

PRESSTEK INC /DE/  
Form 10-Q  
November 15, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended October 1, 2011

Or

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

For the transition period from            to

Commission file number 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.)

10 Glenville Street  
Greenwich, Connecticut  
(Address of Principal Executive Offices)

06831  
(Zip Code)

(203) 769-8056  
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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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  Accelerated filer  Non-accelerated filer  Smaller reporting company

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(do not check if a smaller reporting company)

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

Yes  No

As of November 10, 2011, there were 37,374,872 shares of the Registrant's Common Stock, \$0.01 par value, outstanding.

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PRESSTEK, INC.  
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This Quarterly Report on 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)

|                                                                                                                                                                            | October 1,<br>2011 | January 1,<br>2011 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>ASSETS</b>                                                                                                                                                              |                    |                    |
| Current assets                                                                                                                                                             |                    |                    |
| Cash and cash equivalents                                                                                                                                                  | \$3,293            | \$4,165            |
| Accounts receivable, net                                                                                                                                                   | 15,808             | 18,647             |
| Inventories                                                                                                                                                                | 27,382             | 29,143             |
| Other current assets                                                                                                                                                       | 2,563              | 1,609              |
| <b>Total current assets</b>                                                                                                                                                | <b>49,046</b>      | <b>53,564</b>      |
| Property, plant and equipment, net                                                                                                                                         | 19,191             | 21,156             |
| Intangible assets, net                                                                                                                                                     | 5,158              | 4,748              |
| Other noncurrent assets                                                                                                                                                    | 1,021              | 1,057              |
| <b>Total assets</b>                                                                                                                                                        | <b>\$74,416</b>    | <b>\$80,525</b>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                |                    |                    |
| Current liabilities                                                                                                                                                        |                    |                    |
| Line of credit                                                                                                                                                             | \$13,130           | \$10,252           |
| Accounts payable                                                                                                                                                           | 8,345              | 9,733              |
| Accrued expenses                                                                                                                                                           | 4,964              | 6,624              |
| Deferred revenue                                                                                                                                                           | 5,128              | 4,643              |
| <b>Total current liabilities</b>                                                                                                                                           | <b>31,567</b>      | <b>31,252</b>      |
| Other long-term liabilities                                                                                                                                                | 50                 | 95                 |
| <b>Total liabilities</b>                                                                                                                                                   | <b>31,617</b>      | <b>31,347</b>      |
| 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, 37,343,286 and 36,942,166 shares issued and outstanding at October 1, 2011 and January 1, 2011, respectively | 373                | 369                |
| Additional paid-in capital                                                                                                                                                 | 124,761            | 122,664            |
| Accumulated other comprehensive loss                                                                                                                                       | (3,344 )           | (3,517 )           |
| Accumulated deficit                                                                                                                                                        | (78,991 )          | (70,338 )          |
| <b>Total stockholders' equity</b>                                                                                                                                          | <b>42,799</b>      | <b>49,178</b>      |
| <b>Total liabilities and stockholders' equity</b>                                                                                                                          | <b>\$74,416</b>    | <b>\$80,525</b>    |

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 |                    | Nine months ended  |                    |
|---------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                         | October 1,<br>2011 | October 2,<br>2010 | October 1,<br>2011 | October 2,<br>2010 |
| Revenue                                                 |                    |                    |                    |                    |
| Equipment                                               | \$3,396            | \$4,760            | \$14,744           | \$15,890           |
| Consumables                                             | 18,214             | 20,584             | 58,201             | 62,807             |
| Service and parts                                       | 5,290              | 6,070              | 17,231             | 18,815             |
| Total revenue                                           | 26,900             | 31,414             | 90,176             | 97,512             |
| Cost of revenue                                         |                    |                    |                    |                    |
| Equipment                                               | 4,422              | 4,965              | 16,254             | 16,312             |
| Consumables                                             | 11,078             | 11,127             | 32,693             | 34,088             |
| Service and parts                                       | 4,115              | 5,016              | 14,040             | 15,117             |
| Total cost of revenue                                   | 19,615             | 21,108             | 62,987             | 65,517             |
| Gross profit                                            | 7,285              | 10,306             | 27,189             | 31,995             |
| Operating expenses                                      |                    |                    |                    |                    |
| Research and development                                | 1,194              | 1,154              | 3,379              | 3,207              |
| Sales, marketing and customer support                   | 5,028              | 5,302              | 15,901             | 16,366             |
| General and administrative                              | 5,063              | 4,580              | 13,517             | 14,712             |
| Amortization of intangible assets                       | 256                | 204                | 667                | 617                |
| Restructuring and other charges                         | 413                | 412                | 777                | 461                |
| Total operating expenses                                | 11,954             | 11,652             | 34,241             | 35,363             |
| Operating loss                                          | (4,669 )           | (1,346 )           | (7,052 )           | (3,368 )           |
| Interest and other income (expense), net                | (696 )             | 8                  | (1,370 )           | (848 )             |
| Loss from continuing operations before income taxes     | (5,365 )           | (1,338 )           | (8,422 )           | (4,216 )           |
| Provision (benefit) for income taxes                    | 50                 | 158                | 231                | (331 )             |
| Loss from continuing operations                         | (5,415 )           | (1,496 )           | (8,653 )           | (3,885 )           |
| Loss from discontinued operations, net of tax           | -                  | -                  | -                  | (70 )              |
| Net loss                                                | \$(5,415 )         | \$(1,496 )         | \$(8,653 )         | \$(3,955 )         |
| Loss per share - basic and diluted                      | \$(0.15 )          | \$(0.04 )          | \$(0.23 )          | \$(0.11 )          |
| Weighted average shares outstanding - basic and diluted | 37,229             | 36,908             | 37,274             | 36,887             |

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



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

|                                                                                | Nine months ended  |                    |
|--------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                | October 1,<br>2011 | October 2,<br>2010 |
| <b>Operating activities</b>                                                    |                    |                    |
| Net loss                                                                       | \$(8,653 )         | \$(3,955 )         |
| Add loss from discontinued operations                                          | -                  | 70                 |
| Loss from continuing operations                                                | (8,653 )           | (3,885 )           |
| Adjustments to reconcile net loss to net cash used in operating activities:    |                    |                    |
| Depreciation                                                                   | 2,971              | 3,426              |
| Amortization of intangible assets                                              | 667                | 617                |
| Provision for warranty costs                                                   | -                  | (55 )              |
| Provision for accounts receivable allowances                                   | 1,840              | 607                |
| Stock compensation expense                                                     | 1,304              | 1,908              |
| Accrual for non-cash bonus plan                                                | -                  | 598                |
| Loss on disposal of long-lived assets                                          | 69                 | -                  |
| Changes in operating assets and liabilities:                                   |                    |                    |
| Accounts receivable                                                            | 727                | (388 )             |
| Inventories                                                                    | 1,007              | (1,328 )           |
| Other current assets                                                           | (951 )             | (309 )             |
| Deferred income taxes                                                          | -                  | (338 )             |
| Other noncurrent assets                                                        | 287                | 248                |
| Accounts payable                                                               | (1,389 )           | 837                |
| Accrued expenses                                                               | (1,761 )           | (2,141 )           |
| Restructuring and other charges                                                | 777                | 461                |
| Deferred revenue                                                               | 484                | (973 )             |
| Net cash used in operating activities from continuing operations               | (2,621 )           | (715 )             |
| <b>Investing activities</b>                                                    |                    |                    |
| Purchase of property, plant and equipment                                      | (250 )             | (802 )             |
| Investment in patents and other intangible assets                              | (1,146 )           | (943 )             |
| Net cash used in investing activities from continuing operations               | (1,396 )           | (1,745 )           |
| <b>Financing activities</b>                                                    |                    |                    |
| Net proceeds from issuance of common stock                                     | 77                 | 143                |
| Payments of loan origination costs                                             | -                  | (973 )             |
| Net borrowings (repayments) under line of credit agreement                     | 2,878              | (8,486 )           |
| Net cash provided by (used in) financing activities from continuing operations | 2,955              | (9,316 )           |
| <b>Cash provided by discontinued operations</b>                                |                    |                    |
| Operating activities                                                           | -                  | 1,452              |
| Investing activities                                                           | -                  | 7,372              |
| Net cash provided by discontinued operations                                   | -                  | 8,824              |



|                                                              |         |          |
|--------------------------------------------------------------|---------|----------|
| Effect of exchange rate changes on cash and cash equivalents | 190     | (342 )   |
| Net decrease in cash and cash equivalents                    | (872 )  | (3,294 ) |
| Cash and cash equivalents, beginning of period               | 4,165   | 5,843    |
| Cash and cash equivalents, end of period                     | \$3,293 | \$2,549  |
| <b>Supplemental disclosure of cash flow information</b>      |         |          |
| Cash paid for interest                                       | \$559   | \$697    |
| Cash paid for income taxes                                   | \$22    | \$32     |

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

PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
October 1, 2011  
(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 October 1, 2011 and January 1, 2011, its results of operations for the three and nine months ended October 1, 2011 and October 2, 2010 and its cash flows for the nine months ended October 1, 2011 and October 2, 2010, 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. Certain reclassifications were made to prior years' amounts to conform to the 2011 presentation.

The results of the three and nine months ended October 1, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2011. 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 fiscal year ended January 1, 2011, filed with the U.S. Securities and Exchange Commission ("SEC") on March 16, 2011.

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 thirty-nine week periods ended October 1, 2011 (the "third quarter and first nine months of fiscal 2011" or "the nine months ended October 1, 2011") and October 2, 2010 (the "third quarter and first nine months of fiscal 2010" or "the nine months ended October 2, 2010").

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 reported amounts and related disclosures. 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 intangible assets, long-lived assets and deferred tax assets; stock-based compensation; and litigation. The Company bases its estimates and judgments 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 revenues

and expenses that are not readily apparent from other sources. Actual results could differ from those estimates.

#### Long-Lived Assets

Our management assesses the recoverability of its long-lived assets by determining whether the depreciation and amortization of long lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment if any, is measured based on fair value and is charged to operations in the period in which long-lived assets impairment is determined by management. Due to the decline in the market value of the Company's common stock, we tested our long-lived assets for impairment at the end of the third quarter of 2011. Our projected future undiscounted cash flows exceeded the carrying value of long-lived assets. Accordingly, no impairment was indicated or recorded. There can be no assurance that market conditions will not change or demand for our services will continue, which could result in impairment of long-lived assets in the future.

