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

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

FORM 10-Q

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 27, 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 [X] No [_]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [_]

As of November 5, 2003, there were 34,192,111 shares of the registrant's common stock, $.01 par value per share, outstanding.

PRESSTEK, INC.

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PRESSTEK, INC.

BALANCE SHEETS (In thousands, except share data)	September 27, 2003 (unaudited)
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 26,657

Accounts receivable, net of allowance for losses of $1,981 and $2,170, in fiscal 2003 and 2002, respectively	14,713
Inventories	11,896
Other current assets	1,221
Total current assets	54,487
PROPERTY, PLANT AND EQUIPMENT, NET	47,348
OTHER ASSETS:	
Patent application costs and license rights, net	3,487
Other	556
Total other assets	4,043
TOTAL	$ 105,878
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current portion of long-term debt	$ 3,279
Accounts payable	4,272
Accrued expenses	9,160
Total current liabilities	16,711
LONG-TERM DEBT, NET OF CURRENT PORTION	11,086
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 34,184,590 shares at September 27, 2003; 34,125,481 shares at December 28, 2002	342
Additional paid-in capital	97,668
Accumulated deficit	(19,929)
Total stockholders' equity	78,081
TOTAL	$ 105,878

See accompanying notes to financial statements

PRESSTEK, INC.

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

	Three Months Ended	
	September 27,	September 28,

	2003	2002
REVENUE:		
Product sales	$ 19,266	$ 19,962
Royalties and fees from licensees	492	1,024
Total revenue	19,758	20,986
COSTS AND EXPENSES:		
Cost of products sold	12,105	13,293
Research and product development	1,667	1,982
Sales, marketing and customer support	2,857	2,363
General and administrative	2,100	2,514
Special charges	--	--
Total costs and expenses	18,729	20,152
INCOME (LOSS) FROM OPERATIONS	1,029	834
OTHER INCOME (EXPENSE), NET:		
Interest, net	(97)	(224)
Other, net	76	11
Total other expense, net	(21)	(213)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,008	621
PROVISION FOR INCOME TAXES	--	--
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,008	621
DISCONTINUED OPERATIONS:		
Income from discontinued operations	1,429	--
INCOME FROM DISCONTINUED OPERATIONS	1,429	--
NET INCOME (LOSS)	$ 2,437	$ 621
EARNINGS (LOSS) PER SHARE - BASIC:		
From continuing operations	$ 0.03	$ 0.02
From discontinued operations	$ 0.04	$ 0.00
EARNINGS (LOSS) PER SHARE - BASIC	$ 0.07	$ 0.02
EARNINGS (LOSS) PER SHARE - DILUTED:		
From continuing operations	$ 0.03	$ 0.02
From discontinued operations	$ 0.04	$ 0.00
EARNINGS (LOSS) PER SHARE - DILUTED	$ 0.07	$ 0.02

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC	34,177	34,125
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	34,625	34,127

See accompanying notes to financial statements

4

PRESSTEK, INC.

STATEMENTS OF CASH FLOWS (unaudited)
(In thousands)

For the Nine Months Ended	September 27, 2003
CASH FLOWS - OPERATING ACTIVITIES:	
Net income (loss)	$ 6,052
Less income from discontinued operations	(1,429)
Income (loss) from continuing operations	4,623
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities of continuing operations:	
Special charges and discontinued programs and operations	550
Depreciation and amortization	6,618
Provision for warranty and other costs	1,336
Provision for losses on accounts receivable	1,077
Changes in operating assets and liabilities:	
Accounts receivable	(681)
Inventories	(181)
Other current assets	(667)
Accounts payable	941
Accrued expenses	(1,249)
Other	(192)
Net cash provided by operating activities	12,175
CASH FLOWS - INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	(1,005)
Proceeds from sale of equipment	--
Net cash used in investing activities	(1,005)
CASH FLOWS - FINANCING ACTIVITIES:	
Net proceeds from stock option exercises	266
Repayment of mortgage term loan	(901)
Proceeds under lease line of credit	--
Repayment of lease line of credit	(1,441)
Repayment of revolving line of credit	--
Net cash provided by (used in) financing activities	(2,076)

INCREASE IN CASH AND CASH EQUIVALENTS		9,094
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD		17,563
CASH AND CASH EQUIVALENTS END OF PERIOD	$	26,657
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$	602
Income taxes	$	--

See accompanying notes to financial statements

PRESSTEK, INC.

NOTES TO FINANCIAL STATEMENTS (unaudited)
SEPTEMBER 27, 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 nine months ended September 27, 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 September 27, 2003 ("the third quarter of fiscal 2003") and September 28, 2002 ("the third quarter of fiscal 2002"), and the thirty-nine week periods ended September 27, 2003 ("the first nine months of fiscal 2003"), and September 28, 2002 ("the first nine 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 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 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 nine months ended September 27, 2003 and September 28, 2002, would have been reduced to the pro forma amounts indicated in the following table:

(In thousands except per share data)	Three months ended September 27, 2003	September 28, 2002	S
Net income (loss), as reported	$ 2,437	$ 621	
Less: total stock-based employee compensation expense determined under the fair value method	(596)	(413)	
Adjusted net income (loss)	$ 1,841	$ 208	
Net income (loss) per common share, as reported:			
Basic	$ 0.07	$ 0.02	
Diluted	$ 0.07	$ 0.02	
Adjusted net income (loss) per common share:			
Basic	$ 0.05	$ 0.01	
Diluted	$ 0.05	$ 0.01	

