PRESSTEK INC /DE/
Form 10-Q
August 12, 2010

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

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

For the quarterly period ended July 3, 2010

Or

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

For the transition period from to

Commission file number 0-17541
PRESSTEK, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or other Jurisdiction of Incorporation or Organization)	02-0415170 (I.R.S. Employer Identification No.)
10 Glenville Street Greenwich, Connecticut (Address of Principal Executive Offices)	06831 (Zip Code)

(203) 769-8056
Registrant's telephone number, including area code

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

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ
(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
As of August 09, 2010, there were 36,896,615 shares of the Registrant's Common Stock, $0.01 par value, outstanding.

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

DI is a registered trademark of Presstek, Inc.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	July 3, 2010	January 2, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$2,392	$5,843
Accounts receivable, net	22,956	22,605
Inventories	30,303	30,378
Assets of discontinued operations	-	12,624
Deferred income taxes	243	243
Other current assets	2,649	2,598
Total current assets	58,543	74,291
Property, plant and equipment, net	22,699	24,307
Intangible assets, net	4,585	4,316
Deferred income taxes	1,593	1,140
Other noncurrent assets	1,216	481
Total assets	$88,636	$104,535
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Line of credit	$11,184	$17,910
Accounts payable	11,840	9,887
Accrued expenses	5,257	8,049
Deferred revenue	5,558	6,497
Liabilities of discontinued operations	-	5,203
Total current liabilities	33,839	47,546
Other long-term liabilities	122	141
Total liabilities	33,961	47,687
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, 36,896,615 and 36,854,802 shares issued and outstanding at July 3, 2010 and January 2, 2010, respectively	368	368
Additional paid-in capital	121,297	120,005
Accumulated other comprehensive loss	(4,816)	(3,810)
Accumulated deficit	(62,174)	(59,715)

Total stockholders' equity	54,675	56,848
Total liabilities and stockholders' equity	$88,636	$104,535

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		Six months ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Revenue				
Equipment	$4,737	$5,213	$11,130	$10,200
Consumables	20,728	21,111	42,223	43,020
Service and parts	6,142	7,186	12,745	14,750
Total revenue	31,607	33,510	66,098	67,970
Cost of revenue				
Equipment	5,249	5,171	11,347	9,863
Consumables	11,115	11,936	22,961	23,621
Service and parts	4,947	5,367	10,101	11,356
Total cost of revenue	21,311	22,474	44,409	44,840
Gross profit	10,296	11,036	21,689	23,130
Operating expenses				
Research and development	972	1,164	2,053	2,424
Sales, marketing and customer support	5,780	6,884	11,064	13,249
General and administrative	5,055	6,321	10,132	12,293
Amortization of intangible assets	203	233	413	487
Restructuring and other charges	37	38	49	122
Goodwill Impairment	-	19,114	-	19,114
Total operating expenses	12,047	33,754	23,711	47,689
Operating loss	(1,751)	(22,718)	(2,022)	(24,559)
Interest and other income (expense), net	(484)	(246)	(856)	214
Loss from continuing operations before income taxes	(2,235)	(22,964)	(2,878)	(24,345)
Provision(benefit) for income taxes	(390)	16,905	(489)	16,630
Loss from continuing operations	(1,845)	(39,869)	(2,389)	(40,975)
Gain(loss) from discontinued operations, net of tax	8	(1,580)	(70)	(1,665)
Net loss	$(1,837)	$(41,449)	$(2,459)	$(42,640)
Loss per share - basic				
Loss from continuing operations	$(0.05)	$(1.09)	$(0.07)	$(1.12)
Loss from discontinued operations	-	(0.04)	(0.00)	(0.04)
	$(0.05)	$(1.13)	$(0.07)	$(1.16)

Loss per share - diluted				
Loss from continuing operations	$(0.05)	$(1.09)	$(0.07)	$(1.12)
Loss from discontinued operations	-	(0.04)	(0.00)	(0.04)
	$(0.05)	$(1.13)	$(0.07)	$(1.16)
Weighted average shares outstanding				
Weighted average shares outstanding - basic	36,887	36,665	36,877	36,652
Dilutive effect of options	-	-	-	-
Weighed average shares outstanding - diluted	36,887	36,665	36,877	36,652