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 January 1, 2011, which was filed with the SEC on March 16, 2011. There were no significant changes to the Company's critical accounting policies during the nine months ended October 1, 2011.

PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
October 1, 2011  
(Unaudited)

Recently Issued Accounting Standards

In October 2009, the FASB issued ASU 2009-13, Revenue Recognition (Topic 605) – Multiple-Deliverable Revenue Arrangements. This guidance modifies the fair value requirements of FASB ASC subtopic 605-25, Revenue Recognition-Multiple Element Arrangements, by allowing the use of the “best estimate of selling price” in addition to vendor specific objective evidence and third-party evidence for determining the selling price of a deliverable. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence, (b) third-party evidence, or (c) estimates. In addition, the residual method of allocating arrangement consideration is no longer permitted. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010. The adoption of this guidance did not have a material impact upon our financial position or results of operations.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS. These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), result in a common definition of fair value and common requirements for measurement of and disclosure requirements between U.S. GAAP and IFRS. The amendments change some fair value measurement principles and disclosure requirements. The adoption of this guidance is not expected to have a material impact upon our financial position and results of operations.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income (Topic 220). This guidance, effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The adoption of this guidance is not expected to have a material impact upon our financial position and results of operations.

PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
October 1, 2011  
(Unaudited)

## 2. DISCONTINUED OPERATIONS

The Company accounts for its discontinued operations under the provisions of FASB Accounting Standards Codification Topic 360. Accordingly, results of operations and the related charges for discontinued operations have been classified as “Loss from discontinued operations, net of tax” in the accompanying Consolidated Statements of Operations. For comparative purposes, all prior periods presented have been reclassified on a consistent basis.

On March 5, 2010, Presstek sold Lasertel to SELEX Galileo Inc. (“SELEX”). The sale of Lasertel to SELEX was for \$8.0 million in cash and, in addition, Presstek was able to retain approximately \$2.0 million of laser diodes inventory for Presstek’s future production requirements. Lasertel, as a subsidiary of SELEX, and in accordance with a supply agreement established between Lasertel and Presstek on March 5, 2010, continues to manufacture semiconductor laser diodes for Presstek for an initial period of three years. The net cash proceeds from this sale were used to pay down debt. SELEX also assumed the current lease on the Lasertel property in Tucson, Arizona.

Lasertel incurred an operating loss of \$0.6 million during the first quarter of fiscal 2010 prior to the sale date. Presstek recorded a minor adjustment in the second quarter of fiscal 2010. Presstek recorded a gain on the disposition of Lasertel of \$0.5 million during the nine months ended October 1, 2010, bringing the aggregate loss from discontinued operations for the first nine months of fiscal 2010 to approximately \$0.1 million.

Results of operations of the discontinued business of Lasertel included in the Company’s Statements of Operations for the first nine months of 2010 consist of the following (in thousands, except per-share data):

|                                       | Three<br>months<br>ended<br>October 2,<br>2010 | Nine<br>months<br>ended<br>October 2,<br>2010 |
|---------------------------------------|------------------------------------------------|-----------------------------------------------|
| Revenues from external customers      | \$-                                            | \$1,394                                       |
| Loss from operations                  | -                                              | (555 )                                        |
| Gain on disposition                   | -                                              | 485                                           |
| Loss before income taxes              | -                                              | (70 )                                         |
| Provision (benefit) for income taxes  | -                                              | -                                             |
| Net loss from discontinued operations | \$-                                            | \$(70 )                                       |
| Earnings (loss) per share             | \$0.00                                         | \$0.00                                        |

The Company had no assets and liabilities of the discontinued business of Lasertel at October 1, 2011 or January 1, 2011.

PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
October 1, 2011  
(Unaudited)

### 3. ACCOUNTS RECEIVABLE, NET

The components of accounts receivable, net of allowances, are as follows (in thousands):

|                     | October 1,<br>2011 | January 1,<br>2011 |
|---------------------|--------------------|--------------------|
| Accounts receivable | \$22,717           | \$24,278           |
| Less allowances     | (6,909 )           | (5,631 )           |
|                     | \$15,808           | \$18,647           |

### 4. INVENTORIES

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

|                 | October 1,<br>2011 | January 1,<br>2011 |
|-----------------|--------------------|--------------------|
| Raw materials   | \$3,376            | \$4,433            |
| Work in process | 1,030              | 1,170              |
| Finished goods  | 22,976             | 23,540             |
|                 | \$27,382           | \$29,143           |

PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
October 1, 2011  
(Unaudited)

5. PROPERTY, PLANT AND EQUIPMENT, NET

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

|                                              | October 1,<br>2011 | January 1,<br>2011 |
|----------------------------------------------|--------------------|--------------------|
| Land and improvements                        | \$ 1,301           | \$ 1,301           |
| Buildings and leasehold improvements         | 22,623             | 22,442             |
| Production and other equipment               | 44,802             | 44,104             |
| Office furniture and equipment               | 11,016             | 10,868             |
| Construction in process                      | 348                | 589                |
| Total property, plant and equipment, at cost | 80,090             | 79,304             |
| Accumulated depreciation and amortization    | (60,899 )          | (58,148 )          |
| Net property, plant and equipment            | \$ 19,191          | \$ 21,156          |

Construction in process is generally related to production equipment not yet placed into service.

The Company recorded depreciation expense of \$1.3 million and \$3.0 million in the third quarter and first nine months of fiscal 2011 and \$1.1 million and \$3.4 million in the third quarter and first nine months of fiscal 2010. Under the Company's financing arrangements (see Note 6), all property, plant and equipment is pledged as security.

PRESSTEK, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 October 1, 2011  
 (Unaudited)

## 6. FINANCING ARRANGEMENTS

The components of the Company's outstanding borrowings are as follows (in thousands):

|                | October 1,<br>2011 | January 1,<br>2011 |
|----------------|--------------------|--------------------|
| Line of credit | \$ 13,130          | \$ 10,252          |

The primary sources of the Company's liquidity are (i) cash generated by the Company's operations and (ii) a \$25 million Revolving Credit and Security Agreement with a term that expires on March 5, 2013 ("Credit Agreement"). The Company utilizes its sources of liquidity to fund current operations and make capital and other investments in support of the business.

On March 5, 2010, the Company entered into the Credit Agreement among the Company and PNC Bank, National Association ("PNC"), as Lender and as administrative agent for Lenders (PNC, in such agency capacity, the "Agent"). The Credit Agreement, which matures on March 5, 2013, provides for funding of up to \$25.0 million through a revolving credit facility (the "Revolver"). Borrowing availability under the Revolver is determined based on a percentage of eligible accounts receivable and inventory of the Company and certain of its subsidiaries. The Company may terminate the Credit Agreement at any time prior to the maturity date upon thirty (30) days' prior written notice and upon payment in full of all outstanding obligations under the Credit Agreement. If the Company terminates the Credit Agreement at any time prior to the end of the term the Company must pay an early termination fee as specified in the Credit Agreement. The Credit Agreement requires the Company to prepay a portion of borrowings under the Credit Agreement out of the proceeds of certain dispositions of property.

Borrowings under the Credit Agreement bear interest at the Revolving Interest Rate. The Revolving Interest Rate is calculated differently for domestic rate loans and for Eurodollar rate loans. For domestic rate loans the interest rate per annum is equal to the sum of the Alternate Base Rate plus two and one half percent (2.50%). The Alternate Base Rate is defined as a rate per annum, for any day, equal to the higher of (i) PNC's published reference rate, (ii) the Federal Funds Open rate in effect on such day plus one half of one percent (0.50%) or (iii) the Daily LIBOR Rate in effect on such day plus one percent (1.0%). For Eurodollar rate loans the interest rate per annum is equal to the sum of three and one-half percent (3.50%) plus the greater of (a) the Eurodollar rate, or (b) one percent (1.0%). The Credit Agreement requires monthly interest payments with respect to domestic rate loans and a payment at the end of each interest period with respect to Eurodollar rate loans.

Borrowings under the Credit Agreement are secured by all of the assets of Presstek, Inc. and certain of its domestic and foreign subsidiaries that guaranty the obligations of Presstek, Inc., including all receivables, equipment, general intangibles, inventory, investment property, subsidiary stock, owned real property and leasehold interests of the Company.

Under the Credit Agreement the Company is required to provide monthly Borrowing Base Certificates to the Agent that become the basis for calculating the Credit Agreement's Formula Amount. The Formula Amount, capped at \$25 million, represents the maximum amount of advances available to the Company at a given point in time. The Formula



Amount is normally calculated 20 days subsequent to the close of each fiscal month. Because of the timing delay, the Agent utilizes a process that estimates the maximum amount available daily during each fiscal period. As of October 1, 2011 and January 1, 2011 the Formula Amount was \$18.1 and \$15.0 million, respectively. The Company had outstanding balances on its line of credit of \$13.1 million and \$10.3 million, at October 1, 2011 and January 1, 2011, respectively. At October 1, 2011, there were \$1.0 million of outstanding letters of credit, thereby reducing the amount available under the credit line, based on the Formula amount, to \$4.0 million. The amount

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PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
October 1, 2011  
(Unaudited)

available under the credit line, based on the Formula Amount, as of January 1, 2011 was \$4.7 million. The computed preliminary availability based on the daily estimation process was \$2.0 million and \$4.6 million as of October 1, 2011 and January 1, 2011, respectively.

Under the terms of the Credit Agreement, the Company is required to comply with certain financial and non-financial covenants. Among other restrictions, the Company is restricted in its ability to pay dividends, incur additional debt and make acquisitions and divestitures, with certain exceptions. The key financial covenants include a requirement for the Company to maintain (i) for the fiscal quarter ending January 1, 2011, a fixed charge coverage ratio (the ratio of "EBITDA" (as defined in the Credit Agreement) to the total of (i) interest expense, plus (ii) capital expenditures) of not less than 1.0 to 1.0; (ii) for each quarter ending on or after April 2, 2011, for the four fiscal quarter periods then ended, a fixed charge coverage ratio of not less than 1.0 to 1.0; and (iii) an annual limit on capital expenditures of \$4.0 million in each fiscal year beginning in 2011.

