

PRESSTEK INC /DE/
Form 10-Q
May 13, 2008

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 March 29, 2008

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.)

2 Greenwich Office Park, Suite 300,
Greenwich, Connecticut
(Address of Principal Executive Offices)

06831
(Zip Code)

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

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 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
(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 May 9, 2008, there were 36,583,914 shares of the Registrant's Common Stock, \$0.01 par value, outstanding.

PRESSTEK, INC.
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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

| | March 29, 2008 | December 29, 2007 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 6,642 | \$ 13,249 |
| Accounts receivable, net | 37,885 | 42,879 |
| Inventories, net | 52,508 | 49,084 |
| Assets of discontinued operations | 12 | 15 |
| Deferred tax assets | 6,740 | 6,740 |
| Other current assets | 5,375 | 4,666 |
| Total current assets | 109,162 | 116,633 |
| Property, plant and equipment, net | 36,527 | 38,023 |
| Goodwill | 19,891 | 19,891 |
| Intangible assets, net | 5,993 | 6,287 |
| Deferred income taxes | 11,199 | 11,124 |
| Other noncurrent assets | 555 | 869 |
| Total assets | \$ 183,327 | \$ 192,827 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Current portion of long-term debt and capital lease obligation | \$ 7,025 | \$ 7,035 |
| Line of credit | 15,000 | 20,000 |
| Accounts payable | 17,655 | 18,603 |
| Accrued expenses | 22,961 | 23,713 |
| Deferred revenue | 5,775 | 7,196 |
| Liabilities of discontinued operations | 686 | 888 |
| Total current liabilities | 69,102 | 77,435 |
| Long-term debt and capital lease obligation, less current portion | 6,750 | 8,500 |
| Total liabilities | 75,852 | 85,935 |
| Commitments and contingencies (See Note 19) | | |
| Stockholders' equity | | |
| Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued | - | - |
| Common stock, \$0.01 par value, 75,000,000 shares authorized, 36,583,914 and 36,565,474 shares issued and outstanding at March 29, 2008 and December 29, 2007, respectively | 366 | 366 |

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| | | |
|--------------------------------------------|------------|------------|
| Additional paid-in capital | 116,410 | 115,884 |
| Accumulated other comprehensive income | 871 | 1,032 |
| Retained earnings | (10,172) | (10,390) |
| Total stockholders' equity | 107,475 | 106,892 |
| Total liabilities and stockholders' equity | \$ 183,327 | \$ 192,827 |

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

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

| | Three months ended | |
|--------------------------------------------------------------|--------------------|-------------------|
| | March 29, 2008 | March 31, 2007 |
| Revenue | | |
| Product | \$ 43,027 | \$ 55,236 |
| Service and parts | 9,404 | 9,916 |
| Total revenue | 52,431 | 65,152 |
| Cost of revenue | | |
| Product | 27,394 | 38,946 |
| Service and parts | 6,926 | 7,698 |
| Total cost of revenue | 34,320 | 46,644 |
| Gross profit | 18,111 | 18,508 |
| Operating expenses | | |
| Research and development | 1,552 | 1,634 |
| Sales, marketing and customer support | 7,600 | 9,864 |
| General and administrative | 7,143 | 6,254 |
| Amortization of intangible assets | 351 | 707 |
| Restructuring and other charges | 635 | 335 |
| Total operating expenses | 17,281 | 18,794 |
| Operating income (loss) | 830 | (286) |
| Interest and other income (expense), net | (718) | (897) |
| Income (loss) from continuing operations before income taxes | 112 | (1,183) |
| Provision (benefit) for income taxes | (79) | (317) |
| Income (loss) from continuing operations | 191 | (866) |
| Income (loss) from discontinued operations, net of tax | 27 | (112) |
| Net income (loss) | \$ 218 | \$ (978) |
| Earnings (loss) per share - basic | | |
| Income (loss) from continuing operations | \$ 0.01 | \$ (0.03) |
| Loss from discontinued operations | \$ 0.00 | \$ (0.00) |
| | \$ 0.01 | \$ (0.03) |
| Earnings (loss) per share - diluted | | |
| Income (loss) from continuing operations | \$ 0.01 | \$ (0.03) |
| Loss from discontinued operations | \$ 0.00 | \$ (0.00) |
| | \$ 0.01 | \$ (0.03) |

| | | |
|----------------------------------------------|--------|--------|
| Weighted average shares outstanding | | |
| Weighted average shares outstanding - basic | 36,568 | 35,663 |
| Dilutive effect of options | 8 | - |
| Weighed average shares outstanding - diluted | 36,576 | 35,663 |

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

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

| | Three months ended | |
|----------------------------------------------------------------------------------------------------------|--------------------|-------------------|
| | March 29, 2008 | March 31, 2007 |
| Operating activities | | |
| Net income (loss) | \$ 218 | \$ (978) |
| Add (income) loss from discontinued operations | (27) | 112 |
| Income (loss) from continuing operations | 191 | (866) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,672 | 1,729 |
| Amortization of intangible assets | 351 | 708 |
| Restructuring and other charges | 166 | - |
| Provision for warranty costs | 207 | 405 |
| Provision for accounts receivable allowances | 46 | 54 |
| Stock compensation expense | 442 | 306 |
| Deferred income taxes | (75) | (254) |
| Loss on disposal of assets | 3 | 30 |
| Changes in operating assets and liabilities, net of effects from business acquisitions and divestitures: | | |
| Accounts receivable | 5,251 | (3,734) |
| Inventories | (3,427) | (6,556) |
| Other current assets | (708) | (792) |
| Other noncurrent assets | 35 | 27 |
| Accounts payable | (954) | 1,819 |
| Accrued expenses | (1,392) | 5 |
| Restructuring and other charges | 469 | 335 |
| Deferred revenue | (1,433) | 42 |
| Net cash provided by (used in) operating activities | 844 | (6,742) |
| Investing activities | | |
| Purchase of property, plant and equipment | (353) | (1,330) |
| Business acquisitions, net of cash acquired | - | (38) |
| Investment in patents and other intangible assets | (57) | (3) |
| Net cash used in investing activities | (410) | (1,371) |
| Financing activities | | |
| Net proceeds from issuance of common stock | 84 | 92 |
| Repayments of term loan and capital lease | (1,760) | (1,757) |
| Net borrowings (repayments) under line of credit agreement | (5,000) | 7,000 |
| Net cash provided by (used in) financing activities | (6,676) | 5,335 |
| Cash provided by (used in) discontinued operations | | |

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| | | |
|--------------------------------------------------------------|----------|----------|
| Operating activities | (172) | (789) |
| Investing activities | - | - |
| Financing activities | - | - |
| Net cash used in discontinued operations | (172) | (789) |
| Effect of exchange rate changes on cash and cash equivalents | (193) | (171) |
| Net decrease in cash and cash equivalents | (6,607) | (3,738) |
| Cash and cash equivalents, beginning of period | 13,249 | 9,449 |
| Cash and cash equivalents, end of period | \$ 6,642 | \$ 5,711 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | \$ 724 | \$ 762 |
| Cash paid for income taxes | \$ 51 | \$ 163 |

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

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 29, 2008
(Unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements of Presstek, Inc. and its subsidiaries (“Presstek,” the “Company,” “we” or “us”) contain all adjustments, including normal recurring adjustments, necessary to present fairly Presstek’s financial position as of March 29, 2008 and December 29, 2007, its results of operations for the three months ended March 29, 2008 and March 31, 2007 and its cash flows for the three months ended March 29, 2008 and March 31, 2007, in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and the interim reporting requirements of Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

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

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

Principles of Consolidation

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

The Company operates and reports on a 52- or 53-week, fiscal year ending on the Saturday closest to December 31. Accordingly, the accompanying consolidated financial statements include the thirteen week periods ended March 29, 2008 (the “first quarter of fiscal 2008” or the “three months ended March 29, 2008”) and March 31, 2007 (the “first quarter of fiscal 2007” or the “three months ended March 31, 2007”).

Earnings (Loss) per Share

Earnings (loss) per share is computed in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 128, Earnings per Share (“SFAS 128”). Accordingly, basic earnings (loss) per share is computed by dividing net

income by the weighted average number of shares of common stock outstanding during the period. For periods in which there is net income, diluted earnings per share is determined by using the weighted average number of common and dilutive common equivalent shares outstanding during the period unless the effect is antidilutive. Potential dilutive common shares consist of the incremental common shares issuable upon the exercise of stock options.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

Approximately 3,750,000 and 2,275,000 options to purchase common stock were excluded from the calculation of diluted earnings (loss) per share for the three months ended March 29, 2008 and March 31, 2007, respectively, as their effect would be antidilutive.

