

Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

PRESSTEK INC /DE/  
Form 10-Q  
August 12, 2003

=====

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 28, 2003

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 NO. 0-17541

PRESSTEK, INC.

-----  
(Exact name of registrant as specified in its charter)

DELAWARE

02-0415170

-----  
(State or other jurisdiction of incorporation or organization)

-----  
(I.R.S. Employer Identification No.)

55 EXECUTIVE DRIVE, HUDSON, NEW HAMPSHIRE 03051-4903

-----  
(Address of principal executive offices including zip code)

Registrant's telephone number, including area code: (603) 595-7000

-----  
(Former name, former address, and former fiscal year, if changed since last report)

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 8, 2003, there were 34,172,965 shares of the registrant's common stock, \$.01 par value per share, outstanding.

=====  
PRESSTEK, INC.

INDEX

PART I	FINANCIAL INFORMATION	PAGE
Item 1.	Financial Statements	
	Balance Sheets as of June 28, 2003 (unaudited) and December 28, 2002	3
	Statements of Operations for the three and six months ended June 28, 2003 and June 29, 2002 (unaudited)	4
	Statements of Cash Flows for the six months ended June 28, 2003 and June 29, 2002 (unaudited)	5
	Notes to Financial Statements (unaudited)	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	22
Item 4.	Controls and Procedures	22
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	23
Item 4.	Submission of Matters to a Vote of Security Holders	23
Item 6.	Exhibits and Reports on Form 8-K	24
Signatures		25

PART I - FINANCIAL INFORMATION

=====  
ITEM 1. FINANCIAL STATEMENTS

Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

PRESSTEK, INC.

BALANCE SHEETS (In thousands, except share data)	JUNE 28, 2003 (UNAUDITED)	Decemb 20
<hr/>		
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 23,066	\$ 1
Accounts receivable, net of allowance for losses of \$2,510 and \$2,170, in fiscal 2003 and 2002, respectively	16,602	1
Inventories	10,055	1
Other current assets	1,158	
<hr/>		
Total current assets	50,881	4
<hr/>		
PROPERTY, PLANT AND EQUIPMENT, NET	49,022	5
OTHER ASSETS:		
Patent application costs and license rights, net	3,633	
Other	590	
<hr/>		
Total other assets	4,223	
<hr/>		
TOTAL	\$ 104,126	\$ 10
<hr/>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	3,241	
Accounts payable	3,700	
Accrued expenses	9,775	
<hr/>		
Total current liabilities	16,716	1
<hr/>		
LONG-TERM DEBT, NET OF CURRENT PORTION	11,921	1
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value; authorized 1,000,000 shares; no shares issued or outstanding	--	
Common stock, \$.01 par value; authorized 75,000,000 shares; issued and outstanding 34,157,230 shares at June 28, 2003; 34,125,481 shares at December 28, 2002	342	
Additional paid-in capital	97,510	9
Accumulated deficit	(22,363)	(2
<hr/>		
Total stockholders' equity	75,489	7
<hr/>		
TOTAL	\$ 104,126	\$ 10
<hr/>		

Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

See accompanying notes to financial statements

3

PRESSTEK, INC.

STATEMENTS OF OPERATIONS (UNAUDITED)  
FOR THE THREE AND SIX MONTHS ENDED  
(In thousands, except per share data)

	THREE MONTHS ENDED	
	JUNE 28, 2003	June 29, 2002
REVENUE:		
Product sales	\$ 22,043	\$ 17,997
Royalties and fees from licensees	476	1,296
Total revenue	22,519	19,293
COSTS AND EXPENSES:		
Cost of products sold	12,890	15,915
Research and product development	1,874	2,446
Sales, marketing and customer support	3,060	3,184
General and administrative	2,221	3,071
Special charges	550	5,961
Total costs and expenses	20,595	30,577
INCOME (LOSS) FROM OPERATIONS	1,924	(11,284)
OTHER INCOME (EXPENSE), NET:		
Interest, net	(119)	(224)
Other, net	20	(13)
Total other expense, net	(99)	(237)
INCOME (LOSS) BEFORE INCOME TAXES	1,825	(11,521)
PROVISION FOR INCOME TAXES	--	--
NET INCOME (LOSS)	\$ 1,825	\$ (11,521)
EARNINGS (LOSS) PER SHARE - BASIC:	\$ 0.05	\$ (0.34)
EARNINGS (LOSS) PER SHARE - DILUTED	\$ 0.05	\$ (0.34)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC	34,156	34,125
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	34,283	34,125

Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

See accompanying notes to financial statements

4

PRESSTEK, INC.

STATEMENTS OF CASH FLOWS (UNAUDITED)  
(In thousands)

FOR THE SIX MONTHS ENDED	JUNE 200
-----	
CASH FLOWS - OPERATING ACTIVITIES:	
Net Income (loss)	\$ 3
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Special charges and discontinued programs	
Depreciation and amortization	4
Provision for warranty and other costs	
Provision for losses on accounts receivable	
Changes in operating assets and liabilities:	
Accounts receivable	(2)
Inventories	1
Other current assets	
Accounts payable	
Accrued expenses	(1)
Other	
-----	
Net cash provided by operating activities	7
-----	
CASH FLOWS - INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	
Proceeds from sale of equipment	
-----	
Net cash used in investing activities	
-----	
CASH FLOWS - FINANCING ACTIVITIES:	
Net proceeds from the issuance of common stock	
Repayment of mortgage term loan	
Proceeds under lease line of credit	
Repayment of lease line of credit	
Repayment of revolving line of credit	
-----	
Net cash provided by (used in) financing activities	(1)
-----	
INCREASE IN CASH AND CASH EQUIVALENTS	5
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD	17
-----	
CASH AND CASH EQUIVALENTS END OF PERIOD	\$ 23
=====	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the period for:	
Interest	\$
=====	

Income taxes

\$

See accompanying notes to financial statements

5

PRESSTEK, INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)  
JUNE 28, 2003

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS - Presstek, Inc. ("Presstek", or "the Company") is a manufacturer, developer and marketer of digital laser imaging and chemistry-free plate technologies for the printing and graphic arts industries. Presstek's products and applications incorporate its patented direct imaging ("DI(R)"), technologies and consumables for computer-to-plate, ("CTP") and direct-to-press applications. The Company's subsidiary, Lasertel, Inc. ("Lasertel") is engaged in the manufacture and development of high-powered laser diodes for the Company and external customers.

The Company operates in two reportable segments, the Digital Imaging Products segment and the Lasertel segment. The Digital Imaging Products segment is primarily engaged in the development, manufacture and sale of patented digital imaging systems and printing plate technologies for CTP and direct-to-press applications. The Lasertel segment is primarily engaged in the manufacture and development of high-powered laser diodes for Presstek and other customers.