On August 24, 2011, the Company entered into a Second Amendment (the "Amendment") to the Credit Agreement. The Amendment modified the Credit Agreement as follows: (a) the Availability Block (as defined in the Credit Agreement) of \$2,000,000 was eliminated until the earlier of January 31, 2012 or the date of the completion of a sale-leaseback transaction for the Company's real property located in Hudson, New Hampshire (the "Sale-Leaseback Transaction"); (b) the definitions of "EBITDA" and "Restructuring Charges" were amended to provide for add-backs for (i) restructuring charges for the fiscal year ending December 31, 2011 of up to \$1,400,000 and (ii) marketing expenses for the Company's 75DI printing press of up to \$1,500,000 incurred through the fiscal quarter ending on or about June 30, 2012; (c) the early termination fee due in the event obligations are prepaid in full prior to the end of the Term (March 5, 2013) was increased from (x) \$500,000 if prepaid prior to March 5, 2012 and \$125,000 if prepaid prior to the date that was 30 days prior to the last day of the Term to (y) \$750,000 at all times prior to the last day of the Term; and (d) an additional fee in the amount of \$100,000 will be due to the Lender in the event that a Sale-Leaseback Transaction is not completed by November 30, 2011; it is anticipated that a Sale-Leaseback Transaction will not be completed by November 30, 2011 and that this fee will become payable to the Lender.

As of January 1, 2011 and October 1, 2011, the Company was in compliance with all financial covenants. The fixed charge coverage ratio for the quarter ended January 1, 2011 was 3.5 to 1.0, in excess of the 1.0 to 1.0 minimum required ratio. The fixed charge coverage ratio for the quarter ended October 1, 2011 was 3.0 to 1.0, also in excess of the 1.0 to 1.0 minimum required ratio. Additionally, since the inception of the Credit Agreement, the Company's capital expenditures have been below the maximum levels allowed.

The weighted average interest rate on the Company's short-term borrowings was 4.50% at October 1, 2011.

PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
October 1, 2011  
(Unaudited)

## 7. ACCRUED EXPENSES

The components of accrued expenses are as follows (in thousands):

|                                         | October 1,<br>2011 | January 1,<br>2011 |
|-----------------------------------------|--------------------|--------------------|
| Accrued payroll and employee benefits   | \$1,556            | \$1,561            |
| Accrued warranty                        | 797                | 919                |
| Accrued restructuring and other charges | 296                | 225                |
| Accrual for non-cash bonus plan         | -                  | 1,186              |
| Accrued legal                           | 31                 | 83                 |
| Accrued professional fees               | 715                | 1,020              |
| Other                                   | 1,569              | 1,630              |
|                                         | \$4,964            | \$6,624            |

The Company's 2010 bonus plans provided for any management bonuses to be paid in the form of shares of Common Stock. The Company had an accrued expense related to its non-cash bonus plan of \$598,000 for the first nine months of fiscal 2010. There is no comparable accrual recorded for the first nine months of 2011.

## 8. ACCRUED WARRANTY

Product warranty activity in the first nine months of fiscal 2011 is as follows (in thousands):

|                                           |        |
|-------------------------------------------|--------|
| Balance at January 1, 2011                | \$919  |
| Accruals for warranties                   | -      |
| Utilization of accrual for warranty costs | (122 ) |
| Balance at October 1, 2011                | \$797  |

PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
October 1, 2011  
(Unaudited)

## 9. DEFERRED REVENUE

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

|                            | October 1,<br>2011 | January 1,<br>2011 |
|----------------------------|--------------------|--------------------|
| Deferred service revenue   | \$4,717            | \$4,054            |
| Deferred equipment revenue | 411                | 589                |
|                            | \$5,128            | \$4,643            |

## 10. RESTRUCTURING AND OTHER CHARGES

During the first nine months of fiscal 2011, the Company utilized \$0.7 million of reserves related to restructuring and other charges in the United States, Canada and the United Kingdom. The expenses incurred during the first nine months of fiscal 2011 are expected to be fully paid by the fourth quarter of fiscal 2012. These amounts are recorded on the restructuring and other charges line in the consolidated statements of operations.

The activity for the first nine months of fiscal 2011 related to the Company's restructuring and other charges accruals is as follows (in thousands):

|                                   | Balance<br>January 1,<br>2011 | Charged to<br>expense | Utilization | Balance<br>October 1,<br>2011 |
|-----------------------------------|-------------------------------|-----------------------|-------------|-------------------------------|
| Severance and fringe benefits     | \$225                         | \$767                 | \$(696 )    | \$296                         |
| Lease termination and other costs | -                             | 10                    | (10 )       | -                             |
|                                   | 225                           | 777                   | (706 )      | 296                           |

## 11. 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.

### The 2003 Stock Option and Incentive 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. A total of 2,000,000 shares of common stock, subject to anti-dilution adjustments, have been reserved under this plan. Any future options granted under the 2003 Plan will become exercisable at such times and subject to such terms and conditions as the Board of Directors or Committee may

specify at the time of each grant. At October 1, 2011, there were 1,885,567 options outstanding under the 2003 Plan, and 29,033 shares available for future grants under this plan. The options will expire at various dates prescribed by the individual option grants.

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PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
October 1, 2011  
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With respect to all stock options previously granted to the Company's current executive officers and other current employees and Non-Employee Directors under the 2003 Stock Plan, the Compensation Committee approved on September 30, 2010 an amendment to the exercise prices of such options so that each such option outstanding shall have an exercise price equal to the per share closing price of the Company's common stock on that date of \$2.19 per share. The amendment did not change the vesting schedules or any of the other terms of the respective stock options. This modification affected 331 employees who held 724,300 stock options on September 30, 2010. For purposes of stock activity disclosure the amended options are treated as option cancellations and new option grants with the only change from the original grant being the revised option price.

#### 2008 Omnibus Incentive Plan

On June 2, 2011 the Company's stockholders approved the 2008 Omnibus Incentive Plan (As Amended and Restated) (the "2008 Plan"). The 2008 Plan 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 5,500,000 shares of common stock, subject to anti-dilution adjustments, have been reserved under this plan. Awards granted under this plan may have varying vesting and termination provisions and can have no longer than a ten-year contractual life. There were 10,000 and 407,990 options granted under this plan for the three and nine months ended October 1, 2011, respectively. At October 1, 2011, there were 2,530,264 options outstanding and 2,565,652 shares available for future grants under this plan. In addition 336,511 shares were issued out of the 2008 Plan for the Company's 2010 Stock Bonus Plans (See Note 7).

#### Employee Stock Purchase Plan

The Company's 2002 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 22,917 and 64,609 shares of common stock under its ESPP for the three and nine months ended October 1, 2011, respectively. The Company issued 23,039 and 60,350 shares of common stock under its ESPP for the three and nine months ended October 2, 2010, respectively. At October 1, 2011, there were 348,049 shares available for future grants under this plan.

#### Non-plan Options

In fiscal 2007, the Company granted 300,000 shares of restricted common stock and stock options for 1,000,000 shares of common stock to its Chairman, 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. The award of stock options vests 20% on the date of grant, and an additional 20% vests on each of January 1, 2008, 2009, 2010 and 2011. Each portion of the option that vests will remain exercisable for five years after the applicable vesting date. As of October 1, 2011, 1,000,000 options remain

outstanding.

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PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
October 1, 2011  
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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 nine months ended October 1, 2011 and October 2, 2010 is as follows (in thousands):

|                         | Three months ended |                    | Nine months ended  |                    |
|-------------------------|--------------------|--------------------|--------------------|--------------------|
|                         | October 1,<br>2011 | October 2,<br>2010 | October 1,<br>2011 | October 2,<br>2010 |
| Stock option plan       |                    |                    |                    |                    |
| 2003 Plan               | \$82               | \$341              | \$292              | \$535              |
| 2008 Plan               | 307                | 242                | 997                | 962                |
| 1998 Plan               | 1                  | -                  | 2                  | 2                  |
| ESPP                    | (6)                | 7                  | 13                 | 22                 |
| Non-plan, non-qualified | -                  | 129                | -                  | 387                |
| Total                   | \$384              | \$719              | \$1,304            | \$1,908            |

As of October 1, 2011, there was \$1.3 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 1.5 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 |                    | Nine months ended  |                    |
|--------------------------|--------------------|--------------------|--------------------|--------------------|
|                          | October 1,<br>2011 | October 2,<br>2010 | October 1,<br>2011 | October 2,<br>2010 |
| Risk-free interest rate  | 0.02               | 0.16               | 0.05               | 0.16               |
| Volatility               | 102.2              | 82.3               | 80.7               | 71.4               |
| Expected life (in years) | 0.25               | 0.25               | 0.25               | 0.25               |
| Dividend yield           | --                 | --                 | --                 | --                 |

Based on the above assumptions, the weighted average fair values of each stock purchase right under the Company's ESPP for the third quarter and first nine months of fiscal 2011 was \$0.18 and \$0.42 and for the third quarter and first nine months of fiscal 2010 was \$0.49 and \$0.54, respectively.





PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
October 1, 2011  
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Plan Options

The fair value of the options to purchase common stock granted in the third quarter and first nine months of fiscal 2011 and fiscal 2010 under the 2008 Plan and were estimated on the respective grant dates using the Black-Scholes valuation model with the following assumptions:

|                          | Three months ended |                    | Nine months ended  |                    |
|--------------------------|--------------------|--------------------|--------------------|--------------------|
|                          | October 1,<br>2011 | October 2,<br>2010 | October 1,<br>2011 | October 2,<br>2010 |
| Risk-free interest rate  | 1.02               | % 1.26             | % 2.01             | % 2.34             |
| Volatility               | 83.7               | % 77.6             | % 79.6             | % 76.6             |
| Expected life (in years) | 5.42               | 5.83               | 5.68               | 5.83               |
| Dividend yield           | -                  | -                  | -                  | -                  |

Based on the above assumptions, the weighted average fair value of each option to purchase a share of the Company's common stock granted in the third quarter and first nine months of fiscal 2011 under the 2008 Plan was \$1.11 and \$1.35, respectively. The weighted average fair value of each option to purchase a share of the Company's common stock granted in the third quarter and first nine months of fiscal 2010 under the 2008 Plan was \$1.48 and \$1.70, respectively.