Foreign Currency Translation and Transactions

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

Gains and losses arising from foreign currency transactions are reported as a component of Interest and other income (expense), net in the Company's Consolidated Statements of Operations. The Company recorded losses on foreign currency transactions of approximately \$0.2 million for both of the three months ended March 29, 2008 and March 31, 2007.

Use of Estimates

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

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

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

Recent Accounting Pronouncements

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

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

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

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

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

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

2. DISCONTINUED OPERATIONS

The Company accounts for its discontinued operations under the provisions of SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets (SFAS 144). Accordingly, results of operations and the related expenses associated with discontinued operations have been classified as “Loss from discontinued operations, net of tax” in the accompanying Consolidated Statements of Operations. Assets and liabilities of discontinued operations have been reclassified and reflected on the accompanying Consolidated Balance Sheets as “Assets of discontinued operations” and “Liabilities of discontinued operations.” For comparative purposes, all prior periods presented have been reclassified on a consistent basis.

Precision Lithograining Corp. - Analog Newspaper Business

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

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

| | March 29, 2008 | March 31, 2007 |
|--------------------------------------------|-------------------|-------------------|
| Revenue | \$ -- | \$ 195 |
| Income (loss) before income taxes | 46 | (188) |
| Provision (benefit) for income taxes | 19 | (76) |
| Income (loss) from discontinued operations | \$ 27 | \$ (112) |
| Loss per share | \$ 0.00 | \$ (0.00) |

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

| | March 29, 2008 | December 29, 2007 |
|---------------------------|-------------------|----------------------|
| Receivables, net | \$ 12 | \$ 15 |
| Total current assets | \$ 12 | \$ 15 |
| Accounts payable | \$ 189 | \$ 189 |
| Accrued expenses | 497 | 699 |
| Total current liabilities | \$ 686 | \$ 888 |

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

3. FAIR VALUES OF FINANCIAL INSTRUMENTS

At March 29, 2008, the Company's financial assets that are measured at fair value on a recurring basis are comprised of overnight investments. The Company invests excess cash from its operating cash accounts in overnight investments and reflects these amounts, of approximately \$2.2 million at March 29, 2008, in cash and cash equivalents on the consolidated balance sheet using quoted prices in active markets for identical assets (Level 1) which is equal to a net value of 1:1 for each dollar invested.

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

4. ACCOUNTS RECEIVABLE, NET

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

| | March 29, 2008 | December 29, 2007 |
|---------------------|-------------------|-------------------------|
| Accounts receivable | \$ 40,680 | \$ 45,812 |
| Less allowances | (2,795) | (2,933) |
| | \$ 37,885 | \$ 42,879 |

5. INVENTORIES

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

| | March 29, 2008 | December 29, 2007 |
|-----------------|-------------------|-------------------------|
| Raw materials | \$ 3,783 | \$ 5,083 |
| Work in process | 7,561 | 6,615 |
| Finished goods | 41,164 | 37,386 |
| | \$ 52,508 | \$ 49,084 |

During the three months ended March 29, 2008 and March 31, 2007, the Company disposed of \$0.8 million and \$0.2 million, respectively, of excess and obsolete inventories. The inventories disposed were primarily comprised of machine components and repair parts relating to technology that is no longer produced or serviced by the Company, and had a net realizable value of \$0 as of December 29, 2007 and December 30, 2006, respectively.

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PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

6. PROPERTY, PLANT AND EQUIPMENT, NET

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

| | March 29, 2008 | December 29, 2007 |
|----------------------------------------------|-------------------|-------------------------|
| Land and improvements | \$ 2,286 | \$ 2,286 |
| Buildings and leasehold improvements | 29,699 | 29,968 |
| Production and other equipment | 57,449 | 57,197 |
| Office furniture and equipment | 7,514 | 7,615 |
| Construction in process | 2,979 | 2,930 |
| Total property, plant and equipment, at cost | 99,927 | 99,996 |
| Accumulated depreciation and amortization | (63,400) | (61,973) |
| Net property, plant and equipment | \$ 36,527 | \$ 38,023 |

Construction in process is generally related to production equipment and information technology systems not yet placed into service. The amount reported at March 29, 2008 includes \$2.1 million related to a new service management system, which the Company purchased in the first quarter of fiscal 2006 and is in the process of implementing. The Company is capitalizing all applicable costs in accordance with AICPA Statement of Position No. 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use, and estimates that the total cost of implementation will approximate \$2.5 million.

Property, plant and equipment at March 29, 2008 and December 29, 2007 includes \$110,000 of office furniture and equipment and related accumulated depreciation of \$86,000 and \$77,000, respectively, associated with a capital lease.

The Company recorded depreciation expense of \$1.7 million in both of the first quarters of fiscal 2008 and fiscal 2007. Under the Company's financing arrangements (see Note 8), all property, plant and equipment are pledged as security.

7. INTANGIBLE ASSETS AND GOODWILL

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

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

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

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

| | March 29, 2008 | | December 29, 2007 | |
|-----------------------------------|----------------|-----------------------------|-------------------|-----------------------------|
| | Cost | Accumulated amortization | Cost | Accumulated amortization |
| Patents and intellectual property | \$ 11,093 | \$ 8,131 | \$ 11,038 | \$ 7,923 |
| Trade names | 2,360 | 2,360 | 2,360 | 2,360 |
| Customer relationships | 4,583 | 2,081 | 4,583 | 1,986 |
| Software licenses | 450 | 450 | 450 | 450 |
| License agreements | 895 | 471 | 750 | 296 |
| Non-compete covenants | 100 | 100 | 100 | 100 |
| Loan origination fees | 332 | 227 | 332 | 211 |
| | \$ 19,813 | \$ 13,820 | \$ 19,613 | \$ 13,326 |

The Company recorded amortization expense for its identifiable intangible assets of \$0.4 million and \$0.7 million in the first quarters of fiscal 2008 and fiscal 2007, respectively. Estimated future amortization expense for the Company's identifiable intangible assets in service at March 29, 2008, is as follows (in thousands):

| | |
|--------------------------|----------|
| Remainder of fiscal 2008 | \$ 1,045 |
| Fiscal 2009 | \$ 1,262 |
| Fiscal 2010 | \$ 1,137 |
| Fiscal 2011 | \$ 846 |
| Fiscal 2012 | \$ 512 |
| Fiscal 2013 | \$ 380 |
| Thereafter | \$ 317 |

The carrying amount of goodwill recorded by the Company's Presstek reporting unit was \$19.9 million at March 29, 2008. There have been no changes to this amount since December 29, 2007.

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

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

8. FINANCING ARRANGEMENTS

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

| | March 29, 2008 | December 29, 2007 |
|--------------------------|-------------------|-------------------------|
| Term loan | \$ 13,750 | \$ 15,500 |
| Line of credit | 15,000 | 20,000 |
| Capital lease obligation | 25 | 35 |
| | 28,775 | 35,535 |
| Less current portion | (22,025) | (27,035) |
| Long-term debt | \$ 6,750 | \$ 8,500 |

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

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

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

At March 29, 2008 and December 29, 2007, the Company had outstanding balances on the Revolver of \$15.0 million and \$20.0 million, respectively, with interest rates of 5.2% and 7.5%, respectively. At March 29, 2008, there were \$1.3 million of outstanding letters of credit, thereby reducing the amount available under the Revolver to \$28.7 million at that date.

The Term Loan requires quarterly principal payments of \$1.75 million, with a final settlement of all remaining principal and unpaid interest on November 4, 2009. At March 29, 2008 and December 29, 2007, outstanding balances under the Term Loan were \$13.7 million and \$15.5 million, respectively, with interest rates of 5.2% and 7.5%, respectively.

The weighted average interest rate on the Company's short-term borrowings was 5.2% at March 29, 2008.

Under the terms of the Revolver and the Term Loan, the Company is required to meet various financial covenants on a quarterly and annual basis, including maximum funded debt to EBITDA (a non-U.S. GAAP measurement that the

Company defines as earnings before interest, taxes, depreciation, amortization, and restructuring and other charges) and minimum fixed charge coverage covenants. At March 29, 2008, the Company was in compliance with all financial covenants.

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PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

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

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

| | |
|-------------------|-----------|
| Remainder of 2008 | \$ 20,275 |
| 2009 | \$ 8,500 |

The amounts above do not reflect interest payments on any outstanding principal balances for the Revolver and Term Loan because the interest rates on these financing arrangements are not fixed.

