accounts; slow-moving and obsolete inventories; income taxes; the valuation of goodwill, intangible assets, long-lived assets and deferred tax assets; stock-based compensation and litigation. The Company bases its estimates and assumptions on historical experience and various other appropriate factors, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of revenue and expenses that are not readily apparent from other sources. Actual results could differ from those estimates.

For a complete discussion of our critical accounting policies and estimates, refer to our Annual Report on Form 10-K for the fiscal year ended December 29, 2007, which was filed with the SEC on April 30, 2008. There were no significant changes to the Company's critical accounting policies during the six months ended June 28, 2008.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 28, 2008
(Unaudited)

Recent Accounting Pronouncements

As of December 30, 2007, the company has adopted SFAS No. 157 Fair Value Measurements ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The Financial Accounting Standards Board has subsequently issued FASB Staff Position No FAS 157-2, which grants a one-year delay for FAS 157 on the fair value measurement for nonfinancial assets and nonfinancial liabilities for fiscal years beginning after November 15, 2008. At this time, we have adopted the FAS 157 as it relates to our financial assets and liabilities only. The adoption of SFAS 157 did not have a material impact on our consolidated results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), which permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. The Company adopted SFAS 159 in the first quarter of 2008. There was no significant impact to the Company's Consolidated Financial Statements from the adoption of SFAS 159.

In June 2007, the FASB also ratified EITF 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities ("EITF 07-3"). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007 and was adopted by the Company in the first quarter of fiscal 2008. The adoption of EITF 07-3 did not have a material impact on our consolidated results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and will be adopted by the Company in the first quarter of fiscal 2009. The Company will apply SFAS 141R prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

Also in December 2007, the FASB issued Statement No. 160, Non-controlling Interests in Consolidated Financial Statements (SFAS 160), which is effective for fiscal years beginning after December 15, 2008. This statement requires all entities to report non-controlling (minority) interests in subsidiaries in the same manner– as equity in the consolidated financial statements. This eliminates the diversity that currently exists in accounting for transactions between an entity and non-controlling interests by requiring that they be treated as equity transactions. The Company will be required to adopt the provisions of SFAS 160 in the first quarter of 2009 and is currently evaluating the impact of such adoption on its Consolidated Financial Statements.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 28, 2008
(Unaudited)

2. DISCONTINUED OPERATIONS

During December 2006, the Company terminated production in South Hadley, Massachusetts of Precision-branded analog plates used in newspaper applications.

Results of operations of the discontinued analog newspaper business of Precision consist of the following (in thousands, except per-share data):

	Three months ended June 28, 2008	Three months ended June 30, 2007	Six months ended June 28, 2008	Six months ended June 30, 2007
Revenue	$ --	$ --	$ --	$ 195
Income (loss) before income taxes	60	40	106	(148)
Provision (benefit) from income taxes	24	16	43	(60)
Income (loss) from discontinued operations	$ 36	$ 24	$ 63	$ (88)
Earnings (loss) per share	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Assets and liabilities of discontinued operations consist of the following (in thousands):

	June 28, 2008	December 29, 2007
Receivables, net	$ 20	$ 15
Total current assets	$ 20	$ 15
Accounts payable	$ 220	$ 189
Accrued expenses	346	699
Total current liabilities	$ 566	$ 888

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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3. FAIR VALUES OF FINANCIAL INSTRUMENTS

At June 28, 2008, the Company's financial assets that are measured at fair value on a recurring basis are comprised of overnight investments. The Company invests excess cash from its operating cash accounts in overnight investments and reflects these amounts, of approximately $1.6 million at June 28, 2008, in cash and cash equivalents on the consolidated balance sheet using quoted prices in active markets for identical assets (Level 1) which is equal to a net value of 1:1 for each dollar invested.