Expected volatilities are based on historical volatilities of Presstek's common stock. The expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules, the Company's historical exercise patterns and the ESPP purchase period. The risk-free rate is based on a U.S. Treasury securities rate for the period corresponding to the expected life of the options or ESPP purchase period.

PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
October 1, 2011  
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### Stock Option Activity

Stock option activity for the nine months ended October 1, 2011 is summarized as follows:

|                                | Shares    | Weighted<br>average<br>exercise<br>price | Weighted average remaining<br>contractual life | Aggregate<br>intrinsic<br>value |
|--------------------------------|-----------|------------------------------------------|------------------------------------------------|---------------------------------|
| Outstanding at January 1, 2011 | 5,354,556 | \$4.87                                   | 6.27 years                                     | \$ 2 0 0<br>thousand            |
| Granted                        | 407,990   |                                          |                                                |                                 |
| Exercised                      | -         |                                          |                                                |                                 |
| Canceled/expired               | 150,790   |                                          |                                                |                                 |
| Outstanding at October 1, 2011 | 5,611,756 | \$4.62                                   | 5.82 years                                     | \$-                             |
| Exercisable at October 1, 2011 | 4,328,554 | \$5.30                                   | 5.02 years                                     | \$-                             |

There were no options exercised during the three and nine months ended October 1, 2011. During the nine months ended October 2, 2010, the total intrinsic value of stock options exercised was approximately \$5 thousand.

### 12. INTEREST AND OTHER INCOME (EXPENSE)

The components of Interest and other income (expense), net, are as follows (in thousands):

|                                 | Three months ended |                    | Nine months ended  |                    |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                 | October 1,<br>2011 | October 2,<br>2010 | October 1,<br>2011 | October 2,<br>2010 |
| Interest income (expense), net  | \$(294 )           | \$(248 )           | \$(835 )           | \$(799 )           |
| Foreign currency gains (losses) | (394 )             | 264                | (676 )             | (83 )              |
| Other income (expense), net     | (8 )               | (8 )               | 141                | 34                 |
|                                 | \$(696 )           | \$8                | \$(1,370 )         | \$(848 )           |

PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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13. INCOME TAXES

The Company provides for income taxes at the end of each interim period based on the estimated effective tax rate for the full fiscal year. Cumulative adjustments to the tax provision are recorded in the interim period in which a change in the estimated annual effective rate is determined. Our effective tax rate differs from the statutory rate due to valuation allowances placed on tax benefits derived from operating losses.

At October 1, 2011, our deferred tax assets, net of valuation allowance, were zero. However, if future events differ from expectations, changes in the valuation allowance may be required. A change in the valuation allowance occurs if there is a change in management's assessment of the amount of net deferred tax assets that is expected to be realized in the future.

PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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14. COMPREHENSIVE INCOME (LOSS)

Comprehensive loss is comprised of net income (loss), and unrealized foreign currency translation gains and losses and all changes in equity of the Company during the period from non-owner sources.

The primary component of accumulated other comprehensive income (loss) is unrealized gains or losses on foreign currency translation. The components of comprehensive income (loss) are as follows (in thousands):

|                                                        | Three months ended |                    | Nine months ended  |                    |
|--------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                        | October 1,<br>2011 | October 2,<br>2010 | October 1,<br>2011 | October 2,<br>2010 |
| Net loss                                               | \$(5,417 )         | \$(1,496 )         | \$(8,653 )         | \$(3,955 )         |
| Unrealized foreign currency translation gains/(losses) | (380 )             | 1,698              | 173                | 692                |
| Comprehensive income/(loss)                            | \$(5,797 )         | \$202              | \$(8,480 )         | \$(3,263 )         |

15. SEGMENT AND GEOGRAPHIC INFORMATION

Presstek is a market-focused high technology company that designs, manufactures and distributes proprietary and non-proprietary solutions to the printing and communications industries, primarily serving short-run, full-color customers. The Company's operations are organized based on the market application of our products and related services and until the quarter ended April 3, 2010 consisted of two business segments: Presstek and Lasertel. The Presstek segment is primarily engaged in the development, manufacture, sale and servicing of our patented digital imaging systems and patented printing plate technologies and related equipment and supplies for the graphic arts and printing industries, primarily serving the short-run, full-color market segment. Lasertel, which was sold to a third party, manufactures and develops high-powered laser diodes for sale to Presstek and other customers.

The Lasertel segment was reclassified as discontinued operations in the third quarter of fiscal 2008, based on our determination to sell the segment (see Note 2). On March 5, 2010, Presstek sold the Lasertel subsidiary to SELEX. Subsequent to the sale date, the Company has conducted business in only one industry segment, the Presstek segment.

PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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The Company's classification of revenue from continuing operations by geographic area is determined by the location of the Company's customer. The following table summarizes revenue information by geographic area (in thousands):

|                | Three months ended |                    | Nine months ended  |                    |
|----------------|--------------------|--------------------|--------------------|--------------------|
|                | October 1,<br>2011 | October 2,<br>2010 | October 1,<br>2011 | October 2,<br>2010 |
| United States  | \$16,978           | \$20,672           | \$57,742           | \$64,004           |
| United Kingdom | 2,560              | 3,680              | 8,331              | 10,815             |
| All other      | 7,362              | 7,062              | 24,103             | 22,693             |
|                | \$26,900           | \$31,414           | \$90,176           | \$97,512           |

The Company's long-lived assets by geographic area are as follows (in thousands):

|                | October 1,<br>2011 | January 1,<br>2011 |
|----------------|--------------------|--------------------|
| United States  | \$24,652           | \$26,026           |
| United Kingdom | 390                | 510                |
| Canada         | 328                | 425                |
|                | \$25,370           | \$26,961           |

## 16. RELATED PARTIES

The Company engages the services of Amster, Rothstein & Ebenstein, a law firm of which Board member Daniel S. Ebenstein is a partner. Expenses incurred for services rendered by this law firm were \$5,000 (including \$2,000 of pass-through expenses), and \$18,000 (including \$5,000 of pass-through expenses) for the third quarter and first nine months ended Fiscal 2011 and \$45,000 (including \$20,000 of pass-through expenses) and \$99,000 (including \$41,000 of pass-through expenses) for the third quarter and first nine months of Fiscal 2010, respectively.

## 17. COMMITMENTS AND CONTINGENCIES

### Commitments & Contingencies

The Company has change-in-control agreements with certain of its employees that provide them with benefits should their employment with the Company be terminated other than for cause or their disability or death, or if they resign for good reason, as defined in these agreements, in connection with or within a certain period of time after the date of any change-in-control of the Company.

PRESSTEK, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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From time to time the Company engages in sales of equipment that is leased by or intended to be leased by a third-party purchaser to another party. In certain situations, the Company may retain recourse obligations to a financing institution involved in providing financing to the ultimate lessee in the event the lessee of the equipment defaults on its lease obligations. In certain such instances, the Company may refurbish and remarket the equipment on behalf of the financing company, should the ultimate lessee default on payment of the lease. In certain circumstances, should the resale price of such equipment fall below certain predetermined levels, the Company would, under these arrangements, reimburse the financing company for any such shortfall in sale price (a "shortfall payment"). Generally, the Company's liability for these recourse agreements is limited to 9.5% of the amount outstanding. The maximum amount for which the Company was liable to the financial institutions for the shortfall payments was approximately \$0.7 million at October 1, 2011 and \$1.0 million at October 2, 2010.

#### Litigation

The Company is involved in litigation that it considers routine and incidental to its business. The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The potential liability is assessed by analyzing the litigation using available information. The Company develops its views on estimated losses in consultation with outside counsel handling its defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies.

Presstek is a party to litigation that it considers routine and incidental to its business however it does not expect the results of any of these actions to have a material adverse effect on its business, results of operation or financial condition.

#### 18. SUBSEQUENT EVENTS

On October 24, 2011, Presstek, Inc. (the "Company") received a notification letter (the "Notice") from The NASDAQ Stock Market ("NASDAQ") advising the Company that for 30 consecutive trading days preceding the date of the Notice, the bid price of the Company's common stock had closed below the \$1.00 per share minimum required for continued listing on The NASDAQ Global Select Market pursuant to NASDAQ Marketplace Rule 5450(a)(1) (the "Minimum Bid Price Rule").

The Notice has no effect on the listing of the Company's common stock at this time and the Company's common stock will continue to trade on the NASDAQ Global Select Market under the symbol "PRST."

The Notice also stated that the Company will be provided 180 calendar days, or until April 23, 2012, to regain compliance with the Minimum Bid Price Rule. To do so, the bid price of the Company's common stock must close at or above \$1.00 per share for a minimum of ten consecutive trading days prior to that date.

If compliance with the Minimum Bid Price Rule cannot be demonstrated by April 23, 2012, NASDAQ will provide written notification to the Company that the Company's common stock is subject to delisting. The Company may, however, be eligible for an additional grace period if it satisfies the initial listing standards (with the exception of the Minimum Bid Price Rule) for listing on the NASDAQ Capital Market, and submits a timely notification to NASDAQ to transfer the listing of its common stock to the NASDAQ Capital Market. The Company may also appeal

NASDAQ's delisting determination to a NASDAQ Hearings Panel.

The Company intends to continue to monitor the bid price for its common stock. If the Company's common stock does not trade at a level that is likely to regain compliance with the NASDAQ requirements, the Company's Board of Directors will consider other options that may be available to achieve compliance, including, but not limited to, seeking implementation of a reverse stock split, which would require approval of the Company's stockholders. The Company's Board of Directors has taken no action at this time to implement a reverse stock split.

On November 14, 2011, The Company announced that it expects to report special charges in the fourth quarter of 2011 in the range of \$1.0 million to \$1.3 million primarily for employee severance cost associated with the profit improvement actions.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks described below in the section entitled "Information Regarding Forward-Looking Statements", in "Part II, Item IA Risk Factors" of this Quarterly Report on Form 10-Q and in "Part I, Item 1A, Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended January 1, 2011, as filed with the SEC on March 16, 2011.

### Overview of the Company

The Company is a provider of high-technology, digital-based printing solutions to the commercial print segment of the graphic communications industry. The Company designs, manufactures and distributes proprietary and non-proprietary solutions aimed at serving the needs of a wide range of print service providers worldwide. Our proprietary digital imaging and advanced technology consumables offer superior business solutions for commercial printing focusing on the growing need for short-run, high quality color applications. We have helped to lead the industry's transformation from analog print production methods to digital imaging technology. We are a leader in the development of advanced printing systems using digital imaging equipment, workflow and consumables-based solutions that economically benefit the user through streamlined operations and chemistry-free, environmentally responsible solutions. We are also a leading sales and service channel across a broadly served market in the small to mid-sized commercial, quick and in-plant printing segments.