9. ACCRUED EXPENSES

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

| | March 29, 2008 | December 29, 2007 |
|---------------------------------------|-------------------|-------------------------|
| Accrued payroll and employee benefits | \$ 5,035 | \$ 5,809 |
| Accrued warranty | 3,351 | 3,534 |
| Accrued restructuring | 1,262 | 1,592 |
| Accrued royalties | 408 | 432 |
| Accrued income taxes | 780 | 569 |
| Accrued legal | 5,957 | 5,815 |
| Accrued professional fees | 2,304 | 2,545 |
| Other | 3,864 | 3,417 |
| | \$ 22,961 | \$ 23,713 |

10. ACCRUED WARRANTY

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

| | |
|-------------------------------------------|----------|
| Balance at December 29, 2007 | \$ 3,534 |
| Accruals for warranties | 207 |
| Utilization of accrual for warranty costs | (390) |
| Balance at March 29, 2008 | \$ 3,351 |

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

11. DEFERRED REVENUE

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

| | March 29, 2008 | December 29, 2007 |
|--------------------------|-------------------|-------------------------|
| Deferred service revenue | \$ 5,548 | \$ 6,718 |
| Deferred product revenue | 227 | 478 |
| | \$ 5,775 | \$ 7,196 |

12. RESTRUCTURING AND OTHER CHARGES

In the first quarter of fiscal 2008, the Company recognized \$0.6 million in restructuring and other charges related to severance and separation costs under the consolidation efforts of the Business Improvement Plan (“BIP”) that was introduced in the third quarter of fiscal 2007.

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

| | Balance December 29, 2007 | Charged to expense | Utilization | Balance March 29, 2008 |
|-----------------------------------|------------------------------------|-----------------------|-------------|------------------------------|
| Lease termination and other costs | \$ -- | \$ 419 | \$ (212) | \$ 207 |
| Executive contractual obligations | 904 | -- | (262) | 642 |
| Severance and fringe benefits | 688 | 216 | (491) | 413 |
| | \$ 1,592 | \$ 635 | \$ (965) | \$ 1,262 |

13. STOCK-BASED COMPENSATION

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

1998 Stock Option Plan

The 1998 Stock Incentive Plan (the “1998 Incentive Plan”) provides for the award of stock options, restricted stock, deferred stock, and other stock based awards to officers, directors, employees, and other key persons (collectively “awards”). A total of 3,000,000 shares of common stock, subject to anti-dilution adjustments, have been reserved under this plan. Any future options granted under the 1998 Incentive Plan will become exercisable upon the earlier of a date

set by the Board of Directors or Committee at the time of grant or the close of business on the day before the tenth anniversary of the stock options' date of grant. Any future options granted as incentive stock options, or ISO's, become exercisable the day before the fifth anniversary of the date of grant. At March 29, 2008, there were 510,000 options outstanding and 1,540,200 shares available for future grants under the 1998 Incentive Plan. The options will expire at various dates as prescribed by the individual option grants. This plan expired on April 6, 2008 and therefore no options will be granted under this plan after this date.

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PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

2003 Stock Option Plan

The 2003 Stock Option and Incentive Plan (the “2003 Plan”) provides for the award of stock options, stock issuances and other equity interests in the Company to employees, officers, directors (including those directors who are not an employee or officer of the Company, such directors being referred to as non-employee Directors), consultants and advisors of the Company and its subsidiaries. The 2003 Plan provides for an automatic annual grant of 7,500 stock options to all active Non-Employee Directors and an option to purchase 25,000 shares is granted to newly elected non-employee directors, all of which vest over a one year period. Additional grants may be awarded at the discretion of the Board of Directors or Committee, and on April 7, 2005, effective for fiscal 2005 forward, the Company’s Board of Directors approved an additional annual grant of 7,500 options to re-elected non-employee directors. A total of 2,000,000 shares of common stock, subject to anti-dilution adjustments, have been reserved under the 2003 Plan. For the three months ended March 29, 2008, no options were issued under the 2003 Plan. There were 483,333 options issued under the 2003 Plan for the three months ended March 31, 2007.

Employee Stock Purchase Plan

The Company’s Employee Stock Purchase Plan (“ESPP”) is designed to provide eligible employees of the Company and its participating U.S. subsidiaries an opportunity to purchase common stock of the Company through accumulated payroll deductions. The purchase price of the stock is equal to 85% of the fair market value of a share of common stock on the first day or last day of each three-month offering period, whichever is lower. All employees of the Company or participating subsidiaries who customarily work at least 20 hours per week and do not own five percent or more of the Company’s common stock are eligible to participate in the ESPP. A total of 950,000 shares of the Company’s common stock, subject to adjustment, have been reserved for issuance under this plan. The Company issued 18,926 shares and 17,987 shares of common stock under its ESPP for the three months ended March 29, 2008 and March 31, 2007, respectively.

Restricted Stock and Non-plan Stock Options

In the second quarter of fiscal 2007, the Company granted 300,000 shares of restricted stock and 1,000,000 stock options to its President and Chief Executive Officer (“CEO”) under a non-plan, non-qualified stock option agreement. The award of restricted stock vested on May 10, 2007, the effective date of the CEO’s employment agreement with the Company, but is subject to the holding period provisions as defined in Rule 144 of the U.S. Securities and Exchange Commission (“Rule 144”). The stock options granted under the stock option agreement provide for vesting of 200,000 options on May 10, 2007, 200,000 options to vest over the period May 10, 2007 to January 1, 2008, and the remaining 600,000 options to vest at a rate of 200,000 per annum over the period January 1, 2009 to January 1, 2011, subject to service conditions only.

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.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

Stock based compensation expense for the three months ended March 29, 2008 and March 31, 2007 is as follows (in thousands):

| Stock option plan | Three months ended | |
|-------------------------|--------------------|-------------------|
| | March 29, 2008 | March 31, 2007 |
| 2003 Plan | \$ 257 | \$ 290 |
| 1998 Plan | 43 | -- |
| ESPP | 13 | 16 |
| Restricted Stock | -- | -- |
| Non-plan, non-qualified | 129 | -- |
| Total | \$ 442 | \$ 306 |

As of March 29, 2008, there was \$3.0 million of unrecognized compensation expense related to stock option grants. The weighted average period over which the remaining unrecognized compensation expense will be recognized is 2.8 years.

Valuation Assumptions

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 March 29, 2008 | Three months ended March 31, 2007 |
|--------------------------|-----------------------------------------------|-----------------------------------------------|
| | Risk-free interest rate | 1.22% |
| Volatility | 46.35% | 48.15% |
| Expected life (in years) | 0.25 | 0.25 |
| Dividend yield | -- | -- |

Based on the above assumptions, the fair values of each stock purchase right under the Company's ESPP for the first quarter of fiscal 2008 and 2007 was \$1.07 and \$1.14, respectively.

The fair value of the options to purchase common stock granted in the first quarter of fiscal 2008 and fiscal 2007 under the 2003 Plan and the 1998 Plan was estimated on the respective grant dates using the Black-Scholes valuation model with the following assumptions:

| Three months ended | Three months ended |
|--------------------------|--------------------------|
|--------------------------|--------------------------|

| | March 29, 2008 | March 31, 2007 |
|--------------------------|-------------------|-------------------|
| Risk-free interest rate | 2.72% | 4.45% |
| Volatility | 52.25% | 48.52% |
| Expected life (in years) | 5.56 | 4.54 |
| 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 first quarter of fiscal 2008 and fiscal 2007 under the 2003 Plan and the 1998 Plan was \$2.29 and \$2.78, respectively.

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PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
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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 the U.S. Treasury STRIPS (Separate Trading of Registered Interest and Principal of Securities) rate for the period corresponding to the expected life of the options or ESPP purchase period.

Stock Option Activity

Stock option activity for the three months ended March 29, 2008 is summarized as follows:

| | Shares | Weighted average exercise price | Weighted average remaining contractual life | Aggregate intrinsic value |
|----------------------------------|-----------|---------------------------------|---------------------------------------------|---------------------------|
| Outstanding at December 29, 2007 | 3,816,567 | \$ 8.26 | | |
| Granted | 35,000 | \$ 4.60 | | |
| Exercised | (2,500) | \$ 4.79 | | |
| Canceled/expired | (65,425) | \$ 8.09 | | |
| Outstanding at March 29, 2008 | 3,783,642 | \$ 8.23 | 6.04 years | \$ 47,000 |
| Exercisable at March 29, 2008 | 2,568,641 | \$ 9.16 | 5.18 years | \$ 47,000 |

During the three months ended March 29, 2008, the total intrinsic value of stock options exercised was \$0.1 million. There were no options exercised during the three month period ending March 31, 2007.