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

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

	Six months ended July 3, 2010	Six months ended July 4, 2009
Operating activities		
Net loss	$(2,459)	$(42,640)
Add loss from discontinued operations	70	1,665
Loss from continuing operations	(2,389)	(40,975)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	2,147	1,854
Amortization of intangible assets	413	487
Impairment of goodwill and other assets	-	19,114
Provision for warranty costs	(60)	(247)
Provision (credit) for accounts receivable allowances	318	1,361
Stock compensation expense	1,189	962
Accrual for non-cash bonus plan	598	-
Changes in operating assets and liabilities:		
Accounts receivable	(594)	2,373
Inventories	(1,402)	(2,038)
Other current assets	(112)	214
Deferred income taxes	(452)	16,617
Other noncurrent assets	166	12
Accounts payable	1,870	2,890
Accrued expenses	(3,445)	(3,241)
Restructuring and other charges	49	122
Deferred revenue	(942)	(761)
Net cash used in operating activities	(2,646)	(1,256)
Investing activities		
Purchase of property, plant and equipment	(678)	(418)
Investment in patents and other intangible assets	(682)	(712)
Net cash used in investing activities	(1,360)	(1,130)
Financing activities		
Net proceeds from issuance of common stock	103	233
Repayments of term loan and capital lease	-	(2,430)
Payments of loan origination costs	(967)	-
Net borrowings (repayments) under line of credit agreement	(6,726)	3,533
Net cash provided by (used in) financing activities	(7,590)	1,336
Cash provided by (used in) discontinued operations		
Operating activities	1,537	(1,496)
Investing activities	7,405	(164)
Net cash provided by (used in) discontinued operations	8,942	(1,660)

Effect of exchange rate changes on cash and cash equivalents	(797)	2,425
Net decrease in cash and cash equivalents	(3,451)	(285)
Cash and cash equivalents, beginning of period	5,843	4,738
Cash and cash equivalents, end of period	$2,392	$4,453
Supplemental disclosure of cash flow information		
Cash paid for interest	$525	$250
Cash paid for income taxes	$78	$136

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

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 3, 2010
(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 July 3, 2010 and January 2, 2010, its results of operations for the three and six months ended July 3, 2010 and July 4, 2009 and its cash flows for the six months ended July 3, 2010 and July 4, 2009, in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and the interim reporting requirements of Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

The results of the three and six months ended July 3, 2010 are not necessarily indicative of the results to be expected for the year ending January 1, 2011. The information contained in this Quarterly Report on Form 10-Q should be read in conjunction with the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Quantitative and Qualitative Disclosures About Market Risk” and the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended January 2, 2010, filed with the U.S. Securities and Exchange Commission (“SEC”) on March 24, 2010.

Principles of Consolidation

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

The Company operates and reports on a 52- or 53-week, fiscal year ending on the Saturday closest to December 31. Accordingly, the accompanying consolidated financial statements include the thirteen and twenty-six week periods ended July 3, 2010 (the “second quarter and first half of fiscal 2010” or the “six months ended July 3, 2010”) and July 4, 2009 (the “second quarter and first half of fiscal 2009” or the “six months ended July 4, 2009”).

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Use of Estimates

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

For a complete discussion of our critical accounting policies and estimates, refer to our Annual Report on Form 10-K for the fiscal year ended January 2, 2010, which was filed with the SEC on March 24, 2010. There were no significant changes to the Company's critical accounting policies during the six months ended July 3, 2010.

2. DISCONTINUED OPERATIONS

The Company accounts for its discontinued operations under the provisions of FASB Accounting Standards Codification Topic 360. Accordingly, results of operations and the related charges for discontinued operations have been classified as "Loss from discontinued operations, net of tax" in the accompanying Consolidated Statements of Operations. 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.