The Company adopted SFAS No. 157, Fair Value Measurements, for financial assets and financial liabilities in the first quarter of fiscal 2008, which did not have a material impact on the Company's consolidated financial statements. In accordance with FASB Staff Position ("FSP FAS") 157-2, Effective Date of FASB Statement No. 157, the Company has deferred application of SFAS No. 157 until January 4, 2009, the beginning of the next fiscal year, in relation to nonrecurring nonfinancial assets and nonfinancial liabilities including goodwill impairment testing, asset retirement obligations, long-lived asset impairments and exit and disposal activities.

4. ACCOUNTS RECEIVABLE, NET

The components of Accounts receivable are as follows (in thousands):

	June 28, 2008	December 29, 2007
Accounts receivable	$ 43,524	$ 45,812
Less allowances	(2,509)	(2,933)
	$ 41,015	$ 42,879

5. INVENTORIES

The components of Inventories are as follows (in thousands):

	June 28, 2008	December 29, 2007
Raw materials	$ 5,208	$ 5,083
Work in process	7,362	6,615
Finished goods	41,196	37,386
	$ 53,766	$ 49,084

During the six months ended June 28, 2008 and June 30, 2007, the Company disposed of $1.5 million and $0.9 million, respectively, of excess and obsolete inventories. The inventories disposed were primarily comprised of machine components and repair parts relating to technology that is no longer produced or serviced by the Company, and had a net realizable value of $0 as of June 28, 2008 and December 29, 2007, respectively.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 28, 2008
(Unaudited)

6. PROPERTY, PLANT AND EQUIPMENT, NET

The components of Property, plant and equipment, net, are as follows (in thousands):

	June 28, 2008	December 29, 2007
Land and improvements	$ 2,269	$ 2,286
Buildings and leasehold improvements	29,353	29,968
Production and other equipment	57,908	57,197
Office furniture and equipment	7,535	7,615
Construction in process	2,997	2,930
Total property, plant and equipment, at cost	100,062	99,996
Accumulated depreciation and amortization	(64,895)	(61,973)
Net property, plant and equipment	$ 35,167	$ 38,023

Construction in process is generally related to production equipment and information technology systems not yet placed into service. The amount reported at June 28, 2008 includes $2.1 million related to a new service management system, which the Company purchased in the first quarter of fiscal 2006 and is in the process of implementing. The Company is capitalizing all applicable costs in accordance with AICPA Statement of Position No. 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use, and estimates that the total cost of implementation will approximate $2.5 million.

Property, plant and equipment at June 28, 2008 and December 29, 2007 includes $110,000 of office furniture and equipment and related accumulated depreciation of $95,000 and $77,000, respectively, associated with a capital lease.

The Company recorded depreciation expense of $1.5 million and $3.2 million in the second quarter and first six months of fiscal 2008, respectively, and $1.8 million and $3.5 million in the second quarter and first six months of fiscal 2007, respectively. Under the Company's financing arrangements (see Note 8), all property, plant and equipment are pledged as security.

7. INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of patents, intellectual property, license agreements, loan origination fees and certain identifiable intangible assets resulting from business combinations, including trade names, customer relationships, non-compete covenants and software licenses.

The Company commences amortization of capitalized costs related to either patents or purchased intellectual property at the time the respective asset has been placed into service. At June 28, 2008 and December 29, 2007, the Company had recorded $0.4 million and $0.5 million, respectively, related to patents and intellectual property not yet in service.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 28, 2008
(Unaudited)

The components of the Company's identifiable intangible assets are as follows (in thousands):

	June 28, 2008		December 29, 2007	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Patents and intellectual property	$ 11,072	$ 8,321	$ 11,038	$ 7,923
Trade names	2,360	2,360	2,360	2,360
Customer relationships	4,583	2,176	4,583	1,986
Software licenses	450	450	450	450
License agreements	750	345	750	296
Non-compete covenants	100	100	100	100
Loan origination fees	332	244	332	211
	$ 19,647	$ 13,996	$ 19,613	$ 13,326

The Company recorded amortization expense for its identifiable intangible assets of $0.3 million and $0.7 million in the second quarters of fiscal 2008 and fiscal 2007, respectively, and $0.7 million and $1.4 million in the first six months of fiscal 2008 and fiscal 2007, respectively. Estimated future amortization expense for the Company's identifiable intangible assets in service at June 28, 2008, is as follows (in thousands):