14. INTEREST AND OTHER INCOME (EXPENSE)

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

| | Three months ended | |
|-----------------------------|--------------------|-------------------|
| | March 29, 2008 | March 31, 2007 |
| Interest income | \$ 46 | \$ 8 |
| Interest expense | (661) | (762) |
| Other income (expense), net | (103) | (143) |
| | \$ (718) | \$ (897) |

The amounts reported as Other income (expense), net, also include \$0.2 million and \$0.2 million, respectively, for losses on foreign currency transactions for the three months ended March 29, 2008 and March 31, 2007.

15. 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.

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PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

The Company's tax benefit was \$0.08 million and \$0.3 million for the three months ended March 29, 2008 and March 31, 2007, respectively, on pre-tax income (loss) from continuing operations of \$0.1 million and (\$1.2) million for the respective periods.

16. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is comprised of net income (loss), and all changes in equity of the Company during the period from non-owner sources. These changes in equity are recorded as adjustments to Accumulated other comprehensive income in the Company's Consolidated Balance Sheets. The primary component of Accumulated other comprehensive income is unrealized gains or losses on foreign currency translation. The components of comprehensive income (loss) are as follows (in thousands):

| | Three months ended | |
|--------------------------------------------------------|--------------------|-------------------|
| | March 29, 2008 | March 31, 2007 |
| Net income (loss) | \$ 218 | \$ (978) |
| Changes in accumulated other comprehensive income: | | |
| Unrealized foreign currency translation gains (losses) | (161) | (161) |
| Comprehensive income (loss) | \$ 57 | \$ (1,139) |

17. SEGMENT AND GEOGRAPHIC INFORMATION

The Company is a market-focused high-technology company that designs, manufactures and distributes proprietary and non-proprietary solutions to the graphic arts industries, primarily serving short-run, full-color customers worldwide. The Company's operations are currently organized into two segments: (i) Presstek and (ii) Lasertel. Segment operating results are based on the current organizational structure reviewed by the Company's management to evaluate the results of each business. A description of the types of products and services provided by each segment follows.

- Presstek is primarily engaged in the development, manufacture, sale and servicing of our patented digital imaging systems and patented printing plate technologies as well as traditional, analog systems and related equipment and supplies for the graphic arts and printing industries, primarily the short-run, full-color market segment.
- Lasertel manufactures and develops high-powered laser diodes and related laser products for Presstek and for sale to external customers.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

Selected operating results information for each segment is as follows (in thousands):

| | Three months ended | |
|---------------------------------------|--------------------|-------------------|
| | March 29, 2008 | March 31, 2007 |
| Revenue | | |
| Presstek | \$ 50,794 | \$ 63,463 |
| Lasertel | 2,320 | 3,022 |
| Total revenue, including intersegment | 53,114 | 66,485 |
| Intersegment revenue | (683) | (1,333) |
| | \$ 52,431 | \$ 65,152 |
| Revenue from external customers | | |
| Presstek | \$ 50,794 | \$ 63,463 |
| Lasertel | 1,637 | 1,689 |
| | \$ 52,431 | \$ 65,152 |
| Operating income (loss) | | |
| Presstek | \$ 1,717 | \$ (172) |
| Lasertel | (887) | (114) |
| | \$ 830 | \$ (286) |

Intersegment revenues and costs are eliminated from each segment prior to review of segment results by the Company's management. Accordingly, the amounts of intersegment revenues and expenses allocable to each individual segment have been excluded from the table above, except where otherwise indicated.

Asset information for the Company's segments as of March 29, 2008 and December 29, 2007 is as follows (in thousands):

| | March 29, 2008 | December 29, 2007 |
|----------|-------------------|-------------------------|
| Presstek | \$ 170,845 | \$ 180,023 |
| Lasertel | 12,482 | 12,804 |
| | \$ 183,327 | \$ 192,827 |

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

The Company's classification of revenue 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 | |
|----------------|--------------------|-------------------|
| | March 29, 2008 | March 31, 2007 |
| United States | \$ 36,412 | \$ 36,911 |
| United Kingdom | 4,186 | 8,210 |
| Canada | 1,899 | 3,650 |
| Germany | 905 | 1,777 |
| Japan | 552 | 2,031 |
| All other | 8,477 | 12,573 |
| | \$ 52,431 | \$ 65,152 |

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

| | March 29, 2008 | December 29, 2007 |
|----------------|-------------------|-------------------------|
| | United States | \$ 73,225 |
| United Kingdom | 614 | 752 |
| Canada | 326 | 220 |
| | \$ 74,165 | \$ 78,844 |

18. RELATED PARTIES

The Company engages the services of Amster, Rothstein & Ebenstein, a law firm of which a member of the Company's Board of Directors is a partner. Expenses incurred for services from this law firm were \$0.7 million and \$0.3 million for the three months ended March 29, 2008 and March 31, 2007, respectively.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

19. COMMITMENTS AND CONTINGENCIES

Commitments & Contingencies

On October 30, 2006, a chemical was released from a mixing tank into a holding pool at our manufacturing plant in South Hadley, Massachusetts, which caused the Company to temporarily cease digital and analog aluminum plate manufacturing operations at this location. The chemical release was contained on-site, there were no reported injuries, neighboring properties were not damaged and there were no requirements for soil or groundwater remediation. Digital plate manufacturing was restarted on November 6, 2006. On December 28, 2006, the Audit Committee of the Board of Directors ratified a plan to discontinue newspaper application analog plate production at the facility. In connection with the chemical release, the Company continues to work closely with federal, state, and local agencies regulating public health and the environment to complete a full assessment of the cause and impact of this incident and bring the matter to closure. In April and May of 2007, the Company executed consent orders and settlement arrangements with the U.S. Department of Labor - Occupational Safety and Health Administration (OSHA) and the Massachusetts Department of Environmental Protection, respectively. Under these arrangements, the Company agrees to corrective action to ensure compliance with all applicable environmental regulations in the future. Expenses associated with and amounts accrued for this incident as of March 29, 2008 are reflected in the financial results of discontinued operations (Note 2). It is possible that costs in excess of amounts accrued may be incurred. At this time, the Company has not ascertained the future liability, if any, associated with a final resolution of this matter.

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

From time to time the Company has engaged 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 9.9% or less of the amount outstanding. The maximum amount for which the Company may be liable to the financial institution for the shortfall payment was approximately \$1.5 million at March 29, 2008.

Litigation

On October 26, 2006, the Company was served with a complaint naming the Company, together with certain of its executive officers, as defendants in a purported securities class action suit filed in the United States District Court for the District of New Hampshire. The suit claims to be brought on behalf of purchasers of Presstek's common stock during the period from July 27, 2006 through September 29, 2006. The complaint alleges, among other things, that the Company and the other defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5

promulgated thereunder based on allegedly false forecasts of fiscal third quarter and annual 2006 revenues. As relief, the plaintiff seeks an unspecified amount of monetary damages, but makes no allegation as to losses incurred by any purported class member other than himself, court costs and attorneys' fees. The Company believes the allegations are without merit and intends to vigorously defend against them.

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PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 29, 2008
(Unaudited)

In March 2005, the Company filed an action against Creo, Inc. (subsequently acquired by Kodak) in the U.S. District for the District of New Hampshire for patent infringement. In this action, the Company alleges that Creo has distributed a product that violates a Presstek U.S. Patent. The Company is seeking an order from the court that Creo refrain from offering the infringing product for sale, from using the infringing material or introducing it for the named purposes, or from possessing such infringing material, and for the payment of damages associated with the infringement. A trial is scheduled for the fall of 2008.

In August 2007, an Arbitrator from the International Centre for Dispute Resolution issued a partial award against the Company and in favor of Reda National Company ("Reda"), a former Company distributor operating in the Middle East. Reda claimed that the Company breached an exclusive distributor agreement by entering into a distribution agreement with another party covering the same territory assigned to Reda. Reda sought damages totaling approximately \$9.7 million. In the partial award the Arbitrator found that the Company had breached its agreement with Reda and found the Company liable to Reda for arbitration costs, attorneys' fees, and incidental expenses incurred by Reda in connection with the arbitration. The Arbitrator also ordered that a further hearing would be held to determine any additional damages associated with the breach of contract. The hearing on damages was held during December 2007. On May 7, 2008 the Arbitrator issued a decision finding the Company liable to pay to Reda a total of approximately \$0.8 million, representing damages, attorneys' fees and arbitration costs. On May 8, 2008 Reda filed a motion to correct the decision, arguing that the Arbitrator committed errors in understating the amount of one element of damages and in failing to award interest on the damage award. The company is contesting this motion to increase the damage award and to award interest on the damages.