Lasertel

On March 5, 2010, Presstek sold Lasertel to SELEX Galileo Inc. ("SELEX"). The sale of Lasertel to SELEX was for approximately $8 million in cash, certain net working capital adjustments that still need to be finalized and, in addition, Presstek retained approximately $2 million of laser diodes inventory for Presstek's future production requirements. Lasertel, as a subsidiary of SELEX, and in accordance with a supply agreement established between Lasertel and Presstek on March 5, 2010, will manufacture semiconductor laser diodes for Presstek for an initial period of three years. The net cash proceeds from this sale were used to pay down debt. SELEX also assumed the current lease on the Lasertel property in Tucson, Arizona.

Lasertel incurred an operating loss of $0.6 million during the first quarter of fiscal 2010 prior to the sale date. Presstek recorded a minor adjustment in the second quarter of fiscal 2010. Presstek recorded a gain on the disposition of Lasertel of $0.5 million during the six months ended July 3, 2010, bringing the aggregate loss from discontinued operations for the first half of fiscal 2010 to approximately $0.1 million.

PRESSTEK, INC. AND SUBSIDIARIES
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Results of operations of the discontinued business of Lasertel consist of the following (in thousands, except per-share data):

	Three months ended		Six months ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Revenues from external customers	$--	$2,843	$1,394	$4,818
Gain (loss) before income taxes	8	(1,558)	(70)	(1,665)
Provision (benefit) from income taxes	--	22	--	--
Gain (loss) from discontinued operations	$8	$(1,580)	$(70)	$(1,665)
Earnings (loss) per share	$0.00	$(0.04)	$0.00	$(0.04)

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

	July 3, 2010	January 2, 2010
Cash and cash equivalents	$--	$585
Receivables, net		2,938
Inventories		3,774
Other current assets		212
Property, plant & equipment, net		4,377
Intangible assets, net		696
Other noncurrent assets		42
Total assets	$--	$12,624
Accounts payable	$--	$729
Accrued expenses		459
Deferred gain		4,015
Total liabilities	$--	$5,203

3. ACCOUNTS RECEIVABLE, NET

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

	July 3, 2010	January 2, 2010
Accounts receivable	$26,324	$26,155
Less allowances	(3,368)	(3,550)
	$22,956	$22,605

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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4. INVENTORIES

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

	July 3, 2010	January 2, 2010
Raw materials	$4,277	$4,485
Work in process	1,196	1,093
Finished goods	24,830	24,800
	$30,303	$30,378

5. PROPERTY, PLANT AND EQUIPMENT, NET

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

	July 3, 2010	January 2, 2010
Land and improvements	$1,301	$1,301
Buildings and leasehold improvements	22,415	22,443
Production and other equipment	44,778	44,900
Office furniture and equipment	9,834	9,865
Construction in process	962	571
Total property, plant and equipment, at cost	79,290	79,080
Accumulated depreciation and amortization	(56,591)	(54,773)
Net property, plant and equipment	$22,699	$24,307

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

The Company recorded depreciation expense of $0.9 million and $1.9 million in the second quarter and first six months of fiscal 2010 and $1.0 million and $1.9 million in the second quarter and first six months of fiscal 2009. Under the Company's financing arrangements (see Note 7), all property, plant and equipment are pledged as security.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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6. GOODWILL

The Company had no goodwill balance as of January 2, 2010 or July 3, 2010. Based on events including the decline in the Company's stock price during the second quarter of 2009 and the unstable economic and credit conditions impacting the Company's business, the Company identified a triggering event that caused management to test goodwill for impairment as of July 4, 2009. After completing step one of the impairment test, the Company determined that the estimated fair value of its reporting unit was less than the carrying value of the reporting unit, requiring the completion of the second step of the impairment test. The implied fair value of the goodwill computed in step two was less than the book value of the goodwill requiring the Company to book an impairment charge. Upon completion of step two of the analysis, the Company wrote off the entire goodwill balance. This resulted in an impairment loss of $19.1 million in the quarter ended July 4, 2009.

7. FINANCING ARRANGEMENTS

The components of the Company's outstanding borrowings at July 3, 2010 and January 2, 2010 are as follows (in thousands):

	July 3, 2010	January 2, 2010
Line of credit	$11,184	$17,910

On March 5, 2010, the Company entered into a Revolving Credit and Security Agreement ("Credit Agreement") among the Company, PNC Bank, National Association ("PNC"), as Lender and as administrative agent for Lenders (PNC, in such agency capacity, the "Agent").