BASIS OF PRESENTATION - The financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain prior period amounts have been reclassified for comparative purposes. The unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial information included in this quarterly report should be read in conjunction with the Company's audited financial statements and related notes thereto for the fiscal year ended December 28, 2002. The December 28, 2002 information has been derived directly from the annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and all such adjustments were normal and recurring. Operating results for the three and six months ended June 28, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending January 3, 2004.

FISCAL YEAR - The Company operates and reports on a 52 or 53 week fiscal year ending on the Saturday closest to December 31. Accordingly, the financial statements include the thirteen-week periods ended June 28, 2003 ("the second quarter of fiscal 2003") and June 29, 2002 ("the second quarter of fiscal 2002"), and the twenty-six week periods ended June 28, 2003 ("the first six months of fiscal 2003"), and June 29, 2002 ("the first six months of fiscal 2002").

USE OF ESTIMATES - The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

related disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The Company evaluates its estimates, including those related to product returns, allowances for doubtful accounts, inventories, long-lived assets, warranty obligations, and litigation on an on-going basis. The Company bases its 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.

REVENUE RECOGNITION - The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). Under SAB No. 101, revenue is

6

recognized when persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable, and collection is reasonably assured.

The Company records revenue for product sales net of estimated returns, which are adjusted periodically, based upon historical rates of return. Revenue and related royalties for products sold where installation is not required is recorded at the time of shipment. Revenue for products that require installation, for which the installation is not deemed inconsequential, is recognized upon completion of installation and customer acceptance. Revenue related to service maintenance agreements is recognized ratably over the duration of the particular contract. Certain fees and other reimbursements are recognized as revenue when the related services have been performed or the revenue otherwise earned. Deferred revenue includes certain customer advances received as a result of the Company's distribution agreements. This revenue is recognized as product is shipped or services are performed.

STOCK-BASED COMPENSATION - The Company accounts for stock options and other equity instruments granted to employees under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), as permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). APB 25 provides for compensation cost to be recognized over the vesting period of the options based on the difference, if any, between the fair market value of the Company's stock and the option price on the grant date. As the Company has only issued fixed term stock option grants at or above the quoted market price on the date of the grant, there is no compensation expense recognized in the accompanying financial statements. The Company adopted the disclosure provisions of SFAS 123, which requires the Company to provide pro forma disclosure of net income and earnings per share as if the optional fair value method had been applied to determine compensation costs for the Company's stock-based compensation plans.

Accordingly, the Company's net income (loss) and earnings (loss) per share for the three and six months ended June 28, 2003 and June 29, 2002, would have been reduced to the pro forma amounts indicated in the following table:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 28, 2003	June 29, 2002	JUNE 28, 2003	June 29, 2002
(In thousands except per share data)				
Net income, as reported	\$ 1,825	\$ (11,521)	\$ 3,615	\$ (11,521)
Less: Total stock-based employee compensation				

Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

expense determined under fair value method	\$ (664)	\$ (1,423)	\$ (1,333)	\$
Adjusted net income (loss)	\$ 1,161	\$ (12,944)	\$ 2,282	\$
Net income per common share, as reported:				
Basic	\$ 0.05	\$ (0.34)	\$ 0.11	\$
Diluted	\$ 0.05	\$ (0.34)	\$ 0.11	\$
Adjusted net income (loss) per common share:				
Basic	\$ 0.03	\$ (0.38)	\$ 0.07	\$
Diluted	\$ 0.03	\$ (0.38)	\$ 0.07	\$

The above adjusted net income (loss) and net income (loss) per share do not consider any related tax benefit from stock option exercises.

7

The Company used the Black-Scholes option-pricing model to estimate the fair value of \$3.70 and \$3.79 for each stock option issued in the second quarter and first six months of fiscal 2003 and 2002, respectively, using the following weighted average assumptions for both the second quarter and first six months of fiscal 2003 and 2002:

	2003	2002
Dividend yield	NONE	None
Expected volatility	73.62%	74.57%
Risk free interest rate	3.15%	3.43%
Expected option life	6.59	6.45

In June 2003, the Company's shareholders approved the 2003 Stock Option and Incentive Plan, ("2003 Plan") which provides for grants of stock options, stock issuances and other equity interests in the Company. The number of shares of common stock authorized for issuance under the 2003 Plan is 2,000,000 shares.

EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS - In January 2003, the Financial Accounting Standards Board ("FASB"), issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, ("FIN No. 46")" which requires all variable interest entities ("VIEs") to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE. In addition, the interpretation expands disclosure requirements for both variable interest entities that are consolidated, as well as VIEs from which the entity is the holder of a significant amount of the beneficial interests, but not the majority. The disclosure requirements of this interpretation are effective for all financial statements issued after January 31, 2003. The consolidation requirements of this interpretation are effective for all periods beginning after June 15, 2003. The Company does not have any VIEs, therefore the adoption of this interpretation will not have a material effect on its results of operations or financial condition.

In April 2003, the FASB issued Statement of Financial Accounting Standards, ("SFAS"), No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No, 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is generally effective for contracts entered into or modified after June 29, 2003 and for hedging relationships designated after June 29, 2003. The Company does not anticipate that the adoption of this statement will have a material effect on



## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

the Company's results of operations or financial condition.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatorily redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and must be applied to existing financial instruments effective June 29, 2003. The Company does not anticipate that the adoption of this statement will have a material effect on the Company's results of operations or financial condition.

8

### 2. INVENTORIES

Inventories consisted of the following at June 28, 2003 and December 28, 2002:

(In thousands)	JUNE 28, 2003	December 28, 2002
Raw materials	\$ 1,380	\$ 2,162
Work in process	4,800	4,179
Finished goods	3,875	5,374
<b>Total inventories</b>	<b>\$ 10,055</b>	<b>\$ 11,715</b>

### 3. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consisted of the following at June 28, 2003 and December 28, 2002:

(In thousands)	JUNE 28, 2003	December 28, 2002
<b>At cost:</b>		
Land and improvements	\$ 2,038	\$ 2,038
Buildings and leasehold improvements	24,517	24,456
Production equipment and other	46,527	46,023
Office furniture and equipment	4,619	4,545
	77,701	77,062
Less accumulated depreciation	(28,679)	(24,771)
<b>Total property, plant and equipment, net</b>	<b>\$ 49,022</b>	<b>\$ 52,291</b>

Certain property and equipment with a cost and net book value of \$44.2 million and \$33.5 million, respectively, is pledged as security for long-term debt.