On February 4, 2008, the Company received from the U.S. Securities and Exchange Commission (the "SEC") a formal order of investigation relating to the previously disclosed SEC inquiry regarding the Company's announcement of preliminary financial results for the third quarter of 2006. The Company is cooperating fully with the SEC's investigation.

In January 2008 the Company was served with an Administrative Complaint filed by the U.S. Environmental Protection Agency ("EPA"). The EPA seeks to assess penalties against the Company for alleged violations of certain provisions of the Clean Air Act and the Comprehensive Environmental Response, Compensation and Liability Act arising from an incident occurring at a facility of the Company located in South Hadley, Massachusetts on October 30, 2006.

Presstek is a party to other 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.

The Company has recorded its best estimate of any losses associated with these matters.

20. SUBSEQUENT EVENT

During the second quarter of fiscal 2008, the company reached an agreement to sell its Lasertel property in Tucson, Arizona, of which a portion of the facility is intended to be leased back. The company expects this transaction, subject to due diligence, to close during the third quarter of 2008.

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

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

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 of our financial and operating performance in 2008 and beyond;
- the adequacy of internal cash and working capital for our operations;
- manufacturing constraints and difficulties;
- the introduction of competitive products into the marketplace;
- management's plans and goals for our subsidiaries;
- 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; and

- the expected effect of adopting recently issued accounting standards, among others.

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;

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- 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 Lasertel's 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); and
- the impact of general market factors in the print industry generally and the economy as a whole, including the potential effects of inflation.

The words "looking forward," "looking ahead," "believe(s)," "should," "plan," "expect(s)," "project(s)," "anticipate(s)," "may," "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.

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 in "Part I, Item 1A, Risk Factors" of our Annual Report on Form 10-K for the year ended December 29, 2007, as filed with the SEC on April 30, 2008.

Overview of the Company

The Company is a provider of high-technology, digital-based printing solutions to the commercial print segment of the graphics 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 are helping 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. Our product offerings cover a wide range of solutions to over 20,000 customers worldwide.

Presstek's business model is a capital equipment and consumables (razor and blade) model. In this model, approximately two-thirds of our revenue is recurring revenue. Our model is designed so that each placement of either a Direct Imaging Press or a Computer to Plate system generally results in recurring aftermarket revenue for consumables and service.

Through our various operations, we:

- provide advanced digital print solutions through the development and manufacture of digital laser imaging equipment and advanced technology chemistry-free 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;
- 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;
- manufacture semiconductor solid state laser diodes for Presstek imaging applications and for use in external applications; and
 - manufacture and distribute printing plates for conventional print applications.

We have developed a proprietary system by which digital images are transferred onto printing plates for Direct Imaging on-press applications (“DI”). Our advanced DI technology is integrated into a Direct Imaging Press to produce 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 process results in a DI press which, in combination with our proprietary printing plates and streamlined workflow, produces a superior print 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 computer-to-plate (“CTP”) systems. Our Presstek segment also designs and manufactures 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 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 had been reliant on OEM partners to deliver our business solutions to customers. Today, more than 90% of our sales are through our own distribution channels. To a lesser extent, we supply OEM press manufacturers with imaging kits complete with optical assemblies and software, and spare parts, which are integrated into the manufacturers’ presses.

In addition to marketing, selling and servicing our proprietary digital products, we also market, sell and service traditional, or analog products for the commercial print market. This analog equipment is manufactured by third party strategic partners and the analog consumables are manufactured by either us or our strategic partners. The addition of these non-proprietary products and our ability to directly sell and service them was made possible by the ABDick and Precision acquisitions, which we completed in 2004.

Our operations are currently organized into two segments: (i) Presstek and (ii) Lasertel. Segment operating results are based on the current organizational structure reviewed by our management to evaluate the results of each business. A description of the types of products and services provided by each business segment follows.

- Presstek is primarily engaged in the development, manufacture, 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.

- Lasertel manufactures and develops high-powered laser diodes and related laser products for Presstek and for sale to external customers.

We generate revenue through four main sources: (i) the sale of our equipment, including DI presses and CTP devices, and to a lesser extent imaging kits complete with optical assemblies and software, and spare parts, which are incorporated by leading press manufacturers into direct imaging presses for the graphic arts industry; (ii) the sale of high-powered laser diodes for the graphic arts, defense and industrial sectors; (iii) the sale of our proprietary and non-proprietary consumables and supplies; and (iv) the servicing of offset printing systems and analog and CTP systems and related equipment.

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. Our strategy centers on increasing the number of our DI and CTP units (together, referred to as CBEs), which increases the demand for our consumables.

To complement our direct sales efforts, in certain territories, we maintain relationships with key press manufacturers such as Ryobi Limited, Heidelberger Druckmaschinen AG, or Heidelberg, and Koenig & Bower AG, or 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 consumables that can be imaged by non-Presstek devices. In addition to expanding our base of our CBEs, 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 chemistry-free and process-free offerings. The first step in executing this strategy was the launch of our proprietary Aurora chemistry-free printing plate designed to be used with CBEs manufactured by thermal CTP market leaders, such as Screen and Kodak. We continue to work with other CTP manufacturers to qualify our consumables on their systems. We believe this shift in strategy fundamentally enhances our ability to expand and control our business.

We operate and report on a 52- or 53-week, fiscal year ending on the Saturday closest to December 31. Accordingly, the consolidated financial statements include the financial reports for the 13-week periods ended March 29, 2008, which we refer to as the first quarter and first three months of fiscal 2008 or the three months ended March 29, 2008, and the 13-week period ended March 31, 2007, which we refer to as the first quarter and first three months of fiscal 2007 or the three months ended March 31, 2007.

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.

The discussion of results of operations at the consolidated level is presented together with results of operations by business segment.

RESULTS OF OPERATIONS

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

| | Three months ended | | | |
|--------------------------------------------------------|--------------------|---------|----------------|---------|
| | March 29, 2008 | % of | March 31, 2007 | % of |
| | | revenue | | revenue |
| Revenue | | | | |
| Product | \$ 43,027 | 82.1 | \$ 55,236 | 84.8 |
| Service and parts | 9,404 | 17.9 | 9,916 | 15.2 |
| Total revenue | 52,431 | 100.0 | 65,152 | 100.0 |
| Cost of revenue | | | | |
| Cost of product | 27,394 | 52.2 | 38,946 | 59.8 |
| Cost of service and parts | 6,926 | 13.2 | 7,698 | 11.8 |
| Total cost of revenue | 34,320 | 65.4 | 46,644 | 71.6 |
| Gross profit | 18,111 | 34.6 | 18,508 | 28.4 |
| Operating expenses | | | | |
| Research and product development | 1,552 | 3.0 | 1,634 | 2.5 |
| Sales, marketing and customer support | 7,600 | 14.5 | 9,864 | 15.1 |
| General and administrative | 7,143 | 13.6 | 6,254 | 9.6 |
| Amortization of intangible assets | 351 | 0.7 | 707 | 1.1 |
| Restructuring and other charges | 635 | 1.2 | 335 | 0.5 |
| Total operating expenses | 17,281 | 33.0 | 18,794 | 28.8 |
| Operating income (loss) | 830 | 1.6 | (286) | (0.4) |
| Interest and other expense, net | (718) | (1.4) | (897) | (1.4) |
| Provision (benefit) for income taxes | (79) | (0.1) | (317) | (0.5) |
| Income (loss) from continuing operations | 191 | 0.3 | (866) | (1.3) |
| Income (loss) from discontinued operations, net of tax | 27 | 0.1 | (112) | (0.2) |
| Net income (loss) | \$ 218 | 0.4 | \$ (978) | (1.5) |

Three months ended March 29, 2008 compared to three months ended March 31, 2007

Revenue

Consolidated Revenue

Consolidated revenues were \$52.4 million in the first quarter of 2008, a decline of \$12.7 million, or 19.5%, compared to \$65.2 million in the first quarter of 2007. The decline in sales was primarily driven by reduced sales in Europe due to a disruption in operations resulting from a comprehensive business review, economic weakness in the United States, and customer anticipation of the DRUPA trade show which will take place in Germany in Q2. Overall, sales of Presstek's "growth" portfolio of products, defined as 34DI and 52DI digital offset solutions, the Presstek family of chemistry free CtP solutions, and Lasertel, decreased \$5.2 million, or 16.6%, from \$31.2 million in the first quarter of 2007 to \$26.0 million in 2008.