Remainder of fiscal 2008	$ 718
Fiscal 2009	$ 1,274
Fiscal 2010	$ 1,147
Fiscal 2011	$ 857
Fiscal 2012	$ 523
Fiscal 2013	$ 384
Thereafter	$ 317

The carrying amount of goodwill recorded by the Company's Presstek reporting unit was $19.9 million at June 28, 2008.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is tested annually, as of the first business day of the third quarter, for impairment. The Company's impairment review is based on a fair value test. The Company uses its judgment in assessing whether goodwill may have become impaired between annual impairment tests. Indicators such as unexpected adverse business conditions, economic factors, unanticipated technological change or competitive activities, loss of key personnel and acts by governments and courts may signal that an asset has been impaired. Should the fair value of a reporting unit's goodwill, as determined by the Company at any measurement date, fall below the carrying value of the respective reporting unit's net assets, an expense for impairment will be recorded in the period. There can be no assurance that goodwill will not become impaired in future periods.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 28, 2008
(Unaudited)

8. FINANCING ARRANGEMENTS

The components of the Company's outstanding borrowings at June 28, 2008 and December 29, 2007 are as follows (in thousands):

	June 28, 2008	December 29, 2007
Term loan	$ 12,000	$ 15,500
Line of credit	15,000	20,000
Capital lease obligation	19	35
	27,019	35,535
Less current portion	(25,375)	(27,035)
Long-term debt	$ 1,644	$ 8,500

The Company's Senior Secured Credit Facilities (the "Facilities") include a $35.0 million five-year secured term loan (the "Term Loan") and a $45.0 million five-year secured revolving line of credit (the "Revolver"). The Company granted a security interest in all of its assets in favor of the lenders under the Facilities. In addition, under the Facilities agreement, the Company is prohibited from declaring or distributing dividends to shareholders.

The Company has the option of selecting an interest rate for the Facilities equal to either: (a) the then applicable London Inter-Bank Offer Rate plus 1.25% to 4.0% per annum, depending on certain results of the Company's financial performance; or (b) the Prime Rate, as defined in the Facilities agreement, plus up to 1.75% per annum, depending on certain results of the Company's financial performance.

The Facilities are available to the Company for working capital requirements, capital expenditures, business acquisitions and general corporate purposes.

At June 28, 2008 and December 29, 2007, the Company had outstanding balances on the Revolver of $15.0 million and $20.0 million, respectively, with interest rates of 4.2% and 7.5%, respectively. At June 28, 2008, there were $1.3 million of outstanding letters of credit, thereby reducing the amount available under the Revolver to $28.7 million at that date.

Prior to an amendment to the Facilities in the third quarter of 2008, principal payments on the Term Loan were payable in consecutive quarterly installments of $1.75 million, with a final settlement of all remaining principal and unpaid interest on November 4, 2009. In the third quarter of fiscal 2008, the Company used the net proceeds of the sale of its Arizona property to pay down the principal balance of the term loan and entered into an amendment to the Facilities dated July 29, 2008 which amended the payment schedule of the Term Loan to reduce the required quarterly installments of principal to $810,000, with no installment due in September of 2008 and a final installment of all remaining principal (approximately $834,000) due on November 4, 2009. At June 28, 2008 and December 29, 2007, outstanding balances under the Term Loan were $12.0 million and $15.5 million, respectively, with interest rates of 4.6% and 7.5%, respectively.

The weighted average interest rate on the Company’s short-term borrowings was 4.4% at June 28, 2008.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 28, 2008
(Unaudited)

Under the terms of the Revolver and the Term Loan, the Company is required to meet various financial covenants on a quarterly and annual basis, including maximum funded debt to EBITDA (a non-U.S. GAAP measurement that the Company defines as earnings before interest, taxes, depreciation, amortization, and restructuring and other charges) and minimum fixed charge coverage covenants. At June 28, 2008, the Company was in compliance with all covenants.