### 4. ACCRUED EXPENSES

Accrued expenses consisted of the following at June 28, 2003 and December 28, 2002:

(In thousands)	JUNE 28, 2003	December 28, 2002
Accrued payroll and benefits	\$ 1,963	\$ 2,152

Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

Accrued warranty	914	1,089
Accrued special charges	3,097	3,226
Other current liabilities	1,887	1,687
Deferred revenue	473	389
Net liabilities of discontinued operations	1,441	1,449
-----	-----	-----
Total accrued expenses	\$ 9,775	\$ 9,992
=====	=====	=====

5. LONG-TERM DEBT

Long-term debt consisted of the following at June 28, 2003 and December 28, 2002:

(In thousands)	JUNE 28, 2003	December 28, 2002
-----	-----	-----
Mortgage term loans	\$ 6,823	\$ 7,417
Lease line of credit	8,339	9,290
-----	-----	-----
	15,162	16,707
Less current portion	(3,241)	(3,045)
-----	-----	-----
Total long-term debt, net of current portion	\$ 11,921	\$ 13,662
=====	=====	=====

9

6. INCOME TAXES

The Company did not record a provision for federal or state income taxes for the second quarter and first six months of fiscal 2003, as a result of the utilization of net operating loss carryforwards. The Company did not record a provision for federal or state income taxes for the second quarter and first six months of fiscal 2002 as a result of tax losses incurred in the periods.

7. EARNINGS (LOSS) PER SHARE

The following represents the calculation of basic and diluted earnings (loss) per share for the three and six months ended June 28, 2003 and June 29, 2002:

(In thousands, except per share data)	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 28, 2003	June 29, 2002	JUNE 28, 2003	JUNE 29, 2002
-----	-----	-----	-----	-----
Net income (loss)	\$ 1,825	\$ (11,521)	\$ 3,615	\$ (11,521)
-----	-----	-----	-----	-----
Weighted average common shares outstanding - Basic	34,156	34,125	34,149	34,125
-----	-----	-----	-----	-----
Weighted average common stock equivalents	127	--	62	--
-----	-----	-----	-----	-----
Weighted average common shares outstanding - Diluted	34,283	34,125	34,211	34,125
=====	=====	=====	=====	=====
Earnings (loss) per share - Basic:	\$ 0.05	\$ (0.34)	\$ 0.11	\$ (0.34)
=====	=====	=====	=====	=====
Earnings (loss) per share - Diluted:	\$ 0.05	\$ (0.34)	\$ 0.11	\$ (0.34)
=====	=====	=====	=====	=====

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

Options and warrants to purchase 2,485,172 and 2,536,047 shares of common stock at exercise prices ranging from \$5.32 to \$22.75 per share were outstanding during a portion of the second quarter and first six months of fiscal 2003, respectively, but were not included in the computation of diluted earnings per share as the exercise prices of the options and warrants were greater than the average market price of the shares of common stock.

All options and warrants outstanding during the second quarter and first six months of fiscal 2002 were not included in the computation of diluted earnings per share as their effect would be anti-dilutive.

### 8. COMPREHENSIVE INCOME

-----

Comprehensive income is comprised of net income and all changes in stockholder's equity except those due to investments by owners and distributions to owners. For the second quarter and first six months of fiscal 2003 and fiscal 2002, respectively, comprehensive income was comprised solely of net income.

10

### 9. SEGMENT INFORMATION

-----

The following table presents a summary of the Company's operations by segment for the three and first six months ended June 28, 2003 and June 29, 2002:

(In thousands)	DIGITAL IMAGING PRODUCTS	LASERTEL	INTER- SEGMENT	TOTAL
-----	-----	-----	-----	-----
THREE MONTHS ENDED JUNE 28, 2003				
REVENUE	\$ 22,191	\$ 1,713	\$ (1,385)	\$ 22,519
INCOME (LOSS) FROM OPERATIONS	2,920	(996)	--	1,924
TOTAL ASSETS	89,007	15,119		104,126
Three months ended June 29, 2002				
Revenue	\$ 19,292	\$ (58)	\$ 59	\$ 19,293
Income (loss) from operations	(8,664)	(2,620)		(11,284)
Total assets	80,673	22,871		103,544
SIX MONTHS ENDED JUNE 28, 2003				
REVENUE	\$ 44,358	\$ 3,458	\$ (2,855)	\$ 44,961
INCOME (LOSS) FROM OPERATIONS	5,935	(2,069)		3,866
TOTAL ASSETS	89,007	15,119		104,126
Six months ended June 29, 2002				
Revenue	\$ 40,089	\$ 234	\$ (233)	\$ 40,090
Income (loss) from operations	(6,653)	(4,247)		(10,900)
Total assets	80,673	22,871		103,544

10. DISCONTINUED PROGRAMS AND SPECIAL CHARGES

In fiscal 2003, the Company expanded its repositioning actions to reduce costs, initiated in the second quarter of fiscal 2002. The Company recorded a charge of \$550,000 in the second quarter of fiscal 2003, primarily related to severance and benefit costs, as a result of headcount reductions in April 2003.

The Company recorded a charge of \$4.7 million to cost of products sold and \$6.0 million in special charges in the second quarter of fiscal 2002. These charges included inventory, equipment and other asset write-downs, severance and fringe benefit costs, and executive and other contractual obligations.

The following table summarizes the activity related to the discontinued programs and special charges and accrued balances for the six months ended June 28, 2003:

(In thousands)	BALANCE AT DECEMBER 28, 2002	ADDITIONAL PROVISIONS THROUGH JUNE 28, 2003	UTILIZATION THROUGH JUNE 28, 2003
Equipment and other asset write-downs	\$ 39	\$ --	\$ --
Discontinued programs	1,501		(1,501)
Executive contractual obligations	1,257		(1,257)
Severance and fringe benefits	262	550	(300)
Lease termination and other costs	167		(167)
<b>Total accrued special charges and discontinued programs</b>	<b>\$ 3,226</b>	<b>\$ 550</b>	<b>\$ (675)</b>
Deferred revenue associated with discontinued programs	\$ 120	\$ --	\$ (70)

The cumulative cash paid by the Company at June 28, 2003 as a result of the forgoing repositioning actions totaled \$2.5 million. The Company anticipates the remaining payments related to the discontinued programs and special charges will be completed by May 2005.