Presstek segment equipment revenues were \$13.2 million in the first quarter of 2008, a decrease of \$10.3 million, or 43.8%, from the comparable prior year period. Sales of growth portfolio DI presses declined from \$15.2 million in Q1 of 2007 to \$9.7 million in Q1 of 2008, a reduction of 36.1%, due to lower press sales in Europe. In addition, sales of DI kits declined from \$0.9 million in the first quarter of 2007 to zero in the first quarter of 2008. Sales of our remaining growth portfolio of equipment, Dimension and Vector TX52 platesetters, declined from \$3.4 million in the first quarter of 2007 to \$2.8 million in 2008, a decrease of 18.2%, due in part to the company's continued emphasis on marketing higher margin DI presses. Equipment sales of our "traditional" line of products, defined as QMDI presses, polyester CtP platesetters, and conventional equipment, were all lower in the first quarter of 2008 compared to 2007 due to the ongoing transition of our customer base from analog to digital technologies. Revenues from our traditional line of equipment products declined from \$5.1 million in 2007 to \$1.6 million in 2008, a decrease of 69.1%. As a percentage of total equipment revenue within the Presstek segment, net sales of growth portfolio equipment products increased from 83.3% of revenue in Q1 2007 to 95.2% in 2008.

Revenue for the Lasertel segment was \$2.3 million in the first quarter of 2008, a decrease of \$0.7 million, or 23.2%, from the comparable prior year period. The decrease was the result of delayed orders from external customers, as well as a decline in sales to the Presstek segment.

Consumables product revenues declined from \$30.1 million in the first quarter of 2007 to \$28.2 million in the first quarter of 2008, a decrease of 6.3%. The decline was due primarily to lower sales of our traditional products resulting from the continuing migration of our customer base from analog to digital solutions. Total sales of Presstek's "traditional" portfolio of consumable products declined from \$21.2 million in the first quarter of 2007 to \$18.2 million in the first quarter of 2008, a decrease of 14.1%, driven primarily from lower sales of QMDI plates and conventional consumables. Partially offsetting this decline were sales of Presstek's "growth" portfolio of consumables, defined as 52DI, 34DI, and chemistry-free CtP plates, which grew from \$8.9 million in 2007 to \$10.0 million in 2008, an increase of 12.0%. Sales of 52DI and 34DI plates increased by \$1.5 million, or 37.6%, from \$4.0 million in the first quarter of 2007 to \$5.5 million in 2008.

Service and parts revenues were \$9.4 million in the first quarter of fiscal 2008, reflecting a decrease of \$0.5 million, or 5.2%, from the comparable prior year period. The decrease is due primarily to lower billable service and parts revenue resulting from the transition of our customer base from analog to digital solutions which, in the short term, is having a negative impact on sales. Contract service revenues, which had been declining for some time due to the shift away from our less profitable legacy service contract base, were essentially flat compared to Q1 of 2007.

Cost of Revenue

Consolidated cost of product, consisting of costs of material, labor and overhead, shipping and handling costs and warranty expenses, was \$27.4 million in the first quarter of fiscal year 2008, compared to \$38.9 million in the first quarter of fiscal year 2007, a decrease of 29.7%. The decrease was due primarily to lower revenues, lower costs resulting from the positive impact of our business improvement plan, "BIP", and lower freight costs due in part to \$0.4 million of expense incurred in the first quarter of 2007 resulting from a refinement in freight cost estimates. Favorable results from the BIP include improved efficiencies and yields in our South Hadley plate manufacturing operation, lower overall freight costs, and procurement initiatives which have resulted in lower product costs.

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Consolidated cost of service and parts was \$6.9 million in the first quarter of fiscal year 2008, compared to \$7.7 million in the same prior year period. These amounts represent the costs of spare parts, labor and overhead associated with the ongoing service of products. The reduction in overall cost is principally due to the termination of service personnel in North America, an element of our BIP intended to realign our service costs with a declining analog revenue base.

Gross Profit

Consolidated gross profit as a percentage of total revenue was 34.5% in the first quarter of fiscal year 2008, compared to 28.4% in the first quarter of fiscal year 2007.

Gross profit as a percentage of product revenues was 36.3% in the first quarter of 2008 compared to 29.5% in the comparable prior year period. The increase in gross profit in the first quarter of 2008 reflects the favorable impact of the company's higher profit consumables business representing a greater proportion of total product sales, in addition to the company's BIP actions, price increase on consumable products in response to higher costs and lower costs resulting from the \$0.4 million freight charge taken in Q1 2007.

Gross profit on service revenues increased from 22.4% in the first quarter of 2007 to 26.3% in the first quarter of 2008. The increase in profit is due primarily to the positive impact of the company's BIP plan that has resulted in a cost structure more appropriately aligned with the current 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, consumables and laser diode development efforts.

Consolidated research and development expenses were \$1.5 million in the first quarter of fiscal year 2008 compared to \$1.6 million in the first quarter of fiscal year 2007.

Research and development expenses for the Presstek segment were \$1.3 million in both the first quarter of fiscal year 2008 and fiscal 2007.

Research and development expenses for the Lasertel segment were \$0.2 million in the first quarter of fiscal 2008 compared to \$0.3 million the same 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.

Consolidated sales, marketing and customer support expenses decreased from \$9.9 million in the first quarter of fiscal year 2007 to \$7.6 million in the first quarter of 2008, a decrease of 2.3 million, or 23.0%.

Sales, marketing and customer support expenses for the Presstek segment decreased from \$9.7 million in the first quarter of fiscal year 2007 to \$7.4 million in 2008. The decrease in expense is due primarily to lower payroll, facilities, and travel related expenses resulting from the favorable impact of our BIP program, as well as lower commission expense resulting from lower sales.

Sales, marketing and customer support expenses for the Lasertel segment were \$0.2 million in the first quarter of fiscal year 2008, unchanged from the same prior year period.

General and Administrative

Consolidated 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.

Consolidated general and administrative G&A expenses were \$7.2 million in the first quarter of fiscal year 2008 compared to \$6.3 million in 2007, an increase of \$0.9 million, or 14.2%.

General and administrative expenses for the Presstek segment were \$7.0 million in the first quarter of 2008 compared to \$6.1 million in 2007. The increased expense was due primarily to costs associated with increased incentive plan accruals as well as the rebuilding of our finance organization necessary to remediate previously disclosed material weaknesses.

General and administrative expenses for the Lasertel segment were \$0.2 million in both the first quarter of 2007 and the first quarter of 2008.

Amortization of Intangible Assets

Amortization expense of \$0.4 million in the first quarter of fiscal 2008 declined \$0.3 million from the prior year period. These expenses relates to intangible assets recorded in connection with the Company's 2004 ABDick acquisition, patents and other purchased intangible assets.

Restructuring and Other Charges

In the first quarter of 2008, we recognized \$0.6 million of restructuring and other related costs associated with our business improvement plan.

Interest and Other Expense, Net

Consolidated net interest and other expense decreased from \$0.9 million in the first quarter of 2007 to \$0.7 million in the first quarter of 2008. Net interest expense of \$0.6 million in the first quarter of 2008 reflected a decrease of \$0.2 million over the comparable prior year period due to lower interest rates as well as a lower balance on our revolving credit facility. Other expense in Q1 2008 of \$0.1 million, comprised primarily of loss on currency translation, was unchanged from the same prior year period.

Provision for Income Taxes

Our tax benefit was \$0.08 million and \$0.3 million for the three months ended March 29, 2008 and March 31, 2007, respectively, on pre-tax income (loss) from continuing operations of \$0.1 million and (\$1.2) million for the respective periods. The estimated annual effective tax rate excluding discrete items is expected to be approximately 43%.

Discontinued Operations

The Company accounts for its discontinued operations under the provisions of SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets (SFAS 144). Accordingly, results of operations and the related expenses associated with discontinued operations have been classified as “Loss from discontinued operations, net of tax” in the accompanying Consolidated Statements of Income. Assets and liabilities of discontinued operations have been reclassified and reflected on the accompanying Consolidated Balance Sheets as “Assets of discontinued operations” and “Liabilities of discontinued operations.” For comparative purposes, all prior periods presented have been reclassified on a consistent basis.

Precision Lithograining Corp. - Analog Newspaper Business

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

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

| | March 29, 2008 | March 31, 2007 |
|--------------------------------------------|-------------------|-------------------|
| Revenue | \$ -- | \$ 195 |
| Income (loss) before income taxes | 46 | (188) |
| Provision (benefit) for income taxes | 19 | (76) |
| Income (loss) from discontinued operations | \$ 27 | \$ (112) |
| Loss per share | \$ 0.00 | \$ (0.00) |

Revenues of \$0.2 million from discontinued operations in the first quarter of fiscal 2007 relate to the pass-through of certain products to meet existing customer contracts. As the Company is winding down operations, there were no significant operating expenses incurred in the first quarter of fiscal 2008 or fiscal 2007 and \$46,000 of miscellaneous income was recognized as a result of the sale of scrap inventory.