The Credit Agreement replaces the Company's Amended and Restated Credit Agreement, dated as of November 5, 2004, as amended, among the Company and RBS Citizens, National Association, as Administrative Agent and Lender, KeyBank National Association and TD Bank, N.A.

The new Credit Agreement, maturing in three years from the date of the Credit Agreement, provides for funding of up to $25.0 million. Borrowing availability under the Revolver is determined on a percentage of eligible accounts receivable and inventory of the Company and certain of its subsidiaries. The Company may terminate the Credit Agreement at any time prior to the maturity date upon thirty (30) days' prior written notice and upon payment in full of all outstanding obligations under the Credit Agreement. If the Company terminates the Credit Agreement within the first 35 months after the date on which the Credit Agreement is entered into, the Company must pay an early termination fee as specified in the Credit Agreement. The Credit Agreement requires the Company to prepay a portion of borrowings under the Credit Agreement out of the proceeds of certain dispositions of property.

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

PRESSTEK, INC. AND SUBSIDIARIES
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monthly interest payments with respect to domestic rate loans and at the end of each interest period with respect to Eurodollar rate loans.

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

Under the Credit Agreement the Company is required to provide monthly Borrowing Base Certificates to the Agent that become the basis for calculating the Credit Agreement's Formula Amount. The Formula Amount, capped at $25 million, represents the maximum amount of advances available to the Company at a given point in time. The Formula Amount is normally calculated 20 days subsequent to the close of each fiscal month and quarter. Because of the timing delay, the Agent utilizes a process that estimates the maximum amount available daily during each fiscal period. As of July 3, 2010 the Formula Amount was $16.4 million and the Company had outstanding balances on its line of credit of $11.2 million with an interest rate of 4.63%. The amount available under the credit line, based on the Formula Amount, was $5.3 million as of July 3, 2010. The computed preliminary availability based on the daily estimation process was $2.7 million as of that date. At January 2, 2010, the Company had outstanding balances on its previous line of credit of $17.9 million with interest rates of 7.25% and an amount available under the credit line of $6.8 million.

Under the terms of the Credit Agreement, the Company is required to comply with certain financial and non-financial covenants. Among other restrictions, the Company is restricted in its ability to pay dividends, incur additional debt and make acquisitions and divestitures, with certain exceptions. The key financial covenants include a requirement for the Company to maintain at the end of each fiscal quarter, commencing with the fiscal quarter ending January 1, 2011, a fixed charge coverage ratio of not less than 1.0 to 1.0 and a limit on capital expenditures of $385,000 for the remainder of the Company's first fiscal quarter in 2010, $1,238,000, $1,139,000 and $614,000 for the second, third and fourth fiscal quarters of the Company for the remainder of 2010, respectively, and $4,000,000 in each fiscal year thereafter.

The weighted average interest rate on the Company's short-term borrowings was 4.63% at July 3, 2010.

8. ACCRUED EXPENSES

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

	July 3, 2010	January 2, 2010
Accrued payroll and employee benefits	$ 1,503	$ 1,732
Accrued warranty	992	1,260
Accrued restructuring and other charges	51	405
Accrual for non-cash bonus plan	598	-

Accrued legal	56	828
Accrued professional fees	664	827
Other	1,393	2,997
	$5,257	$8,049

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 3, 2010
(Unaudited)

The Company’s 2010 bonus plan states that employee bonuses will be issued in stock upon the achievement of the 2010 full-year targets. The Company had an accrued expense related to its non-cash bonus plan of $299,000 and $598,000 for the second quarter and first six months of fiscal 2010, respectively. No bonus expenses were included in the 2009 results.

9. ACCRUED WARRANTY

Product warranty activity in the first six months of fiscal 2010 is as follows (in thousands):

Balance at January 2, 2010	$1,260
Accruals for warranties	(60)
Utilization of accrual for warranty costs	(208)
Balance at July 3, 2010	$992

10. DEFERRED REVENUE

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

	July 3, 2010	January 2, 2010
Deferred service revenue	$4,784	$5,645
Deferred product revenue	774	852
	$5,558	$6,497

11. RESTRUCTURING AND OTHER CHARGES

During the first half of fiscal 2010, the Company utilized $0.4 million related to restructuring reserves in the United States and United Kingdom. The expenses incurred during the first half of fiscal 2010 are expected to be fully paid by the third quarter of fiscal 2010. These amounts are recorded on the restructuring and other charges line in the consolidated statements of operations.