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:

Certain statements contained in this Quarterly Report on Form 10-Q constitute

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

"forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our expectations for our financial and operating performance in 2003 and beyond; the adequacy of internal cash and working capital for our operations; the strength of our various strategic partnerships (both on manufacturing and distribution); our ability to secure other strategic alliances and relationships; our expectations regarding Presstek's strategy for growth; our expectations and plans regarding market penetration, including the strength and scope of our distribution channels and our expectations regarding sales of DI presses in Europe; our expectations regarding our new OEM relationships with Heidelberg, our expectations regarding the sale of our products and use of our technology including pricing; our expectations regarding performance of existing, planned and recently introduced products; the effects, market acceptance, or pricing of competitive products, including the impact of a competitive plate product introduced by a strategic partner; the placement of orders for direct imaging kits; our expectations regarding the effects and benefits of the Company's streamlining of operations and reductions in force, 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 factors that could cause or contribute to such differences include, but are not limited to, our dependency on our strategic partners (both on manufacturing and distribution); uncertainty surrounding patent protection, shortages of critical or sole-source component supplies; the availability and quality of Lasertel's laser diodes; manufacturing constraints or difficulties (as well as manufacturing difficulties experienced by our sub-manufacturing partners and their capacity constraints); the impact of general market factors in the print industry generally and the economy as a whole; market acceptance of and demand for our products and resulting revenues; the introduction and market acceptance of competitive products; risk and impact of litigation, and other risks detailed in the Company's reports on file with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended December 28, 2002, as well as those discussed elsewhere in this report. The words "looking forward," "looking ahead," "believe(s)," "should," "plan," "expect(s)," "project(s)," "anticipate(s)," "may," "likely," "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 the statements, were made and readers are advised to consider such forward-looking statements in light of the risks set forth below. Presstek undertakes no obligation to update any forward-looking statements contained in this Quarterly Report on Form 10-Q.

### BACKGROUND

Presstek, Inc. ("Presstek (R)", "we" or "us"), incorporated in Delaware in 1987, is a manufacturer, developer and marketer of digital laser imaging and chemistry-free plate technologies for the printing and graphic arts industries. Presstek's products and applications incorporate its patented Direct Imaging ("DI(R)") technologies and consumables for computer-to-plate ("CTP") and direct-to-press applications. Presstek's DI technology enables "direct to press" imaging, whereby the printing plates are imaged on the press directly from digital files, bypassing numerous prepress procedures and chemical processes in preparing jobs for presswork. Our CTP or off-press imaging allows operators of conventional printing presses the ability to image plates directly from digital files to the CTP device. The printer then uses these plates as they would a traditional plate, but without the chemical processes required for conventional plates.

Our patented DI thermal laser diode product family enables customers to produce high quality, full-color lithographic printed materials more quickly and cost

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

effectively than conventional methods. Our DI technology eliminates photographic darkrooms, film, and chemical processing, which results in reduced

13

turn-around time and lowers the effective cost of production for commercial printers. We are a leader in our industry with an environmentally friendly process that avoids the chemicals associated with plate development. Our DI technologies, which use digital information and high-powered semiconductor laser diodes to create images on our patented printing plate materials, are marketed to leading press manufacturers and are used in our Dimension(R) series of CTP systems. Presstek's Dimension CTP systems incorporate our patented ProFire(R) laser imaging technology and use our chemistry free printing plate, Anthem(R).

Presstek's CTP workflow and automated DI printing technology, not only complement digital publishing technology, they also are designed to help printers meet the short-run, quick turn-around, color demands of the marketplace. By significantly increasing the efficiency with which jobs are prepared for print, Presstek's technology is designed to make shorter printing runs more feasible at lower costs. Presstek's technology utilizes the offset lithographic method of applying ink to paper that we believe is universally accepted by printers and consumers, and produces the versatile, high-quality characteristics they require.

Lasertel, Inc. ("Lasertel"), a subsidiary of Presstek, is primarily engaged in the manufacture and development of high-powered laser diodes. Lasertel's products include semiconductor lasers and active components for the graphics, industrial and defense industries. Lasertel offers high-powered laser diodes in both standard and customized configurations, including chip on sub-mount, un-mounted bars, and fiber-coupled devices, to support various applications.

We operate and report on a 52 or 53 week fiscal year, ending on the Saturday closest to December 31. Accordingly, the financial statements include the thirteen-week periods ended June 28, 2003 ("the second quarter of fiscal 2003") and June 29, 2002 ("the second quarter of fiscal 2002"), and the twenty-six week periods ended June 28, 2003 ("the first six months of fiscal 2003"), and June 29, 2002 ("the first six months of fiscal 2002").

We operate in two reportable segments, the Digital Imaging Products segment and the Lasertel segment. The Digital Imaging Products segment is primarily engaged in the development, manufacture and sale of Presstek's patented digital imaging systems and printing plate technologies for CTP and direct-to-press applications. The Lasertel segment is primarily engaged in the manufacture and development of high-powered laser diodes for Presstek and other customers.

In July 2003, we entered into OEM agreements with Heidelberger Druckmaschinen, AG, ("Heidelberg") and Heidelberg USA that provide us with certain preferred supplier rights, which vary based on territory, time period and sales volume. Under the terms of the OEM agreements, which include minimum volume commitments from Heidelberg and Heidelberg USA, we will manufacture and supply Heidelberg branded consumable plate products for the Heidelberg Quickmaster DI press. Supply to Heidelberg of the branded consumable product is expected to be available in August 2003.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

#### GENERAL

Presstek's Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles as adopted in the United States. The preparation of these financial

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, and related disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, Presstek evaluates its estimates, including those related to product returns, allowances for doubtful accounts, inventories, long-lived assets, warranty obligations, and litigation. Presstek bases its 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

14

assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. Presstek's significant accounting policies are presented in Note 1 of our financial statements in our Annual Report on Form 10-K for the fiscal year ended December 28, 2002, filed with the Securities Exchange Commission on March 28, 2003.

### REVENUE RECOGNITION

Presstek recognizes revenue in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). Under SAB No. 101, revenue is recognized when persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable, and collection is reasonably assured.

We record revenue for product sales net of estimated returns, which are adjusted periodically, based upon historical rates of return. Revenue and related royalties for products sold where installation is not required is recorded at the time of shipment. Revenue for products that require installation, for which the installation is not deemed inconsequential, is recognized upon completion of installation and customer acceptance. Revenue related to service maintenance agreements is recognized ratably over the duration of the particular contract. Certain fees and other reimbursements are recognized as revenue when the related services have been performed or the revenue otherwise earned. Deferred revenue includes certain customer advances received as a result of our distribution agreements. This revenue is recognized as product is shipped or services are performed.

### ALLOWANCE FOR DOUBTFUL ACCOUNTS

Presstek evaluates its accounts receivable on an ongoing basis and establishes an allowance for doubtful accounts based on specific customer circumstances and on its historical rate of write-offs. We include any accounts receivable balances that are determined to be uncollectible, along with a general reserve, in an overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. While we believe the allowance for doubtful accounts as of June 28, 2003 is adequate, actual write-offs might exceed the recorded allowance.