Presstek's business model is a capital equipment and consumables model. In this model, approximately 85% of our revenue is recurring revenue. Our model is designed so that each placement of either a DI® press or a CTP system generally results in recurring aftermarket revenue for consumables and service. We also provide consumables for use on equipment purchased by end users from other manufacturers and suppliers.

Through our various operations, we provide advanced digital print solutions through the development, manufacture, and sourcing of digital laser imaging equipment and advanced technology chemistry-free and chemistry-based printing plates, which we call consumables, for commercial and in-plant print providers targeting the growing market for high quality, fast turnaround short-run color printing. We are a leading sales and services company delivering Presstek digital solutions and solutions from other manufacturing partners through our direct sales and service force and through distribution partners worldwide.

We have developed the enabling technology for DI® digital offset presses. DI® presses are Presstek's proprietary system by which digital images are transferred directly onto printing plates that are already mounted in a press. Our advanced DI® presses are a waterless, easy to use, high quality printing press that is fully automated and provides our users with competitive advantages over alternative print technologies. We believe that our DI® digital offset presses, in combination with our proprietary printing plates and streamlined workflow, produce a superior offset printing solution. By combining advanced digital technology with the reliability and economic advantages of offset printing, we believe our customers are better able to grow their businesses, generate higher profits and better serve the needs of their customers.

Similar digital imaging technologies are used in our CTP systems. We also design and manufacture CTP systems that incorporate our technology to image our chemistry-free printing plates. Our chemistry-free digital imaging systems

enable customers to produce high quality, full color lithographic printed materials more quickly and cost effectively than conventional methods that employ more complicated workflows and toxic chemical processing. This results in reduced printing cycle time and lowers the effective cost of production for commercial printers. Our

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solutions make it more cost effective for printers to meet the increasing demand for shorter print runs, higher quality color and faster turn-around times.

We have executed a major transformation in the way we go to market. In the past, we were reliant on original equipment manufacturer (“OEM”) partners to deliver our business solutions to customers. Today, more than 90% of our sales are through our own distribution channels.

We are primarily engaged in the development, manufacture, sourcing, sale and servicing of our business solutions using patented digital imaging systems and patented printing plate technologies. We also provide traditional analog systems and related equipment and supplies for the graphic arts and printing industries.

We generate revenue through three main sources: (i) the sale of our equipment and related workflow software, including DI® presses and CTP devices; (ii) the sale of our proprietary and non-proprietary consumables and supplies; and (iii) the servicing of offset printing systems and analog and CTP systems and related equipment.

Prior to March 5, 2010, we conducted business in two segments: the Presstek segment, and the Lasertel segment. Lasertel manufactured and developed high-powered laser diodes and related laser products. On September 24, 2008, the Board of Directors approved a plan to market the Lasertel subsidiary for sale; as a result the Company has presented the results of operations of this subsidiary within discontinued operations. On March 5, 2010, the Lasertel subsidiary was sold to SELEX as previously discussed. Commencing with the second quarter of fiscal 2010, the Company’s reports filed with the SEC reflect that the Company conducts business in one industry segment as a result of its sale of Lasertel.

### Strategy

Our business strategy is centered on maximizing the sale of consumable products, such as printing plates, and therefore our business efforts focus on the sale of “consumable burning engines” such as our DI® presses and CTP devices, as well as the servicing of customers using our business solutions.

To complement our direct sales efforts, in certain territories, we maintain relationships with key press manufacturers such as Ryobi, Heidelberg, and KBA, who market printing presses and/or press solutions that use our proprietary consumables.

Another method of growing the market for consumables is to develop and distribute consumables that can be imaged by non-Presstek devices (i.e. “open platform” plates). In addition to expanding the base of our DI® and CTP units, an element of our focus is to reach beyond our proprietary systems and penetrate the installed base of CTP devices in all market segments with our thermal plate offerings. The first step in executing this strategy was the launch of our Aurora Pro chemistry-free printing plate designed to be used with CTP units manufactured by other thermal CTP device manufacturers. In December 2009 we introduced Aeon, a no preheat thermal CTP plate that offers run lengths to 200,000 without baking. We continue to work with other CTP manufacturers to qualify our consumables on their systems. We believe this strategy fundamentally enhances our ability to expand and control our business.

During fiscal 2010 we took a major step forward in our up-market growth strategy with the introduction of the new Presstek 75DI® digital offset press. The 75DI® incorporates Presstek’s next-generation imaging technology and DI® thermal plates into a larger six-page format. This new larger format press, which can also be purchased with integrated aqueous coating capability, will provide us greater access to the up-market, larger customers.



Since 2007, management has been taking steps to improve the Company's cost structure and strengthen its balance sheet in order to enable Presstek to improve profitability and strengthen its overall financial position. Our reduced cost levels and balance sheet improvements to date are, in large part, the result of our cost reduction initiatives as described in more detail below, as well as a continuing focused effort to review and manage working capital.

#### General

We operate and report 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 week periods ended October 1, 2011 (the "third quarter of fiscal 2011" or "the three months ended October 1, 2011") and October 2, 2010 (the "third quarter of fiscal 2010" or "the three months ended October 2, 2010") and the thirty-nine week periods ended October 1, 2011 ("the first nine months of fiscal 2011" or the nine months ended October 1, 2011" or "year to date 2011") and October 2, 2010 ("the first nine months of fiscal 2010" or the nine months ended October 2, 2010" or "year to date 2010").

We intend the discussion of our financial condition and results of operations that follows to provide information that will assist in understanding our consolidated financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our consolidated financial statements.

## RESULTS OF OPERATIONS

Results of operations in dollars and as a percentage of revenue were as follows (in thousands of dollars):

|                                                     | Three months ended |                 |                    |                 | Nine months ended  |                 |                    |                 |
|-----------------------------------------------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
|                                                     | October 1,<br>2011 | % of<br>revenue | October 2,<br>2010 | % of<br>revenue | October 1,<br>2011 | % of<br>revenue | October 2,<br>2010 | % of<br>revenue |
| Revenue:                                            |                    |                 |                    |                 |                    |                 |                    |                 |
| Equipment                                           | \$3,396            | 12.6            | \$4,760            | 15.2            | \$14,744           | 16.4            | \$15,890           | 16.3            |
| Consumables                                         | 18,214             | 67.7            | 20,584             | 65.5            | 58,201             | 64.5            | 62,807             | 64.4            |
| Service and parts                                   | 5,290              | 19.7            | 6,070              | 19.3            | 17,231             | 19.1            | 18,815             | 19.3            |
| Total revenue                                       | 26,900             | 100.0           | 31,414             | 100.0           | 90,176             | 100.0           | 97,512             | 100.0           |
| Cost of revenue:                                    |                    |                 |                    |                 |                    |                 |                    |                 |
| Equipment                                           | 4,422              | 16.4            | 4,965              | 15.8            | 16,254             | 18.0            | 16,312             | 16.7            |
| Consumables                                         | 11,078             | 41.2            | 11,127             | 35.4            | 32,693             | 36.3            | 34,088             | 35.0            |
| Service and parts                                   | 4,115              | 15.3            | 5,016              | 16.0            | 14,040             | 15.6            | 15,117             | 15.5            |
| Total cost of revenue                               | 19,615             | 72.9            | 21,108             | 67.2            | 62,987             | 69.8            | 65,517             | 67.2            |
| Gross profit                                        | 7,285              | 27.1            | 10,306             | 32.8            | 27,189             | 30.2            | 31,995             | 32.8            |
| Operating expenses:                                 |                    |                 |                    |                 |                    |                 |                    |                 |
| Research and development                            | 1,194              | 4.4             | 1,154              | 3.7             | 3,379              | 3.7             | 3,207              | 3.3             |
| Sales, marketing and customer support               | 5,028              | 18.7            | 5,302              | 16.9            | 15,901             | 17.6            | 16,366             | 16.8            |
| General and administrative                          | 5,063              | 18.8            | 4,580              | 14.6            | 13,517             | 15.0            | 14,712             | 15.1            |
| Amortization of intangible assets                   | 256                | 1.0             | 204                | 0.6             | 667                | 0.7             | 617                | 0.6             |
| Restructuring and other charges                     | 413                | 1.5             | 412                | 1.3             | 777                | 0.9             | 461                | 0.5             |
| Total operating expenses                            | 11,954             | 44.4            | 11,652             | 37.1            | 34,241             | 38.0            | 35,363             | 36.3            |
| Operating loss                                      | (4,669 )           | (17.4 )         | (1,346 )           | (4.3 )          | (7,052 )           | (7.8 )          | (3,368 )           | (3.5 )          |
| Interest and other income (expense), net            | (696 )             | (2.6 )          | 8                  | 0.0             | (1,370 )           | (1.5 )          | (848 )             | (0.8 )          |
| Loss from continuing operations before income taxes | (5,365 )           | (19.9 )         | (1,338 )           | (4.3 )          | (8,422 )           | (9.3 )          | (4,216 )           | (4.3 )          |
| Provision(benefit) for income taxes                 | 50                 | 0.2             | 158                | 0.5             | 231                | 0.3             | (331 )             | (0.3 )          |
| Loss from continuing operations                     | (5,415 )           | (20.1 )         | (1,496 )           | (4.8 )          | (8,653 )           | (9.6 )          | (3,885 )           | (4.0 )          |
| Gain(loss) from discontinued operations, net of tax | -                  | -               | -                  | -               | -                  | -               | (70 )              | (0.1 )          |
| Net loss                                            | \$(5,415 )         | (20.1 )         | \$(1,496 )         | (4.8 )          | (8,653 )           | (9.6 )          | \$(3,955 )         | (4.1 )          |



Three and nine months ended October 1, 2011 compared to the three and nine months ended October 2, 2010

## Revenue

Consolidated revenue was \$26.9 million and \$90.2 million, respectively, for the third quarter and the first nine months of 2011, a reduction of \$4.5 million from the 2010 third quarter and \$7.3 million from the first nine months of 2010. The revenue declines in both periods resulted from reductions in all three revenue categories.