On November 23, 2005, the Company acquired equipment of $110,000 qualifying for capital lease treatment. The equipment is reflected in property, plant and equipment and the current and long-term principal amounts of the lease obligation are included in current and long-term debt and capital lease obligations in the Company's Consolidated Balance Sheets.

The Company's Revolver and Term Loan principal repayment commitments and capital lease principal repayment commitments are as follows (in thousands):

Remainder of 2008	$	23,755
2009	$	3,264

9. ACCRUED EXPENSES

The components of the Company's accrued expenses are as follows (in thousands):

		June 28, 2008		December 29, 2007
Accrued payroll and employee benefits	$	5,552	$	5,809
Accrued warranty		3,005		3,534
Accrued restructuring and other charges		659		1,592
Accrued royalties		208		432
Accrued income taxes		1,218		569
Accrued legal		3,560		5,815
Accrued professional fees		1,094		2,545
Other		3,007		3,417
	$	18,303	$	23,713

10. ACCRUED WARRANTY

Product warranty activity in the first six months of fiscal 2008 is as follows (in thousands):

Balance at December 29, 2007	$	3,534
Accruals for warranties		336
Utilization of accrual for warranty costs		(865)

Balance at June 28, 2008	$	3,005

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11. DEFERRED REVENUE

The components of deferred revenue are as follows (in thousands):

	June 28, 2008	December 29, 2007
Deferred service revenue	$ 5,132	$ 6,718
Deferred product revenue	1,115	478
	$ 6,247	$ 7,196

12. RESTRUCTURING AND OTHER CHARGES

In the first six months of fiscal 2008, the Company recognized $1.2 million in restructuring and other charges related to severance and separation costs under the consolidation efforts of the Business Improvement Plan ("BIP") that was introduced in the third quarter of fiscal 2007 and certain asset impairment charges.

The activity for the first six months of fiscal 2008 related to the Company's restructuring accruals is as follows (in thousands):

	Balance December 29, 2007	Charged to expense	Utilization	Balance June 28, 2008
Lease termination and other costs	$ --	$ 881	$ (881)	$ --
Executive contractual obligations	904	--	(487)	417
Severance and fringe benefits	688	314	(760)	242
	$ 1,592	$ 1,195	$ (2,128)	$ 659

13. STOCK-BASED COMPENSATION

The Company has equity incentive plans that are administered by the Compensation Committee of the Board of Directors (the "Committee"). The Committee oversees and approves which employees receive grants, the number of shares or options granted and the exercise prices and other terms of the awards.

1998 Stock Option Plan

The 1998 Stock Incentive Plan (the "1998 Incentive Plan") provides for the award of stock options, restricted stock, deferred stock, and other stock based awards to officers, directors, employees, and other key persons (collectively "awards"). A total of 3,000,000 shares of common stock, subject to anti-dilution adjustments, have been reserved under this plan. Any future options granted under the 1998 Incentive Plan will become exercisable upon the earlier of a date set by the Board of Directors or Committee at the time of grant or the close of business on the day before the tenth anniversary of the stock options' date of grant. There were 35,000 options granted under this plan in the first six months of fiscal 2008. At June 28, 2008, there were 502,125 options outstanding. The options will expire at various dates as prescribed by the individual option grants. This plan expired on April 6, 2008 and therefore no options will be granted under this plan after this date.

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2003 Stock Option Plan

The 2003 Stock Option and Incentive Plan (the "2003 Plan") provides for the award of stock options, stock issuances and other equity interests in the Company to employees, officers, directors (including those directors who are not an employee or officer of the Company, such directors being referred to as "non-employee directors"), consultants and advisors of the Company and its subsidiaries. The 2003 Plan provides for an automatic annual grant of 7,500 stock options to all active Non-Employee Directors and an option to purchase 25,000 shares is granted to newly elected non-employee directors, all of which vest over a one year period. Additional grants may be awarded at the discretion of the Board of Directors or Committee, and on April 7, 2005, effective for fiscal 2005 forward, the Company's Board of Directors approved an additional annual grant of 7,500 options to re-elected non-employee directors. A total of 2,000,000 shares of common stock, subject to anti-dilution adjustments, have been reserved under the 2003 Plan. For the three and six months ended June 28, 2008, 150,000 options were issued under the 2003 Plan. There were 20,000 and 503,333 options issued under the 2003 Plan for the three and six months ended June 30, 2007, respectively. At June 28, 2008, there were 1,916,300 options outstanding under this plan.