### PRODUCT WARRANTIES

Presstek warrants its products against defects in material and workmanship for various periods, determined by the product, generally from a period of ninety days to a period of one year from the date of installation. We provide for the estimated cost of product warranties at the time revenue is recognized. While we

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

engage in product quality programs and processes, our warranty obligation is affected by product failure rates, material usage and service costs incurred in correcting a product failure. Should actual product failure rates, material usage or service costs differ from our estimates, revisions to the estimated warranty liability would be required.

### INVENTORY VALUATION

Inventories are valued at the lower of cost or net realizable value, with cost determined using the first-in, first-out method. We assess the recoverability of inventory to determine whether adjustments for impairment are required. Inventory that is in excess of future requirements is written down to its estimated value based upon forecasted demand for its products. If actual demand is less favorable than what has been forecasted by management, additional inventory write-downs may be required.

### LONG-LIVED ASSETS

Long-lived assets, such as intangible assets and property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be

15

recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value.

### RESULTS OF OPERATIONS

#### REVENUE

Revenue for the second quarter and first six months of fiscal 2003 of \$22.5 million and \$45.0 million, respectively, consisted of product sales, customer support revenue, royalties and license fees. Revenue for the second quarter and first six months of fiscal 2003 increased \$3.2 million or 17% and \$4.9 million or 12%, respectively, as compared to \$19.3 million and \$40.1 million for the second quarter and first six months of 2002.

Product sales for the Digital Imaging Products segment, including the sale of equipment and consumables, were \$21.2 million and \$41.7 million for the second quarter and first six months of fiscal 2003, respectively, an increase of \$3.5 million or 20% and \$4.7 million or 13%, as compared to \$17.7 million and \$37.0 million for the second quarter and first six months of fiscal 2002, respectively. The increase in product sales for the second quarter and first six months of fiscal 2003 was due primarily to volume increases in sales of the Karat 46 press to Koenig & Bauer, AG ("KBA"), the KPG DI press to Kodak Polychrome Graphics ("KPG"), our CTP platesetter products, and volume increases in sales of our consumable products. This revenue increase was partially offset by a decrease in shipments of direct imaging kits to Heidelberger Druckmaschinen AG, ("Heidelberg") for use in the Quickmaster DI.

The revenue generated from the sale of consumable products was \$13.6 million and \$27.2 million for the second quarter and first six months of fiscal 2003, respectively, an increase of \$1.5 million or 12% and \$1.3 million or 5%, as compared to \$12.1 million and \$25.9 million in the second quarter and first six months of fiscal 2002, respectively. The increase in consumable sales for the second quarter and first six months of fiscal 2003 was primarily related to a volume increase in sales of our Anthem plate and our PEARLdry consumables used in the Quickmaster DI. Revenue derived from the volume increase in sales of Quickmaster DI consumables were somewhat offset by a decrease in price,



## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

primarily as a result of price reductions on sales through select dealers in our European distribution channel.

Consumable product revenue includes sales under our agreements with Heidelberg and its distributors of \$3.4 million and \$9.0 million for the second quarter and first six months of fiscal 2003, a decrease of \$1.2 million or 26% and \$1.5 million or 14%, respectively, as compared to \$4.6 million and \$10.5 million in the second quarter and first six months of fiscal 2002.

As previously disclosed, in March 2003, we expanded the product offerings to select dealers in our European distribution channel to include the sale of Quickmaster DI consumables. In connection with this offering, we reduced pricing on our full line of spooled consumables distributed through this dealer channel by up to 20%. This new pricing reduced the revenue generated by Presstek from its spooled consumable products by approximately \$200,000 in the second quarter of fiscal 2003. This new pricing, in addition to our new OEM agreements with Heidelberg, may result in a further reduction of up to \$1.5 million in the second half of fiscal 2003. While the expected lost revenue resulting from the price reduction may be offset by increased revenue from increased volume of spooled consumable sales derived from additional presses installed and increased usage of spooled consumables, there can be no assurance that this expected lost revenue will be offset. In addition, market conditions may require us to expand the regions in which we offer reduced prices, or to further reduce our spooled consumable prices, which could further reduce our revenues in 2003 and beyond. This could have a material adverse effect on our business, results of operations and financial position.

Revenue generated from services related to customer support, including installation and service contract revenue, was \$523,000 and \$992,000 for the second quarter and first six months of fiscal 2003, respectively, an increase of \$202,000 or 63% and \$260,000 or 36%, as compared to \$321,000 and

16

\$732,000 for the second quarter and first six months of fiscal 2002, respectively. This increase relates primarily to the sale of service maintenance agreements related to our CTP Dimension products.

Royalties and fees from licensees for the second quarter and first six months of fiscal 2003 were \$476,000 and \$1.6 million, a decrease of \$820,000 or 63% and \$705,000 or 31%, as compared to \$1.3 million and \$2.3 million for the second quarter and first six months of fiscal 2002, respectively. This decrease relates primarily to decreased shipments to Heidelberg of direct imaging kits used in the Quickmaster DI. Heidelberg has indicated, as a result of the global economic slowdown, that it has an inventory of direct imaging kits on hand to support its production requirements for at least six months. We currently believe that orders for direct imaging kits may not resume until sometime in the first half of fiscal 2004, however, there can be no assurance that any orders will be received at this time.

Revenue generated under our agreements with Heidelberg and its distributors was \$3.6 million and \$11.4 million for the second quarter and first six months of fiscal 2003, a decrease of \$3.7 million or 51%, and \$3.8 million or 25%, as compared to \$7.3 million and \$15.2 million in the second quarter and first six months of fiscal 2002. The decreases are due primarily to decreased shipments to Heidelberg for direct imaging kits used in the Quickmaster DI. Revenue from Heidelberg represented 16% and 25% of total revenue for the second quarter and first six months of fiscal 2003, as compared to 38% and 45% of total revenue for the second quarter and first six months of fiscal 2002, respectively.

Heidelberg announced in March 2003 that it plans to introduce a competitive plate product, as an alternative to Presstek's PEARLdry for the Quickmaster DI,

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

beginning in the second quarter of fiscal 2003. While it is too early to estimate the impact this plate may have on our business, the introduction of a competitive plate could reduce the revenue generated by Presstek under its agreements with Heidelberg, including the recently announced OEM agreements. This could also lead to downward pricing pressure for our full line of spooled consumable products, which could have a material adverse effect on our business, results of operations or financial condition.

Revenue generated under our agreements with KBA and its distributors was \$3.1 million and \$5.0 million for the second quarter and first six months of fiscal 2003, respectively, an increase of \$2.2 million or 261% and \$1.6 million or 47%, as compared to \$858,000 and \$3.4 million for the comparable periods in fiscal 2002, respectively.