Equipment revenue was \$3.4 million and \$14.7 million in the third quarter and first nine months of 2011, respectively, compared to \$4.8 million and \$15.9 million in the same prior year periods. Equipment sales continue to be impacted by unfavorable economic conditions resulting in some reluctance by small to mid-size customers in our North American market to make capital equipment purchases, and financing remains difficult to obtain. Gross revenue of “growth” portfolio DI® presses and peripherals decreased to \$2.6 million in the third quarter of fiscal 2011 from \$3.6 million in the third quarter of 2010. For the first nine months of 2011 DI® equipment revenue increased to \$11.9 million from \$11.2 million in the prior year period. DI press revenues have benefited from the sale of one 75DI press in each of the first three quarters of 2011. Gross revenue of our remaining “growth” portfolio of equipment, Dimension Excel, Dimension Pro, Compass, and Vector platesetters, declined from \$0.7 million in the third quarter of 2010 to \$0.4 million in the current year quarter and declined from \$2.7 million for the first nine months of 2010 to \$1.8 million for the current year period. Equipment sales of our “traditional” line of products, defined as QMDI presses, polyester CTP platesetters, and conventional equipment, decreased from \$0.6 million in the third quarter of 2010 to \$0.4 million in the current year’s quarter. Year to date gross revenue from our “traditional” line of equipment products decreased from \$2.6 million in 2010 to \$1.6 million in the current year period.

Consumables revenue declined from \$20.6 million in the third quarter of 2010 to \$18.2 million in the current year quarter and from \$62.8 million for the first nine months of 2010 to \$58.2 million in the comparable 2011 period. Sales of Presstek’s “growth” portfolio of consumables, defined as 52DI®, 34DI®, and thermal CTP plates, decreased by \$0.6 million to \$7.3 million in the current year quarter. Sales of our “growth” consumables decreased from \$24.4 million in the first nine months of 2010 to \$22.8 million in the comparable current year period. Sales of Presstek’s “growth” portfolio of DI® plates declined from \$4.3 million in the third quarter of 2010 to \$3.7 million in the current year period and decreased by \$1.2 million to \$11.9 million in the first nine months of 2011 compared to the comparable 2010 period. Sales of thermal CTP plates were \$3.6 million in the third quarter of both years, and decreased from \$11.3 million in the first nine months of 2010 to \$10.9 million in the first nine months of 2011. Sales of Presstek’s “traditional” plate products, consisting of QMDI, other DI®, and polyester plates, declined from \$7.5 million in the third quarter 2010 to \$6.0 million in the current year’s quarter and from \$22.2 million in the first nine months of 2010 to \$20.2 million in the current year period. Sales of other “traditional” consumables products declined year-over-year from \$5.1 million to \$4.9 million for the quarter and from \$15.8 million to \$14.9 million for the nine month period.

Service and parts revenue was \$5.3 million in the third quarter of 2011 and \$17.2 million for the first nine months of 2011, reflecting decreases of \$0.8 million and \$1.6 million, respectively, from the prior year periods. These reductions are due primarily to the natural erosion of our legacy service customer base, a decrease in new equipment placements, and a general trend by customers to delay service calls and maintenance to save money in a difficult economy.



### Cost of Revenue

Consolidated cost of product, consisting of the cost of material, labor and overhead, shipping and handling costs and warranty expenses, was \$15.5 million in the third quarter of fiscal year 2011 and \$48.9 million in the first nine months of 2011, compared to \$16.1 million and \$50.4 million, respectively, in 2010. The quarterly and year to date decreases are due primarily to lower equipment and consumables revenues.

Consolidated cost of service and parts was \$4.1 million in the third quarter of fiscal year 2011 and \$14.0 million for the nine months ended October 1, 2011, compared to \$5.0 million and \$15.1 million, respectively, in the same prior year periods. These amounts represent the cost of spare parts, labor and overhead associated with the ongoing service of products.

### Gross Profit

Consolidated gross profit as a percentage of total revenue was 27.1% in the third quarter of fiscal 2011 compared to 32.8% in the third quarter of fiscal 2010; and 30.2% in the first nine months of 2011 compared to 32.8% for the first nine months of 2010.

Gross profit as a percentage of product revenues for the third quarter of fiscal 2011 and the first nine months of 2011 was 28.3% and 32.9%, respectively, compared to 36.5% and 36.0% in the comparable prior year periods. The margin decrease is primarily due to unfavorable product mix in equipment and consumables, lower factory volumes, the impact of a strengthening yen on DI press purchases, and general inflation on raw materials and freight costs.

Gross profit as a percentage of service revenues increased to 22.2% in the third quarter of fiscal 2011 from 17.4% in the prior year period, and decreased to 18.5% for the first nine months of 2011 from 19.7% for the related 2010 period. The increase in the third quarter was due primarily to lower overhead costs. The year to date reduction is due to reduced service revenues during 2011 offset somewhat by cost reduction actions commensurate with the lower revenue base.

### Research and Development

Research and development expenses primarily consist of payroll and related expenses for personnel, parts and supplies, and contracted services required to conduct our equipment and consumables development efforts.

Research and development expenses were \$1.2 million in both the third quarter of fiscal 2011 and fiscal 2010. For the first nine months of 2011 expenses increased to \$3.4 million compared to \$3.2 million in the prior year period.

### Sales, Marketing and Customer Support

Sales, marketing and customer support expenses primarily consist of payroll and related expenses for personnel, advertising, trade shows, promotional expenses, and travel costs associated with sales, marketing and customer support activities.

Sales, marketing and customer support expenses decreased to \$5.0 million in the third quarter of fiscal 2011 from \$5.3 million in the third quarter of fiscal year 2010. Year-to-date selling, marketing and customer support expenses declined from \$16.4 million in the first nine months of 2010 to \$15.9 million in the comparable current year period. The reductions in expense in both periods resulted primarily from lower payroll and commission expense.



#### General and Administrative

General and administrative expenses are primarily comprised of payroll and related expenses, including stock compensation, for personnel and contracted professional services necessary to conduct our general management, finance, information systems, human resources and administrative activities.

General and administrative expenses in the third quarter of 2011, which include a \$1.4 million non-cash charge for bad debt expense in our European region, were \$5.1 million compared to \$4.6 million in the third quarter of fiscal 2010. Excluding the bad debt charge expenses declined by \$0.9 million year over year due primarily to lower stock compensation, payroll, and professional services costs. Compared to the first nine months of 2010 general and administrative expenses have declined by \$1.2 million, or 8.1%, to \$13.5 million for the current year period. Excluding the bad debt charge in the third quarter, general and administrative expenses declined by \$2.6 million, or 17.6%, due primarily to lower stock compensation, payroll, and legal fees.

#### Amortization of Intangible Assets

Amortization expense was \$0.3 million and \$0.7 million in the third quarter and first nine months respectively of fiscal 2011 compared to \$0.2 million and \$0.6 million in the comparable prior year periods. These expenses relate to intangible assets recorded in connection with the Company's 2004 ABDick acquisition, 75DI development costs, patents and other purchased intangible assets.

#### Restructuring and Other Charges

The company incurred restructuring and other charges of \$0.4 million in the third quarter for both fiscal 2011 and fiscal 2010. For the first nine months of 2011, the Company incurred \$0.8 million of expense compared to \$0.5 million in the comparable prior year period.

#### Interest and Other Expense, Net

Net interest and other expense was \$0.7 million in the third quarter of fiscal year 2011 compared to \$0.0 million in the prior year period. For the first nine months of fiscal year 2011, net interest and other expense was \$1.4 million compared to expense of \$0.8 million in the first nine months of fiscal year 2010. The increase in expense is driven primarily by unfavorable swings in the impact of foreign currency.

#### Provision for Income Taxes

The Company provides for income taxes at the end of each interim period based on the estimated effective tax rate for the full fiscal year. Cumulative adjustments to the tax provision are recorded in the interim period in which a change in the estimated annual effective rate is determined. Our effective tax rate differs from the statutory rate due to valuation allowances placed on tax benefits derived from operating expenses.

The Company recorded a valuation allowance of \$2.7 million against UK, Canadian and German net deferred tax assets in fiscal 2010.

At October 1, 2011, our deferred tax assets, net of valuation allowance, were zero. However, if future events differ from expectations, changes in the valuation allowance may be required. A change in the valuation allowance occurs if there is a change in management's assessment of the amount of net deferred tax assets that is expected to be realized in the future.

## DISCONTINUED OPERATIONS

The Company accounts for its discontinued operations under the provisions of FASB Accounting Standards Codification Topic 360. Accordingly, results of operations and the related charges for discontinued operations have been classified as “Loss from discontinued operations, net of tax” in the accompanying Consolidated Statements of Operations. For comparative purposes, all prior periods presented have been reclassified on a consistent basis.

On March 5, 2010, Presstek sold Lasertel to SELEX Galileo Inc. (“SELEX”). The sale of Lasertel to SELEX was for \$8.0 million in cash and, in addition, Presstek was able to retain approximately \$2.0 million of laser diodes inventory for Presstek’s future production requirements. Lasertel, as a subsidiary of SELEX, and in accordance with a supply agreement established between Lasertel and Presstek on March 5, 2010, will continue to manufacture semiconductor laser diodes for Presstek for an initial period of three years. The net cash proceeds from this sale were used to pay down debt. SELEX also assumed the current lease on the Lasertel property in Tucson, Arizona.

Lasertel incurred an operating loss of \$0.6 million during the first quarter of fiscal 2010 prior to the sale date. Presstek recorded a minor adjustment in the second quarter of fiscal 2010. Presstek recorded a gain on the disposition of Lasertel of \$0.5 million during the nine months ended October 1, 2010, bringing the aggregate loss from discontinued operations for the first nine months of fiscal 2010 to approximately \$0.1 million.

Results of operations of the discontinued business of Lasertel included in the Company’s Statements of Operations for the first nine months of 2010 consist of the following (in thousands, except per-share data):

|                                       | Three<br>months<br>ended<br>October 2,<br>2010 | Nine<br>months<br>ended<br>October 2,<br>2010 |
|---------------------------------------|------------------------------------------------|-----------------------------------------------|
| Revenues from external customers      | \$-                                            | \$1,394                                       |
| Loss from operations                  | -                                              | (555 )                                        |
| Gain on disposition                   | -                                              | 485                                           |
| Loss before income taxes              | -                                              | (70 )                                         |
| Provision (benefit) for income taxes  | -                                              | -                                             |
| Net loss from discontinued operations | \$-                                            | \$(70 )                                       |
| Earnings (loss) per share             | \$0.00                                         | \$0.00                                        |

The Company had no assets and liabilities of the discontinued business of Lasertel at October 1, 2011 or January 1, 2011.