The activity for the first six months of fiscal 2010 related to the Company’s restructuring accruals is as follows (in thousands):

	Balance January 2, 2010	Charged to expense	Utilization	Balance July 3, 2010

Severance and fringe benefits	$405	$49	$(403)	$51
Executive contractual obligations	--	--	--	--
Other exit costs	--	--	--	--
	$405	$49	$(403)	$51

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

12. STOCK-BASED COMPENSATION

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

2008 Omnibus Incentive Plan

The 2008 Omnibus Incentive Plan (the "2008 Plan"), approved by the stockholders of the Company on June 11, 2008, provides for the award of stock options, stock issuances and other equity interests in the Company to employees, officers, directors (including non-employee directors), consultants and advisors of the Company and its subsidiaries. A total of 3,000,000 shares of common stock, subject to anti-dilution adjustments, have been reserved under this plan. Awards granted under this plan may have varying vesting and termination provisions and can have no longer than a ten year contractual life. There were 143,994 and 1,113,717 options granted under this plan for the three and six months ended July 3, 2010, respectively. At July 3, 2010, there were 2,104,939 options outstanding and 890,559 shares available for future grants under this plan.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan ("ESPP") is designed to provide eligible employees of the Company and its participating U.S. subsidiaries an opportunity to purchase common stock of the Company through accumulated payroll deductions. The purchase price of the stock is equal to 85% of the fair market value of a share of common stock on the first day or last day of each three-month offering period, whichever is lower. All employees of the Company or participating subsidiaries who customarily work at least 20 hours per week and do not own five percent or more of the Company's common stock are eligible to participate in the ESPP. A total of 950,000 shares of the Company's common stock, subject to adjustment, have been reserved for issuance under this plan. The Company issued 16,328 and 37,311 shares of common stock under its ESPP for the three and six months ended July 3, 2010, respectively. The Company issued 35,253 and 63,674 shares of common stock under its ESPP for the three and six months ended July 4, 2009, 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. The stock options granted under the stock option agreement provide for vesting of 200,000 options on May 10, 2007, 200,000 on January 1, 2008, 200,000 on January 1, 2009, 200,000 on January 1, 2010 and 200,000 on 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)
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(Unaudited)

Stock based compensation expense for the three and six months ended July 3, 2010 and July 4, 2009 is as follows (in thousands):

Stock option plan	Three months ended July 3, 2010	Three months ended July 4, 2009	Six months ended July 3, 2010	Six months ended July 4, 2009
2003 Plan	$97	$97	$194	$207
2008 Plan	443	269	720	474
1998 Plan	1	3	2	6
ESPP	8	7	15	17
Non-plan, non-qualified	129	129	258	258
Total	$678	$505	$1,189	$962

As of July 3, 2010, there was $2.9 million of unrecognized compensation expense related to stock option grants. The weighted average period over which the remaining unrecognized compensation expense will be recognized is 1.5 years.

Valuation Assumptions

ESPP

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

	Three months ended July 3, 2010	Three months ended July 4, 2009	Six months ended July 3, 2010	Six months ended July 4, 2009
Risk-free interest rate	0.16 %	-- %	0.15 %	-- %
Volatility	54.6 %	99.4 %	64.6 %	127.5 %
Expected life (in years)	0.25	0.25	0.25	0.25
Dividend yield	--	--	--	--

Based on the above assumptions, the weighted average fair values of each stock purchase right under the Company's ESPP for the second quarter and first six months of fiscal 2010 was $0.61 and $0.57, respectively. The fair values of each stock purchase right under the Company's ESPP for the second quarter and first six months of fiscal 2009 was $0.36 and $0.60, respectively.