Liquidity and Capital Resources

Financial Condition (Sources and Uses of Cash)

We finance our operating and capital investment requirements primarily through cash flows from operations and borrowings. At March 29, 2008, we had \$6.6 million of cash and \$40.1 million of working capital, compared to \$5.7 million of cash and \$45.9 million of working capital at March 31, 2007.

Continuing Operations

Our operating activities provided \$0.8 million of cash in the three months ended March 29, 2008. Cash provided by operating activities came from net income, after adjustments for non-cash depreciation, amortization, provisions for warranty costs and accounts receivable allowances, stock compensation expense and losses on the disposal of assets. Net income and non-cash items were further impacted by an increase in inventory levels of \$3.4 million, an increase of \$0.7 million in other current assets, a decrease of \$1.0 million in accounts payable, a decrease of \$1.4 million in deferred revenue and a decrease of \$1.4 million in accrued expenses. The increase in inventory levels was due primarily to the slowdown in sales in the first quarter of fiscal 2008. The increase in other current assets was primarily due to increased prepaid accounts under insurance policies. The decrease in accounts payable and accrued expenses was due mainly to the timing of purchases and payments to suppliers. Deferred revenues decreased due to the recognition of service revenues over the service period. Offsetting this was a decrease in accounts receivable of \$5.3 million related to the increased collection efforts combined with lower sales volume.

We used \$0.4 million of net cash for investing activities in the first three months of fiscal 2008 comprised of additions to property, plant and equipment. Our additions to property, plant and equipment relate primarily to production equipment and investments in our infrastructure, including costs related to the implementation of a new service management system.

Our financing activities used \$6.7 million of cash, comprised of \$5.0 million of cash payments on our current line of credit and \$1.7 million of repayments on our term loan.

Discontinued Operations

Operating activities of discontinued operations used \$0.2 million in cash in the first three months of fiscal 2008. Cash used by operating activities consisted of \$0.2 million related to payments for the facility closure and other response actions.

Liquidity

Our current Senior Secured Credit Facilities, referred to as the Facilities, include a \$35.0 million five year secured term loan, referred to as the Term Loan, and a \$45.0 million five year secured revolving line of credit, referred to as the Revolver, which replaced our then-existing term loan and revolver entered into in October 2003. At March 29, 2008, we had \$1.3 million outstanding under letters of credit, thereby reducing the amount available under the Revolver to \$28.7 million. At March 29, 2008, the interest rate on the outstanding balance of the Revolver was

5.2%. Principal payments on the Term Loan are made in consecutive quarterly installments of \$1.75 million, with a final settlement of all remaining principal and unpaid interest on November 4, 2009. The Facilities were used to partially finance the acquisition of the business of ABDick, and are available for working capital requirements, capital expenditures, acquisitions, and general corporate purposes. Borrowings under the Facilities bear interest at either (i) the London InterBank Offered Rate, or LIBOR, plus applicable margins or (ii) the Prime Rate, as defined in the agreement, plus applicable margins. The applicable margins range from 1.25% to 4.0% for LIBOR, or up to 1.75% for the Prime Rate, based on certain financial performance. At March 29, 2008, the effective interest rate on the Term Loan was 5.2%.

Under the terms of the Revolver and Term Loan, we are required to meet various financial covenants on a quarterly and annual basis, including maximum funded debt to EBITDA, a non-U.S. GAAP measurement that we define as earnings before interest, taxes, depreciation, amortization and restructuring and other charges/(credits), and minimum fixed charge coverage covenants. At March 29, 2008, we were in compliance with all covenants.

On November 23, 2005, we purchased equipment under a capital lease arrangement qualifying under Statement of Financial Accounting Standards (“SFAS”) No. 13, Accounting for Leases (“SFAS 13”). The equipment is included as a component of property, plant and equipment and the current and long-term principal amounts of the lease obligation are included in our Consolidated Balance Sheets.

We believe that existing funds, cash flows from operations, and cash available under our Revolver should be sufficient to satisfy working capital requirements and capital expenditures through the next twelve months. There can be no assurance, however, that we will not require additional financing, or that such additional financing, if needed, would be available on acceptable terms.

The sale of any equity or debt securities may result in additional dilution to our stockholders, and we cannot be certain that additional financing will be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain any required additional financing, we may be required to reduce the scope of our planned research, development and commercialization activities, which would reduce our use of cash but could harm our long-term financial condition and operating results. Additional equity financing may be dilutive to the holders of our common stock and debt financing, if available, may involve significant cash payment obligations and covenants that restrict our ability to operate our business.

Commitments and Contingencies

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

From time to time we have engaged in sales of equipment that is leased by or intended to be leased by a third party purchaser to another party. In certain situations, we 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, we 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, we would, under these arrangements, reimburse the financing company for any such shortfall in sale price (a “shortfall payment”). The maximum contingent obligation under these shortfall payment arrangements is estimated to be \$1.5 million at March 29, 2008.

Effect of Inflation

Inflation has not had, and is not expected to have, a material impact on our financial conditions or results of operations.

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. generally accepted accounting principles. 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 goodwill, 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 December 29, 2007, which was filed with the SEC on April 30, 2008. There were no significant changes to the Company's critical accounting policies in the three months ended March 29, 2008.

Recent Accounting Pronouncements

As of January 1, 2008, the company has adopted SFAS No. 157 Fair Value Measurements ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The Financial Accounting Standards Board has subsequently issued FASB Staff Position No FAS 157-2, which grants a one-year delay for FAS 157 on the fair value measurement for nonfinancial assets and nonfinancial liabilities for fiscal years beginning after November 15, 2008. At this time, we have adopted the FAS 157 as it relates to our financial assets and liabilities only. The adoption of SFAS 157 did not have a material impact on our consolidated results of operations.

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

In June 2007, the FASB also ratified EITF 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities ("EITF 07-3"). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007 and was adopted by the Company in the first quarter of fiscal 2008. The adoption of EITF 07-3

did not have a material impact on our consolidated results of operations.

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

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

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 March 29, 2008, we were not involved in any unconsolidated SPE transactions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of market risks, including changes in interest rates primarily as a result of our borrowing and investing activities, commodity price risk and foreign currency fluctuations. The Company has established procedures to manage its fluctuations in interest rates and foreign currency exchange rates.

Our long-term borrowings are in variable rate instruments, with interest rates tied to either the Prime Rate or the LIBOR. A 100 basis point change in these rates would have an impact of approximately \$0.1 million on our annual interest expense, assuming consistent levels of floating rate debt with those held at March 29, 2008.

Commodity price movements create a market risk by affecting the price we must pay for certain raw materials. The Company purchases aluminum for use in manufacturing consumables products and is embedded in certain components we purchase from major suppliers. From time to time, we enter into agreements with certain suppliers to manage price risks within a specified range of prices; however, our suppliers generally pass on significant commodity price changes to us in the form of revised prices on future purchases. In general, the Company has not used commodity forward or option contracts to manage this market risk.

The Company operates foreign subsidiaries in Canada and Europe and is exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. Presstek routinely evaluates whether the foreign exchange risk associated with its foreign currency exposures acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency. In general, the Company does not hedge the net assets or net income of its foreign subsidiaries. In addition, certain key customers and strategic partners are not located in the United States. As a result, these parties may be subject to fluctuations in foreign exchange rates. If their home country currency were to decrease in value relative to the United States dollar, their ability to purchase and market our products could be adversely affected and our products may become less competitive to them. This may have an adverse impact on our business. Likewise, certain major suppliers are not located in the United States and thus, such suppliers are subject to foreign exchange rate risks in transactions with us. Decreases in the value of their home country currency, versus that of the United States dollar, could cause fluctuations in supply pricing which could have an adverse effect on our business.

Item 4. Controls and Procedures

This report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 of 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

The Company carried out, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on their evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that, as of March 29, 2008, the Company's disclosure controls and procedures were not effective because of the material weaknesses described below. Notwithstanding the existence of the material weaknesses described below, management has concluded that the consolidated interim financial information included in this Form 10-Q fairly present, in all material respects, the Company's financial position, results of operations and cash flows for the periods and dates presented.

Management has undertaken procedures and other steps, including the completion of an internal review of the Company's financial accounts related to its European operation, to mitigate the material weaknesses in internal control over financial reporting described below, along with additional procedures designed to ensure the reliability of our financial reporting, to enable the Chief Executive Officer and Chief Financial Officer to execute the certifications required by Rule 13a-14 of the Exchange Act.