As previously disclosed, in March 2003, we negotiated the termination of our supply and distribution agreement with Xerox for DocuColor DI presses. Xerox will no longer sell the DocuColor 233 DI-4, the DocuColor 400 DI-4 and the DocuColor 400 DI-5 presses and related consumables. The revenue generated from the sale of these presses was not material in fiscal 2002, and as a result, the termination of this agreement is not expected to have a material adverse effect on our business, results of operations or financial condition.

Revenue for the Lasertel segment for the second quarter and first six months of fiscal 2003 was \$328,000 and \$603,000, respectively, and primarily related to the sale of products for defense industry applications. Product sales to external customers for the second quarter and first six months of fiscal 2002 were not material.

### COST OF PRODUCTS SOLD

Cost of products sold consists of the cost of material, labor and overhead, shipping and handling costs and warranty expenses. Cost of products sold for the Digital Imaging Products segment were \$12.2 million and \$24.5 million or 55% of revenue, for the second quarter and first six months of fiscal 2003, respectively, a decrease of \$1.6 million or 12%, and \$900,000 or 4% as compared to \$13.8 million or 72% of revenue and \$25.4 million or 63% of revenue, for the comparable periods in fiscal 2002, respectively. These decreases relate primarily to the decrease in inventory write-downs and other charges for discontinued operations, as a result of a \$4.0 million charge recorded in the second quarter of fiscal 2002, offset by an increase in production costs as a result of increased sales volume.

17

Gross margin (defined as total revenue less cost of products sold) as a percentage of total revenue for the Digital Imaging Products segment was 45% for each of the second quarter and first six months of fiscal 2003, as compared to 29% and 37% for the second quarter and first six months of fiscal 2002, respectively. In the second quarter and first six months of fiscal 2002, gross margin was unfavorably impacted by a \$4.0 million charge related to inventory write-downs and other charges for discontinued programs. The gross margin improvement for the second quarter and first six months of fiscal 2003 was also the result of lower warranty costs.

Cost of products sold for the Lasertel segment was \$653,000 and \$1.4 million for the second quarter and first six months of fiscal 2003, respectively, a decrease of approximately \$1.4 million or 67% and \$1.9 million or 58%, as compared to \$2.1 million and \$3.3 million for the second quarter and first six months of fiscal 2002, respectively. The decrease in cost of products sold relates primarily to yield improvements, as well as a reduction in inventory write-downs for discontinued programs as a result of a \$688,000 charge recorded in the second quarter of fiscal 2002.

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

### RESEARCH AND PRODUCT DEVELOPMENT

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

Research and product development expenses for the Digital Imaging Products segment were \$1.6 million and \$3.3 million or 7% of revenue, for the second quarter and first six months of fiscal 2003, respectively, a decrease of \$800,000 and \$2.0 million as compared to \$2.4 million or 12% of revenue and \$5.3 million or 13% of revenue for the comparable periods in fiscal 2002, respectively. These decreases relate primarily to a reduction in the number of development programs which resulted in reduced expenditures in salaries and benefits, parts and supplies, and professional and contractor services. Presstek's product development cycle centers around major industry trade shows, and as a result, our research and product development expenses vary in accordance with our product development cycle.

Research and product development expenses for the Lasertel segment were \$249,000 and \$519,000, for the second quarter and first six months of fiscal 2003, respectively, an increase of \$211,000 and \$446,000, as compared to \$38,000 and \$73,000 for the comparable periods in fiscal 2002, respectively. These increases relate primarily to additional research and product development activities undertaken in the industrial markets.

### SALES, MARKETING AND CUSTOMER SUPPORT

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

Sales, marketing and customer support expenses for the Digital Imaging Products segment were \$3.0 million and \$5.7 million or 13% of revenue, for the second quarter and first six months of fiscal 2003, respectively, a decrease of \$100,000 and an increase of \$200,000, as compared to \$3.1 million, or 16% of revenue and \$5.5 million, or 14% of revenue for the comparable periods in fiscal 2002, respectively. The decrease for the second quarter of fiscal 2003 relates primarily to a decrease in travel and related expenses for customer support activities, somewhat offset by increased promotional activities. The increase for the first six months of fiscal 2003 relates primarily to increased salaries and benefits, as a result of head count increases in the second quarter of fiscal 2003, as well as increased professional and contracted services to support increased promotional activities directed at product distribution.

Sales and marketing expenses for the Lasertel segment were \$105,000 and \$173,000 for the second quarter and first six months of fiscal 2003, respectively, an increase of \$30,000 and \$15,000, as compared

18

to \$75,000 and \$158,000 for the comparable periods in fiscal 2002, respectively. These increases were the result of increased promotional activities related to trade shows held in the second quarter of fiscal 2003.

### GENERAL AND ADMINISTRATIVE

General and administrative expenses consist primarily of payroll and related expenses for personnel, and contracted professional services necessary to conduct our finance, information systems, human resources and administrative

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

activities.

General and administrative expenses for the Digital Imaging Products segment were \$2.0 million or 9% of revenue and \$4.4 million or 10% of revenue, for the second quarter and first six months of fiscal 2003, respectively, a decrease of \$700,000 and \$200,000, as compared to \$2.7 million or 14% of revenue and \$4.6 million or 11% of revenue for the comparable periods in fiscal 2002, respectively. These decreases relate primarily to decreased legal fees as a result of the resolution of patent litigation with Creo Products, Inc., as well as decreases in salaries and benefits as a result of a decrease in head count in the second quarter of fiscal 2003.

General and administrative expenses for the Lasertel segment were \$238,000 and \$516,000, for the second quarter and first six months of fiscal 2003, respectively, a decrease of \$91,000 and \$151,000, as compared to \$329,000 and \$667,000, for the comparable periods in fiscal 2002, respectively. These decreases relate primarily to a decrease in professional services rendered.

### DISCONTINUED PROGRAMS AND SPECIAL CHARGES

In the second quarter of fiscal 2003, we recorded special charges of \$550,000 related to severance and fringe benefit costs associated with the reduction of approximately 43 employees, primarily in manufacturing, research and development and administration in April 2003, of which \$471,000 was recorded by the Digital Imaging Products segment and \$79,000 by the Lasertel segment.

In fiscal 2002, we initiated various repositioning actions to reduce costs. As a result of the repositioning programs, we recorded a charge of \$4.7 million to cost of products sold in the second quarter of fiscal 2002, of which \$4.0 million was recorded by the Digital Imaging Products segment and \$688,000 by the Lasertel segment. In addition, the Digital Imaging products segment recorded \$6.0 million in special charges in the second quarter of fiscal 2002. These charges included inventory, equipment and other asset write-downs, severance and fringe benefit costs, and executive and other contractual obligations.