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Plan Options

The fair value of the options to purchase common stock granted in the second quarter and first six months of fiscal 2010 and fiscal 2009 were under the 2008 Plan and was estimated on the respective grant dates using the Black-Scholes valuation model with the following assumptions:

	Three months ended				Six months ended			
	July 3, 2010		July 4, 2009		July 3, 2010		July 4, 2009	
Risk-free interest rate	2.00	%	2.7	%	2.5	%	2.6	%
Volatility	76.9	%	71.2	%	76.4	%	70.3	%
Expected life (in years)	5.83		5.67		5.83		5.67	
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 second quarter and first six months of fiscal 2010 under the 2008 Plan was $2.25 and $1.73, respectively.

Restricted Stock Award

There were no restricted stock grants in the first six months of fiscal 2010 and 2009.

Non-Plan Stock Options

There were no non-plan options granted in the first six months of fiscal 2010 and 2009.

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

Stock Option Activity

Stock option activity for the six months ended July 3, 2010 is summarized as follows:

	Shares	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at January 2, 2010	4,346,149	$6.79	5.98 years	$0.1 million
Granted	1,113,717	$2.59		
Exercised	4,502	$3.38		

Canceled/expired	192,775	$10.98		
Outstanding at July 3, 2010	5,262,589	$5.75	6.47 years	$1.0 million
Exercisable at July 3, 2010	3,318,981	$6.83	5.25 years	$0.3 million

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During the three and six months ended July 3, 2010, the total intrinsic value of stock options exercised was approximately $3 thousand and $5 thousand, respectively.

There were no options exercised during the three and six months of fiscal 2009.

13. INTEREST AND OTHER INCOME (EXPENSE)

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

	Three months ended		Six months ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Interest income	$4	$14	$5	$32
Interest expense	(254)	(124)	(556)	(198)
Other income (expense), net	(234)	(136)	(307)	380
	$(484)	$(246)	$(858)	$214

Included in the interest expense number is $0.1 million for loan origination costs amortization for the six month period ended July 3, 2010. The amounts reported as Other income (expense), net include among other items $0.3 million and $0.4 million, respectively, for losses on foreign currency transactions for the three and six months ended July 3, 2010 and losses on foreign currency transactions for the three and six months ended June 4, 2009 of $0.2 million and $1.0 million, respectively. Other income (expense), net for the six month period ended July 4, 2009 included a $1.2 million gain from settlement of a lawsuit.

14. 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.

The Company's tax expense/(tax benefit) was ($0.4) million and $16.9 million for the three months ended July 3, 2010 and July 4, 2009, respectively, on pre-tax loss from continuing operations of $2.2 million and $23.0 million for the respective periods. The Company's tax provision was ($0.5) million and $16.6 million for the six months ended July 3, 2010 and July 4, 2009, respectively, on pre-tax income (loss) from continuing operations of ($2.9) million and ($24.3) million for the respective periods. The tax benefit of $0.4 million for the three month period ended July 3, 2010 primarily relates to net operating losses incurred by the Company's UK subsidiary that are expected to be utilized in future periods.

The Company reviews the carrying amount of its deferred tax assets each reporting period to determine if the establishment of a valuation allowance is necessary. Consideration is given to all positive and negative evidence related to the realization of the deferred tax assets.

In analyzing the available evidence, management evaluated historical financial performance, length of statutory carry forward periods, experience with operating loss and tax credit carry forwards not expiring unused, tax planning strategies and reversals of temporary differences. The Company's evaluation is based on current tax laws.

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Changes in existing laws and future results that differ from expectations may result in significant changes to the deferred tax assets valuation allowance.

At July 4, 2009.the Company recorded a $16.8 million valuation allowance associated with certain U.S. Federal and state net operating losses, tax credits and temporary differences included in the Company’s deferred tax assets.

At July 3, 2010, our deferred tax assets, net of valuation allowance, amounted to $1.8 million which is associated with the Company’s European and Canadian entities. However, if future events differ from expectations, an increase or decrease of the valuation allowance may be required. A change in the valuation allowance occurs if there is a change in management’s assessment of the amount of net deferred tax assets that is expected to be realized in the future.

15. COMPREHENSIVE LOSS

Comprehensive loss is comprised of net 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 loss in the Company’s Consolidated Balance Sheets.

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

Three months ended