In its Management's Report on Internal Control over Financial Reporting, included in Item 9A of the Company's Annual Report on Form 10-K for the year ended December 29, 2007, filed with the U.S. Securities and Exchange Commission ("SEC") on April 30, 2008, the Company determined that there were control deficiencies that constituted material weaknesses, as described below.

Significant or Non-Routine Transactions

The Company did not maintain a sufficient complement of personnel with the appropriate level of accounting knowledge, experience, and training in the application of U.S. generally accepted accounting principles ("U.S. GAAP") to analyze, review, and monitor accounting for transactions that are significant or non-routine. In addition, the Company did not prepare adequate contemporaneous documentation that would provide a sufficient basis for an effective evaluation and review of the accounting for transactions that are significant or non-routine. This deficiency resulted in errors in the preliminary December 29, 2007 consolidated financial statements and a reasonable possibility that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

Revenue Recognition

Internal control applicable to equipment revenue recognition was not adequate to ensure that sufficient documentation regarding terms and conditions of equipment contracts and agreements were maintained to permit proper evaluation relative to revenue recognition of such contracts and agreements in accordance with U.S. GAAP. In addition, review controls over accounting for equipment revenue transactions were not operating effectively to identify accounting errors, and monitoring controls designed to ensure that an appropriate review was properly performed were not

operating effectively. These deficiencies resulted in a reasonable possibility that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis.

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Account Reconciliations and Journal Entries

Account reconciliations and journal entries were not consistently reviewed and approved with appropriate supporting documentation in order to ensure completeness and accuracy. In addition, monitoring controls designed to ensure that account reconciliations were properly performed were not operating effectively. These deficiencies resulted in a reasonable possibility that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis.

Inventory

Calculations that are performed to determine the inventory adjustments necessary relative to excess and obsolete inventory and the capitalization of manufacturing variances were not reviewed for completeness and accuracy at a sufficient level of precision by someone independent of the preparer and the Company did not have adequate controls to ensure the mathematical accuracy of spreadsheets that were used to perform such calculations. These deficiencies resulted in material errors in the Company's preliminary December 29, 2007 consolidated financial statements that were corrected prior to issuance.

Because of the material weakness described above, management concluded that its disclosure controls and procedures and internal control over financial reporting was not effective as of December 29, 2007.

Remediation Plan for Material Weaknesses in Internal Control over Financial Reporting

Our management continues to engage in substantial efforts to remediate the material weaknesses noted above. The following remedial actions are intended both to address the identified material weaknesses and to enhance our overall internal control over financial reporting.

Significant or Non-Routine Transactions

The following remedial actions had been implemented through December 29, 2007:

On February 28, 2007, the Company announced the appointment of a new Chief Financial Officer.

Effective April 3, 2007, the Audit Committee of the Board of Directors established a Financial Reporting Task Force to develop and implement a corrective action plan to ensure full remediation of the material weaknesses. This Task Force, which reports directly to the Audit Committee, is led by the Chief Financial Officer.

During March, 2007, a new Financial Reporting Manager was appointed to manage all SEC-related activities including accounting guidance and periodic reporting.

In the first quarter of 2007, the Company undertook a review to ensure that the finance, accounting and tax functions are staffed in accordance with the required competencies. Since that time, the Finance organization has been strengthened by the addition of personnel, (including revenue analysts, tax manager, senior accountants, and a Director of Accounting) to address complex accounting and financial reporting requirements and has substantially filled its hiring objectives.

On May 23, 2007, the Company appointed a Director of Internal Audit. The Director of Internal Audit reports directly to the Audit Committee and has responsibility for directing the internal audit function and leading Sarbanes-Oxley compliance monitoring activities.

The following remedial actions have been initiated and will continue to be implemented after March 29, 2008:

Beginning in the third quarter of fiscal 2007, additional training has been provided to finance, accounting and tax professionals regarding new and evolving areas in U.S. GAAP.

During the fourth quarter of fiscal 2007, the Company implemented a process designed to ensure the timely documentation, review, and approval of complex accounting transactions by qualified accounting personnel.

Beginning in the third quarter of fiscal 2007, the Company requires that analysis of all significant or non-routine transactions must be documented, reviewed, and approved by senior financial management.

During the first quarter of fiscal 2008, the Company expanded the staffing of their internal audit department. In addition, during the second quarter of fiscal 2008, the Director of Internal Audit took the position of VP-Corporate Controller and the Company hired a new European Finance Director. The Company is continuing to evaluate their staffing requirements.

Revenue Recognition

The following remedial actions had been initiated during the fourth quarter of fiscal 2007 and will continue to be implemented after March 29, 2008:

Supported by the services of subject matter experts and consultants, the Company's revenue recognition policy was strengthened to include:

Enhanced documentation requirements to support revenue transactions and their related accounting treatment;

Tightening of necessary approvals on any departures from standard terms and conditions on sales and service agreements to include senior financial and legal management;

Clarification of revenue recognition treatment on distributor equipment transactions.

Additional training regarding revenue recognition practices was provided to all sales personnel worldwide. Special training to communicate and strengthen understanding of the revised revenue recognition policy will be conducted in fiscal 2008.

Internal controls, as they relate to our European operation, have been strengthened and reinforced through additional training and supervision, the addition of a full-time European revenue analyst, changes to credit practices, and other control measures. In addition, certain personnel changes and realignment of work responsibilities will be implemented.

Revenue recognition processes have been restructured to increase sales and accounting personnel participation earlier in the process and improve delivery of key information on equipment transaction terms and conditions.

Review and monitoring controls at Corporate-Finance on equipment transactions involving foreign operations have been enhanced, including periodic confirmation of key terms with customers.

Account Reconciliations and Journal Entries

The following remedial actions had been initiated during the fourth quarter of fiscal 2007 and will continue to be implemented after March 29, 2008:

Additional training of Company personnel has been performed and will continue to be performed to ensure that key account reconciliations are performed, documented, reviewed and approved as part of the monthly financial closing process.

Review and monitoring controls over key account reconciliations has been and will continue to be enhanced to include detailed reviews of monthly reconciliations and supporting documentation by Senior Corporate Finance personnel.

Management review controls have been and will continue to be enhanced to ensure that all journal entries are reviewed and approved with appropriate supporting documentation.

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Inventory

The following remedial actions will be initiated beginning in the first quarter of fiscal 2008 in response to this weakness:

An independent review, by appropriate management personnel, will be performed and documented in a detailed manner to determine that these complex calculations are performed accurately.

The Company will enhance the spreadsheet controls over the mathematical accuracy of spreadsheets for these inventory account calculations.

Changes in Internal Control over Financial Reporting

Other than the foregoing measures to remediate the material weaknesses described above, certain of which were not fully implemented as of March 29, 2008, there was no change in the Company's internal control over financial reporting during the quarter ended March 29, 2008, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In August 2007, an Arbitrator from the International Centre for Dispute Resolution issued a partial award against the Company and in favor of Reda National Company (“Reda”), a former Company distributor operating in the Middle East. Reda claimed that the Company breached an exclusive distributor agreement by entering into a distribution agreement with another party covering the same territory assigned to Reda. Reda sought damages totaling approximately \$9.7 million. In the partial award the Arbitrator found that the Company had breached its agreement with Reda and found the Company liable to Reda for arbitration costs, attorneys’ fees, and incidental expenses incurred by Reda in connection with the arbitration. The Arbitrator also ordered that a further hearing would be held to determine any additional damages associated with the breach of contract. The hearing on damages was held during December 2007. On May 7, 2008 the Arbitrator issued a decision finding the Company liable to pay to Reda a total of approximately \$0.8 million, representing damages, attorneys’ fees and arbitration costs. On May 8, 2008 Reda filed a motion to correct the decision, arguing that the Arbitrator committed errors in understating the amount of one element of damages and in failing to award interest on the damage award. The company is contesting this motion to increase the damage award and to award interest on the damages.

Except as noted with respect to this arbitration proceeding noted above, during the three months ended March 29, 2008, there have been no material changes to legal proceedings from those considered in our Annual Report on Form 10-K for the year ended December 29, 2007, filed with the U.S. Securities and Exchange Commission (“SEC”) on April 30, 2008.

Item 1A. Risk Factors

Significant factors that could impact the Company’s financial condition or results of operations are included in the Company’s Annual Report on Form 10-K for the year ended December 29, 2007, filed with the U.S. Securities and Exchange Commission (“SEC”) on April 30, 2008.

Item 6. Exhibits

Exhibit

| No. | Description |
|-----|-------------|
|-----|-------------|

| | |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <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.

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: May 13, 2008

/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

Exhibit

No. Description

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