## Liquidity and Capital Resources

We finance our operating and capital investment requirements primarily through cash flows from operations and borrowings. At October 1, 2011, we had \$3.3 million of cash and cash equivalents and \$17.4 million of working capital, compared to \$2.5 million of cash and cash equivalents and \$25.6 million of working capital at October 2, 2010.

## Continuing Operations

Our operating activities used \$2.6 million of cash in the nine months ended October 1, 2011. Cash used by operating activities came from a net loss of \$8.7 million offset by positive adjustments of \$6.9 million for non-cash charges included in net loss (including depreciation, amortization, provisions for warranty costs, accounts receivable allowances and stock compensation expense) and a \$0.8 million negative impact on cash due to changes in operating assets and liabilities. The negative impact on cash related to operating assets and liabilities was, in large part, due to a decrease of \$1.8 million in accrued expenses, a decrease of \$1.4 million in accounts payable and an increase in other current assets of \$1.0 million. This is partially offset by a decrease of \$1.0 million in inventory, a decrease of \$0.7 million in accounts receivable, an increase of \$0.8 million of restructuring charges and an increase of deferred revenue of \$0.5 million. The increase in other current assets was driven by pre-payment of certain annual operating expenses in the normal course of business.

Our investing activities used \$1.4 million of net cash in the first nine months ended October 1, 2011 primarily for additions to developed technology costs and additions to property, plant and equipment. The addition to developed technology relate to the design and prototyping of our new 75DI® digital offset press. The additions to property, plant and equipment relate primarily to equipment provided to our CTP plate customers.

Our financing activities provided \$3.0 million of cash in the nine months ended October 1, 2011, consisting primarily of \$2.9 million of cash borrowings under our lines of credit.

## Liquidity

The primary sources of the Company's liquidity are (i) cash generated by the Company's operations and (ii) a \$25 million Revolving Credit and Security Agreement with a term that expires on March 5, 2013 ("Credit Agreement"). The Company utilizes its sources of liquidity to fund current operations and make capital and other investments in support of the business.

On March 5, 2010, the Company entered into the Credit Agreement among the Company and PNC Bank, National Association ("PNC"), as Lender and as administrative agent for Lenders (PNC, in such agency capacity, the "Agent"). The Credit Agreement, which matures on March 5, 2013, provides for funding of up to \$25.0 million through a revolving credit facility (the "Revolver"). Borrowing availability under the Revolver is determined based on a percentage of eligible accounts receivable and inventory of the Company and certain of its subsidiaries. The Company may terminate the Credit Agreement at any time prior to the maturity date upon thirty (30) days' prior written notice and upon payment in full of all outstanding obligations under the Credit Agreement. If the Company terminates the Credit Agreement at any time prior to the end of the term the Company must pay an early termination fee as specified in the Credit Agreement. The Credit Agreement requires the Company to prepay a portion of borrowings under the Credit Agreement out of the proceeds of certain dispositions of property.

Borrowings under the Credit Agreement bear interest at the Revolving Interest Rate. The Revolving Interest Rate is calculated differently for domestic rate loans and for Eurodollar rate loans. For domestic rate loans the interest rate per annum is equal to the sum of the Alternate Base Rate plus two and one half percent (2.50%). The Alternate Base Rate is defined as a rate per annum, for any day, equal to the higher of (i) PNC's published reference rate, (ii) the Federal Funds Open rate in effect on such day plus one half of one percent (0.50%) or (iii) the Daily LIBOR Rate in effect on such day plus one percent (1.0%). For Eurodollar rate loans the interest rate per annum is equal to the sum of three and one-half percent (3.50%) plus the greater of (a) the Eurodollar rate, or (b) one percent (1.0%). The Credit Agreement requires monthly interest payments with respect to domestic rate loans and a payment at the end of each interest period with respect to Eurodollar rate loans.

Borrowings under the Credit Agreement are secured by all of the assets of Presstek, Inc. and certain of its domestic and foreign subsidiaries that guaranty the obligations of Presstek, Inc., including all receivables, equipment, general intangibles, inventory, investment property, subsidiary stock, owned real property and leasehold interests of the Company.

Under the Credit Agreement the Company is required to provide monthly Borrowing Base Certificates to the Agent that become the basis for calculating the Credit Agreement's Formula Amount. The Formula Amount, capped at \$25 million, represents the maximum amount of advances available to the Company at a given point in time. The Formula Amount is normally calculated 20 days subsequent to the close of each fiscal month. Because of the timing delay, the Agent utilizes a process that estimates the maximum amount available daily during each fiscal period. As of October 1, 2011 and January 1, 2011 the Formula Amount was \$18.1 and \$15.0 million, respectively. The Company had outstanding balances on its line of credit of \$13.1 million and \$10.3 million, at October 1, 2011 and January 1, 2011, respectively. At October 1, 2011, there were \$1.0 million of outstanding letters of credit, thereby reducing the amount available under the credit line, based on the Formula amount, to \$4.0 million. The amount available under the credit line, based on the Formula Amount, as of January 1, 2011 was \$4.7 million. The computed preliminary availability based on the daily estimation process was \$2.0 million and \$4.6 million as of October 1, 2011 and January 1, 2011, respectively.

Under the terms of the Credit Agreement, the Company is required to comply with certain financial and non-financial covenants. Among other restrictions, the Company is restricted in its ability to pay dividends, incur additional debt and make acquisitions and divestitures, with certain exceptions. The key financial covenants include a requirement

for the Company to maintain (i) for the fiscal quarter ending January 1, 2011, a fixed charge coverage ratio ( the ratio of "EBITDA" (as defined in the Credit Agreement) to the total of (i) interest expense, plus (ii) capital expenditures) of not less than 1.0 to 1.0; (ii) for each quarter ending on or after April 2, 2011, for the four fiscal quarter periods then ended, a fixed charge coverage ratio of not less than 1.0 to 1.0; and (iii) an annual limit on capital expenditures of \$4.0 million in each fiscal year beginning in 2011.

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On August 24, 2011, the Company entered into a Second Amendment (the "Amendment") to the Credit Agreement. The Amendment modified the Credit Agreement as follows: (a) the Availability Block (as defined in the Credit Agreement) of \$2,000,000 was eliminated until the earlier of January 31, 2012 or the date of the completion of a sale-leaseback transaction for the Company's real property located in Hudson, New Hampshire (the "Sale-Leaseback Transaction"); (b) the definitions of "EBITDA" and "Restructuring Charges" were amended to provide for add-backs for (i) restructuring charges for the fiscal year ending December 31, 2011 of up to \$1,400,000 and (ii) marketing expenses for the Company's 75DI printing press of up to \$1,500,000 incurred through the fiscal quarter ending on or about June 30, 2012; (c) the early termination fee due in the event obligations are prepaid in full prior to the end of the Term (March 5, 2013) was increased from (x)\$500,000 if prepaid prior to March 5, 2012 and \$125,000 if prepaid prior to the date that was 30 days prior to the last day of the Term to (y) \$750,000 at all times prior to the last day of the Term; and (d) an additional fee in the amount of \$100,000 will be due to the Lender in the event that a Sale-Leaseback Transaction is not completed by November 30, 2011; it is anticipated that a Sale-Leaseback Transaction will not be completed by November 30, 2011 and that this fee will become payable to the Lender.

As of January 1, 2011 and October 1, 2011, the Company was in compliance with all financial covenants. The fixed charge coverage ratio for the quarter ended January 1, 2011 was 3.5 to 1.0, in excess of the 1.0 to 1.0 minimum required ratio. The fixed charge coverage ratio for the quarter ended October 1, 2011 was 3.0 to 1.0, also in excess of the 1.0 to 1.0 minimum required ratio. Additionally, since the inception of the Credit Agreement, the Company's capital expenditures have been below the maximum levels allowed.

Our liquidity is dependent on availability under our current Credit Agreement. This availability is a function of both our cash generated by operations and our borrowing base availability (primarily an amount based on eligible inventories and accounts receivable less advances and stand-by letters of credit) and compliance with our debt covenants. Accordingly, a reduction in receivables has a corresponding effect on availability under the Revolver. The Company currently expects fourth quarter 2011 revenue to show softness comparable to third quarter levels, as well as an increase in its debt levels. It is expected that this will lead to a decline in cash receipts and availability under the Revolver as well as lower EBITDA comparable to the third quarter (less receivables reserves). The Company has initiated further cost reduction actions that will improve the Company's overall cash availability and EBITDA and help to achieve continuing compliance with the financial covenants under the Credit Agreement.

Since the fixed charge ratio covenant under the Credit Agreement is calculated on a rolling four quarter basis, in order for the ratio at the end of the third quarter 2011 to remain unchanged at the end of the fourth quarter 2011, EBITDA (as defined in the Credit Agreement) during the fourth quarter must equal EBITDA achieved during the fourth quarter of 2010. A reduction in EBITDA during the fourth quarter from the year-ago period will reduce the ratio. The Company expects EBITDA during the fourth quarter 2011 to be significantly lower than the level of EBITDA during the fourth quarter 2010, and accordingly it expects the fixed charge coverage ratio to be reduced. While the Company currently believes that it will achieve compliance with the fixed charge coverage ratio as of the end of the fourth quarter, there can be no assurance that this will be the case. If the Company does achieve compliance at the end of the fourth quarter, it expects to maintain compliance throughout the next four fiscal quarters, as the cost reductions initiated in the fourth quarter 2011 are expected to significantly improve EBITDA throughout fiscal year 2012. However, if the Company is unable to achieve compliance with the fixed charge coverage ratio, then an event of default would occur under the Credit Agreement. In such event, the "Availability Block" would increase to \$3,500,000 which would significantly restrict the Company's credit availability, and the Lender could demand immediate repayment of all amounts outstanding under the Credit Agreement. This could result in significant limitations on the Company's ability to operate. In such event the Company would expect to seek an amendment to the Credit Agreement that would permit the Company to work through any resulting operating limitations, however there can be no assurance that the Lender would agree to any such amendment to the Credit Agreement.