### OTHER INCOME (EXPENSE), NET

Other income (expense), net consists primarily of net interest expense, and other miscellaneous expenses. Interest expense, net was \$120,000 and \$272,000 for the second quarter and first six months of fiscal 2003, a decrease of \$104,000 and \$183,000, respectively, as compared to \$224,000 and \$455,000 for the comparable periods in fiscal 2002.

Interest income was \$79,000 and \$151,000 for the second quarter and first six months of fiscal 2003, an increase of \$30,000 and \$88,000, respectively, as compared to \$49,000 and \$63,000 for the comparable periods in fiscal 2002. These increases are a result of increased cash balances available for investment.

Interest expense was \$199,000 and \$423,000 for the second quarter and first six months of fiscal 2003, a decrease of \$74,000 and \$95,000, respectively, as compared to \$273,000 and \$518,000 for the comparable periods in fiscal 2002. These decreases are a result of lower average debt balances and lower interest rates on borrowings.

### PROVISION FOR INCOME TAXES

We did not record a provision for federal or state income taxes for the second quarter and first six months of fiscal 2003, as a result of the utilization of net operating loss carryforwards. We did not record a provision for federal or state income taxes for the second quarter and first six months of fiscal 2002 as

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

a result of tax losses incurred in the periods.

### NET INCOME

As a result of the foregoing, we had net income of \$1.8 million and \$3.6 million for the second quarter and first six months of fiscal 2003, as compared to net losses of \$11.5 million and \$11.3 million for the second quarter and first six months of fiscal 2002.

### LIQUIDITY AND CAPITAL RESOURCES

We finance our operating and capital investment requirements primarily through cash flows from operations and borrowings. At June 28, 2003, we had cash and cash equivalents of \$23.1 million and working capital (defined as total current assets less total current liabilities) of \$34.2 million as compared to cash and cash equivalents of \$17.6 million and working capital of \$28.6 million at December 28, 2002. The increase in cash and cash equivalents of \$5.5 million for the first six months of fiscal 2003 was primarily due to net cash provided by operating activities of \$7.6 million, offset by cash of \$2.1 million used in investing and financing activities.

Net cash provided by operating activities was \$7.6 million for the first six months of fiscal 2003, due primarily to net income of \$3.6 million, non-cash charges of depreciation, amortization, and other charges of \$6.7 million, including \$550,000 in special charges as a result of head count reductions, and a decrease in inventories of \$1.7 million, offset by increases in accounts receivable of \$2.3 million. The increase in accounts receivable is attributable to the timing of sales later in the second quarter. The decrease in inventories is primarily the result of inventory management programs initiated in fiscal 2002.

Net cash used in investing activities was \$697,000 for the first six months of fiscal 2003, and consisted primarily of additions to property, plant and equipment, used in the business.

Net cash used in financing activities was \$1.4 million for the first six months of fiscal 2003, and consisted primarily of payments on the mortgage term loans and the equipment lease line of credit facility.

Our long-term debt consists of two mortgage term loans from Citizens Bank New Hampshire ("Citizens"), and a lease line of credit from Keybank National Association ("Keybank").

The first mortgage term loan is a 1998 ten-year mortgage term loan from Citizens in the amount of \$6.9 million and bears a fixed rate of interest of 7.12% per year during the first five years, and a variable rate of interest at the LIBOR rate plus 2%, (3.12% at June 28, 2003) for the remaining five years. Principal and interest payments during the first five years of the loan will be made in 60 monthly installments of \$80,500. During the remaining five years, principal and interest payments will be made on a monthly basis in the amount of one-sixtieth of the outstanding principal amount as of the first day of the second five year period, plus accrued interest through the monthly payment date. All outstanding principal and accrued interest is due and payable on February 6, 2008.

The second mortgage term loan is a 2000 ten-year mortgage term loan in the amount of \$4.0 million and bears a fixed rate of interest equal to 7.95% per year during the first five years, and a fixed rate of interest equal to United States Treasury Notes or Bills with a maturity date closest to the end of the second five years plus 225 basis points for the remaining five years. During the first five years, principal and interest payments will be made in 60 monthly installments of \$34,993 plus interest. During the remaining five years, principal and interest payments will be made on a monthly basis in the amount of

Edgar Filing: PRESSTK INC /DE/ - Form 10-Q

one-sixtieth of the outstanding principal amount as of the first day of the second five year period, plus accrued interest

20

through the monthly payment date. All outstanding principal and accrued and unpaid interest is due and payable on October 30, 2010.

The two mortgage term loans are secured by land and buildings with a cost and net book value of approximately \$25.7 million and \$21.9 million, respectively.

We also borrowed \$13.0 million against a \$15.0 million lease line of credit facility, which expired in April 2002, from Keybank pursuant to a 1999 loan agreement. The \$13.0 million in borrowings is secured by equipment with a cost and net book value at June 28, 2003 of \$18.4 million and \$11.6 million, respectively. The loan bears a variable rate of interest based upon the LIBOR rate plus 4.25% (5.37% at June 28, 2003) or the prime rate (4.25% at June 28, 2003), with a future fixed rate conversion provision. Principal and interest under the Keybank lease line of credit are payable in 84 monthly installments.

In addition to the Citizens' mortgage term loans and the borrowings under the Keybank lease line of credit, we also have a revolving line of credit loan with Citizens, under which we may borrow a maximum of \$16.0 million. This revolving line of credit, which expires in October 2003, is subject to a borrowing base formula based on eligible accounts receivable and inventories, as defined by the revolving line of credit loan agreement, and reduced by the amount of all letters of credit outstanding. The revolving line of credit loan is secured by substantially all of our assets, with interest payable at the LIBOR rate plus 1.50% (2.62% at June 28, 2003). As of June 28, 2003, we had \$14.0 million available under the revolving line of credit loan, reduced by \$5.5 million outstanding under standby letters of credit.

Under the terms of the Citizens' mortgage term loans, the Keybank lease line of credit and the Citizens' revolving line of credit, we are required to meet various restrictive covenants on a quarterly and annual basis, including maximum funded debt to EBITDA and minimum fixed charge coverage covenants. As of June 28, 2003, we were in compliance with all financial covenants.