2008 Omnibus Incentive Plan

The 2008 Omnibus Incentive Plan (the "2008 Plan"), approved by the stockholders of the Company on June 11, 2008, provides for the award of stock options, stock issuances and other equity interests in the Company to employees, officers, directors (including non-employee directors), consultants and advisors of the Company and its subsidiaries. A total of 3,000,000 shares of common stock, subject to anti-dilution adjustments, have been reserved for under this plan. Awards granted under this plan will have varying vesting and termination provisions and will have a ten year contractual life. For the three and six months ended June 28, 2008, there were no options granted under this plan.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan ("ESPP") is designed to provide eligible employees of the Company and its participating U.S. subsidiaries an opportunity to purchase common stock of the Company through accumulated payroll deductions. The purchase price of the stock is equal to 85% of the fair market value of a share of common stock on the first day or last day of each three-month offering period, whichever is lower. All employees of the Company or participating subsidiaries who customarily work at least 20 hours per week and do not own five percent or more of the Company's common stock are eligible to participate in the ESPP. A total of 950,000 shares of the Company's common stock, subject to adjustment, have been reserved for issuance under this plan. The Company issued 16,238 shares and 35,164 shares of common stock under its ESPP for the three and six months ended June 28, 2008, respectively. The Company issued 14,964 and 32,951 shares of common stock under its ESPP for the three and six months ended June 30, 2007, respectively.

Restricted Stock and Non-plan Stock Options

In the second quarter of fiscal 2007, the Company granted 300,000 shares of restricted stock and 1,000,000 stock options to its President and Chief Executive Officer ("CEO") under a non-plan, non-qualified stock option agreement. The award of restricted stock vested on May 10, 2007, the effective date of the CEO's employment agreement with the

Company, but is subject to the holding period provisions as defined in Rule 144 of the U.S. Securities and Exchange Commission (“Rule 144”). The stock options granted under the stock option agreement provide for vesting of 200,000 options on May 10, 2007, 200,000 options to vest over the period May 10, 2007 to January 1, 2008, and the remaining 600,000 options to vest at a rate of 200,000 per annum over the period January 1, 2009 to January 1, 2011, subject to service conditions only.

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Stock-Based Compensation

Stock-based compensation associated with stock option grants to all officers, directors, and employees is included as a component of "General and administrative expense" in the Company's Consolidated Statements of Operations.

Stock based compensation expense for the three and six months ended June 28, 2008 and June 30, 2007 is as follows (in thousands):

	Three months ended		Six months ended	
Stock option plan	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
2003 Plan	$ 182	$ 350	$ 439	$ 640
1998 Plan	47	--	90	--
ESPP	23	28	36	44
Restricted Stock	--	1,500	--	1,500
Non-plan, non-qualified	129	613	258	613
Total	$ 381	$ 2,491	$ 823	$ 2,797

As of June 28, 2008, there was $2.8 million of unrecognized compensation expense related to stock option grants. The weighted average period over which the remaining unrecognized compensation expense will be recognized is 2.8 years.

Valuation Assumptions

ESPP
The fair value of the rights to purchase shares of common stock under the Company's ESPP was estimated on the commencement date of the offering period using the Black-Scholes valuation model with the following assumptions:

	Three months ended		Six months ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Risk-free interest rate	2.0%	4.8%	1.6%	4.8%
Volatility	60.1%	45.1%	52.7%	46.6%
Expected life (in years)	0.25	0.25	0.25	0.25
Dividend yield	--	--	--	--