The Company has additional resources available to it in order to improve its liquidity, in the event that it was necessary. The Company could issue additional equity under the Company's Shelf Registration Statement, subject to market conditions and the willingness of investors to purchase such equity; the Company is presently marketing its office and manufacturing facility in Hudson, New Hampshire for a potential sale-leaseback transaction and could enter into such a transaction, subject to the willingness of a buyer to enter into such a transaction on acceptable terms; and the Company could seek to obtain additional debt financing, subject of the willingness of a lender to provide such financing and the Lender to provide its consent under the Credit Agreement. There can be no assurance that the Company will be able to achieve any of these transactions, as they are not exclusively within the Company's control.

Based upon all of these factors, management believes that it will remain in compliance with debt covenants and have adequate availability throughout the next four fiscal quarters. However, a further and more significant decline in operating results could have a negative impact and may require management to scale back on capital expenditures and/or other operating activities.

The weighted average interest rate on the Company's short-term borrowings was 4.50% at October 1, 2011.

### Long-Lived Assets

Our management assesses the recoverability of its long-lived assets by determining whether the depreciation and amortization of long lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment if any, is measured based on fair value and is charged to operations in the period in which long-lived assets impairment is determined by management. Due to the decline in the market value of the Company's common stock, we tested our long-lived assets for impairment at the end of the third quarter of 2011. Our projected future undiscounted cash flows exceeded the carrying value of long-lived assets. Accordingly, no impairment was indicated or recorded. There can be no assurance that market conditions will not change or demand for our services will continue, which could result in impairment of long-lived assets in the future.

### Commitments and Contingencies

The Company has change-in-control agreements with certain of its employees that provide them with benefits should their employment with the Company be terminated other than for cause or their disability or death, or if they resign for good reason, as defined in these agreements, in connection with or within a certain period of time after the date of any change-in-control of the Company.

From time to time the Company engages in sales of equipment that is leased by or intended to be leased by a third-party purchaser to another party. In certain situations, the Company may retain recourse obligations to a financing institution involved in providing financing to the ultimate lessee in the event the lessee of the equipment defaults on its lease obligations. In certain such instances, the Company may refurbish and remarket the equipment on behalf of the financing company, should the ultimate lessee default on payment of the lease. In certain circumstances, should the resale price of such equipment fall below certain predetermined levels, the Company would, under these arrangements, reimburse the financing company for any such shortfall in sale price (a "shortfall payment"). Generally, the Company's liability for these recourse agreements is limited to 9.5% of the amount outstanding. The maximum amount for which the Company was liable to the financial institutions for the shortfall payments was approximately \$0.7 million at October 1, 2011 and \$1.0 million at October 2, 2010.

### Effect of Inflation

Inflation has not had a material impact on our financial conditions or results of operations.

### Information Regarding Forward-Looking Statements

Statements other than those of historical fact contained in this Quarterly Report on Form 10-Q constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements regarding the following:

- our expectations regarding our ability to comply with the terms of our financing agreement;
- the adequacy of internal cash and working capital for our operations;
- manufacturing constraints and difficulties;
- the introduction of competitive products into the marketplace;
- the ability of the Company and its divisions to generate positive cash flows in the near-term, or to otherwise be profitable;
- our ability to produce commercially competitive products;
- the strength of our various strategic partnerships, both on manufacturing and distribution;
- our ability to secure other strategic alliances and relationships;
- our expectations regarding the Company’s strategy for growth, including statements regarding the Company’s expectations for continued product mix improvement;
- our expectations regarding the balance, independence and control of our business;
- our expectations and plans regarding market penetration, including the strength and scope of our distribution channels and our expectations regarding sales of Direct Imaging presses or computer-to-plate devices;
- the commercialization and marketing of our technology;
- our expectations regarding performance of existing, planned and recently introduced products;
- the adequacy of our intellectual property protections and our ability to protect and enforce our intellectual property rights;
- the expected effect of adopting recently issued accounting standards, among others; and
- the recoverability of our intangible assets and other long-lived assets.

Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors that could cause or contribute to such differences include:

- market acceptance of and demand for our products and resulting revenues;
- our ability to meet our stated financial objectives;
- our dependency on our strategic partners, both on manufacturing and distribution;
- the introduction of competitive products into the marketplace;
- shortages of critical or sole-source component supplies;
- the availability and quality of laser diodes;
- the performance and market acceptance of our recently-introduced products, and our ability to invest in new product development;
- manufacturing constraints or difficulties (as well as manufacturing difficulties experienced by our sub-manufacturing partners and their capacity constraints);
- the impact of general market factors in the print industry in general;
- current or worsening liquidity contraction impacts upon us and our customers;
- our ability to comply with the terms of our credit facilities;
- current or worsening capital and credit market conditions and their potentially adverse effects on our access to capital, cost of capital and business operations;
- current or worsening economic conditions and their potentially adverse effects on the Company's business and results of operations; and
- an inability to maintain the listing of our common stock on the NASDAQ stock market.

The words "looking forward," "looking ahead," "believe(s)," "should," "plan," "expect(s)," "project(s)," "anticipate(s)," "potential," "opportunity" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report and readers are advised to consider such forward-looking statements in light of the risks set forth herein. Presstek undertakes no obligation to update any forward-looking statements contained in this Quarterly Report on Form 10-Q, except as required by law.



## Critical Accounting Policies and Estimates

### General

Our Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to product returns; warranty obligations; allowances for doubtful accounts; slow-moving and obsolete inventories; income taxes; the valuation of intangible assets, long-lived assets and deferred tax assets; stock-based compensation and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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 January 1, 2011 which was filed with the SEC on March 16, 2011. There were no significant changes to the Company's critical accounting policies in the nine months ended October 1, 2011.

### Recently Issued Accounting Standards

In October 2009, the FASB issued ASU 2009-13, Revenue Recognition (Topic 605) – Multiple-Deliverable Revenue Arrangements. This guidance modifies the fair value requirements of FASB ASC subtopic 605-25, Revenue Recognition-Multiple Element Arrangements, by allowing the use of the "best estimate of selling price" in addition to vendor specific objective evidence and third-party evidence for determining the selling price of a deliverable. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence, (b) third-party evidence, or (c) estimates. In addition, the residual method of allocating arrangement consideration is no longer permitted. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010. The adoption of this guidance did not have a material impact upon our financial position or results of operations.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS. These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), result in common definition of fair value and common requirements for measurement of and disclosure requirements between U.S. GAAP and IFRS. The amendments change some fair value measurement principles and disclosure requirements. The adoption of this guidance is not expected to have a material impact upon our financial position and results of operations.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income (Topic 220). This guidance, effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The adoption of this guidance is not expected to have a material impact upon our financial position and results of operations.

### Off-Balance Sheet Arrangements

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (“SPEs”), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purpose. At October 1, 2011, we were not involved in any unconsolidated SPE transactions.

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Item 4. Controls and Procedures

This report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 under the Securities Exchange Act of 1934 (the “Exchange Act”). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and procedures and evaluations thereof referred to in those certifications.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as the end of the period covered by this quarterly report. Based on that evaluation, the Company’s management, including the CEO and CFO, concluded that the Company’s disclosure controls and procedures are effective as at end of the period covered by this quarterly report.

Changes in Internal Control over Financial Reporting

During the third quarter and first nine months of fiscal 2011, there has been no change in the Company’s internal control over financial reporting that has materially affected or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

This Form 10-Q should be read together with the “RISK FACTORS” section in our Annual Report on Form 10-K for the fiscal year ended January 1, 2011 filed with the U.S. Securities and Exchange Commission (“SEC”), which describe various risks and uncertainties to which we are or may become subject, and is supplemented by the discussion below. These risks and uncertainties could, directly or indirectly, adversely affect our business, financial condition, results of operations, cash flows, strategies and/or prospects.

If we do not meet the NASDAQ Stock Market continued listing requirements, our common stock may be delisted.

We were notified by the NASDAQ Stock Market (“NASDAQ”) on October 24, 2011 that we were no longer in compliance with the NASDAQ’s share price listing standard. Under the NASDAQ listed company manual, we have until April 23, 2012 to regain compliance with the minimum share price rule that requires, among other things, that the share price and average closing price of our common stock be above \$1.00 per share for a minimum of ten consecutive trading days prior to that date. During that time, our common stock continues to be listed on the NASDAQ and trades as usual. We are in compliance with all other NASDAQ listing rules and have actively been taking steps to maintain our listing. Despite our efforts, there can be no assurance that we will be in compliance with the NASDAQ’s continued listing requirements at or prior to April 23, 2012, or that we will not subsequently fail to satisfy the continued listing requirements. If at the end of any cure period, we are not in compliance with the NASDAQ’s continued listing requirements, our common stock may be subject to delisting. A delisting could: (i) reduce the liquidity and market price of our common stock; (ii) negatively impact our ability to raise equity financing; (iii) prevent us from accessing the public capital markets; and (iv) materially adversely impact our results of operations and financial condition.

Item 6. Exhibits

| Exhibit No. | Description                                                                                                                                                                              |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>10.1</u> | Amendment to Credit Agreement dated August 24, 2011                                                                                                                                      |
| <u>31.1</u> | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| <u>31.2</u> | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| <u>32.1</u> | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                   |
| <u>32.2</u> | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                   |
| 101.INS     | XBRL Instance Document.*                                                                                                                                                                 |
| 101.SCH     | XBRL Taxonomy Extension Schema Document.*                                                                                                                                                |
|             | XBRL Taxonomy Extension Calculation Linkbase Document.*                                                                                                                                  |
| 101.CAL     | XBRL Taxonomy Extension Label Linkbase Document.*                                                                                                                                        |
| 101.LAB     | XBRL Taxonomy Extension Presentation Linkbase Document.*                                                                                                                                 |
| 101.PRE     |                                                                                                                                                                                          |

\*Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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PRESSTEK, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRESSTEK, INC.  
(Registrant)

Date: November 15, 2011

/s/ Jeffrey A. Cook  
Jeffrey A. Cook  
Executive Vice President and Chief Financial  
Officer  
(Duly Authorized Officer and Principal  
Financial Officer)

PRESSTEK, INC.

EXHIBIT INDEX

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