We have future contractual payment obligations through 2010 that primarily relate to debt, royalty obligations, executive contractual obligations and operating leases. The following table represents our future commitments at June 28, 2003 and December 28, 2002:

(In thousands)	JUNE 28, 2003	December 28, 2002
-----	-----	-----
Credit facilities	\$ 15,162	\$ 16,707
Royalty obligation	11,567	11,900
Executive contractual obligations	2,829	3,100
Lease agreements	10	121
-----	-----	-----
Total contractual obligations	\$ 29,568	\$ 31,828
=====	=====	=====

Our anticipated capital expenditures for fiscal 2003 are approximately \$2.0 million, and primarily relate to the purchase of capital equipment to be used in the production of our DI and CTP equipment and consumable products.

Heidelberg announced in March 2003 that it plans to introduce a competitive plate product, as an alternative to Presstek's PEARLdry for the Quickmaster DI, beginning in the second quarter of fiscal 2003. While it is too early to estimate the impact this plate may have on our business, the introduction of a

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

competitive plate could reduce the revenue generated by Presstek under its agreements with Heidelberg, including the recently announced OEM agreements. This could also lead to downward pricing pressure for our full line of spooled consumable products, which could have a material adverse effect on our liquidity.

We believe that existing funds, cash flows from operations, and cash available under our Citizens' revolving line of credit should be sufficient to satisfy working capital requirements and capital expenditures through the next twelve months. We are currently negotiating the renewal of the Citizens' revolving line of credit loan agreement, which expires in October 2003. There can be no assurance, however, that we will

21

be able to renew this loan agreement, will not require additional financing, or that such additional financing, if needed, will be available on acceptable terms.

### EFFECT OF INFLATION

Inflation has not had, and is not expected to have, a material impact upon our operations.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

-----

We are exposed to market risk from changes in interest rates primarily as a result of our borrowing activities, and to a lesser extent, our investing activities. The majority of our long-term borrowings are in fixed rate instruments, or variable rate instruments with fixed rate conversion provisions. We do not enter into interest rate swap agreements or other speculative or leveraged transactions. We currently have no material exposure to interest rate fluctuations on our short-term investments.

We have limited exposure to foreign currency exchange rate risk. While substantially all of our transactions are currently denominated in U.S. dollars, a limited number of sales transactions are denominated in our customers' currency. To date, the currency exposure related to these transactions has not been material. Furthermore, some of our customers and strategic partners are not located in the United States, and are themselves subject to fluctuations in foreign exchange rates. If the home country currency of these customers and strategic partners were to decrease in value relative to the United States dollar, their ability to purchase and/or 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, some of our 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.

-----

#### (a) Evaluation of Disclosure Controls and Procedures

As of a date (the "Evaluation Date") within ninety days prior to the filing date of this Quarterly Report on Form 10-Q, we have, under the supervision and with the participation of the Presstek's management, including its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of Presstek's disclosure controls and procedures pursuant to Rule

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

13a-15 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, Presstek's Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, Presstek's disclosure controls and procedures are effective in ensuring that material information relating to Presstek (including its consolidated subsidiaries) required to be disclosed by Presstek in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such material information is accumulated and communicated to Presstek's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls

There were no significant changes in Presstek's internal controls or in other factors that could significantly affect Presstek's internal controls subsequent to the Evaluation Date.

22

### PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Part I - Item 3 of the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2002 filed with the Commission on March 28, 2003 for a description of certain legal proceedings involving the Company. All of such information is hereby incorporated by reference in response to this item.

Item 4. Submission of Matters to a Vote of Security Holders

(a) On June 17, 2003, the Company held its Annual Meeting of Stockholders.

(b) Not Applicable.

(c) At such meeting, the stockholders of the Company voted:

- (1) To elect nine (9) Directors to serve for the ensuing year. The votes cast were as follows:

Nominees	Votes For	Against	Votes Withheld	Votes Abstained	Broker Non Votes
-----	-----	-----	-----	-----	-----
Richard A. Williams	27,742,278	N/A	2,413,039	N/A	N/A
Edward J. Marino	27,650,043	N/A	2,507,274	N/A	N/A
Dr. Lawrence Howard	28,077,601	N/A	2,079,716	N/A	N/A
John W. Dreyer	29,094,174	N/A	1,063,143	N/A	N/A
Daniel S. Ebenstein	27,571,066	N/A	2,586,251	N/A	N/A
John B. Evans	29,647,139	N/A	510,178	N/A	N/A
Michael D. Moffitt	27,667,069	N/A	2,490,248	N/A	N/A
Barbara A. Pellow	29,443,521	N/A	713,796	N/A	N/A
Donald C. Waite, III	29,667,796	N/A	489,521	N/A	N/A

- (2) To approve and adopt the Company's 2003 Stock Option and Incentive Plan. The votes cast were as follows:

Votes For	Votes Against	Votes Withheld	Abstained	Broker Non Votes
-----	-----	-----	-----	-----
13,646,117	4,372,434	N/A	168,490	N/A



Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

- (3) To ratify the selection of BDO Seidman, LLP, as the Company's independent auditors for the fiscal year ending January 3, 2004. The votes cast were as follows:

Votes For	Votes Against	Votes Withheld	Abstained	Broker Non Votes
-----	-----	-----	-----	-----
29,617,390	447,595	N/A	92,332	N/A

(d) Not Applicable.

23

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1\* 2003 Stock Option and Incentive Plan (filed herewith).

99.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

99.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

\* Denotes management employment contracts or compensatory plans.

(b) Reports on Form 8-K

A Form 8-K was filed on April 24, 2003 furnishing information pursuant to Item 9 and 12 relating to the press release of Presstek, Inc., dated April 24, 2003 reporting Presstek Inc.'s financial results for the fiscal quarter ended March 29, 2003.

24

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: August 12, 2003

/s/ Edward J. Marino

Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

-----  
By: Edward J. Marino  
President and Chief Executive Officer  
(Principal Executive and Duly Authorized Officer)

Date: August 12, 2003

/s/ Moosa E. Moosa  
-----

By: Moosa E. Moosa  
Vice President - Finance,  
Chief Financial Officer, Treasurer and Secretary  
(Principal Financial and Accounting Officer)

25

CERTIFICATIONS

I, Edward J. Marino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Presstek, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities,

Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 12, 2003

/s/ Edward J. Marino

-----  
Edward J. Marino  
President and Chief Executive Officer  
(Principal Executive Officer)

I, Moosa E. Moosa, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Presstek, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

## Edgar Filing: PRESSTEK INC /DE/ - Form 10-Q

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 12, 2003

/s/ Moosa E. Moosa

-----  
Moosa E. Moosa

Vice President - Finance, Chief Financial Officer,  
Treasurer and Secretary  
(Principal Financial and Accounting Officer)

### EXHIBIT INDEX

No.	Description
---	-----
10.1*	2003 Stock Option and Incentive Plan (filed herewith).
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

\* Denotes management employment contracts or compensatory plans.