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 $3.36 and $3.43 for each stock option issued in the third quarter and first nine months of fiscal 2003 and 2002, respectively, using the following weighted average assumptions:

	Three months ended		Nine months ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
Dividend yield	None	None	None	None
Expected volatility	70.85%	74.57%	72.70%	74.57%
Risk free interest rate	3.55%	3.43%	3.28%	3.43%
Expected option life	6.59	6.45	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 to employees, officers, directors and advisors of 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 Emerging Issues Task Force ("EITF") issued EITF Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables ("EITF 00-21"). EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities; specifically, how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. EITF 00-21 does not change otherwise applicable revenue recognition criteria. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material effect on the Company's financial statements.

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 did 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 adoption of this statement did not have a material effect on 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 adoption of this statement did not have a material effect on the Company's results of operations or financial condition.

2. Inventories

Inventories consisted of the following at September 27, 2003 and December 28, 2002:

(In thousands)	September 27, 2003	December 28, 2002
Raw materials	$ 1,625	$ 2,162
Work in process	3,853	4,179
Finished goods	6,418	5,374
Total inventories	$ 11,896	$ 11,715

3. Property, Plant and Equipment, Net

Property, plant and equipment, net consisted of the following at September 27, 2003 and December 28, 2002:

(In thousands, at cost)	September 27, 2003	December 28, 2002
Land and improvements	$ 2,038	$ 2,038
Buildings and leasehold improvements	24,518	24,456
Production equipment and other	46,671	46,023
Office furniture and equipment	4,752	4,545
	77,979	77,062
Less accumulated depreciation	(30,631)	(24,771)
Total property, plant and equipment, net	$ 47,348	$ 52,291

4. Accrued Expenses

Accrued expenses consisted of the following at September 27, 2003 and December 28, 2002:

(In thousands)	September 27, 2003	December 28, 2002
Accrued payroll and benefits	$ 2,527	$ 2,152
Accrued warranty	887	1,089
Accrued special charges	2,930	3,226
Other current liabilities	2,171	1,687
Deferred revenue	645	389
Net current liabilities of discontinued operations	--	1,449
Total accrued expenses	$ 9,160	$ 9,992

5. Long-Term Debt

Long-term debt consisted of the following at September 27, 2003 and December 28, 2002:

(In thousands)	September 27, 2003	December 28, 2002
Mortgage term loans	$ 6,516	$ 7,417
Lease line of credit	7,849	9,290
	14,365	16,707
Less current portion	(3,279)	(3,045)
Total long-term debt, net of current portion	$ 11,086	$ 13,662

In October 2003, the Company renegotiated its existing credit facilities, entering into a $50.0 million senior secured credit facility jointly with two lenders. This new credit facility includes a $35.0 million revolving line of credit (the "Revolver") and a $15.0 million term loan (the "Term Loan"). These credit facilities are secured by all of the Company's assets, and bear interest, at the Company's election, at either the Prime rate or the LIBOR rate, plus an applicable margin based on certain financials ratios, ranging from a minimum of ..25% to a maximum of 2.5%.

The Revolver is a five-year loan, expiring in September 2008, under which the Company may borrow a maximum of $35.0 million, reduced by the amount of all letters of credit outstanding. Advances under the Revolver may be used to finance working capital requirements, capital expenditures, and future acquisitions as permitted under the loan agreement. At October 15, 2003, the Company had $35.0 million available under the revolving line of credit loan, reduced by $5.5 million outstanding under standby letters of credit.

The Term Loan is a five-year loan in the amount of $15.0 million. Under the Term Loan, principal and interest payments will be made in nineteen quarterly installments of $535,714 plus interest, with a final payment of all remaining principal, and accrued and unpaid interest due on September 30, 2008. At October 15, 2003, the effective interest rate was 3.65%. Proceeds from the Term Loan were used to re-finance all debt outstanding under our previous credit facilities.

Under the terms of the Revolver and Term Loan, the Company is required to meet various financial covenants on a quarterly and annual basis, including maximum funded debt to EBITDA and minimum fixed charge coverage convents. As of September 27, 2003, the Company was in compliance with all financial covenants.

6. Discontinued Operations

During the third quarter of fiscal 2003, the Company filed a joint motion for dismissal of a lawsuit that PPG, Inc. ("PPG") brought against the Company's subsidiary, Delta V Technologies, Inc., whose operations were discontinued in fiscal 1999. As a result of the dismissal, the Company reversed all previously recorded liabilities associated with this discontinued operation in the third quarter of fiscal 2003, resulting in net income of $1.4 million from discontinued operations in the quarter.

7. Income Taxes

The Company did not record a provision for federal or state income taxes for the third quarter and first nine 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 third quarter and first nine months of fiscal 2002, as a result of tax losses incurred in the nine months ended September 28, 2002.

10

8. Earnings (Loss) Per Share

The following represents the calculation of basic and diluted earnings (loss) per share for the three and nine months ended September 27, 2003 and September 28, 2002:

	Three months ended

(In thousands, except per share data)	September 27, 2003	September 28, 2002
Income (loss) from continuing operations	$ 1,008	$ 621
Income from discontinued operations	1,429	--
Net income (loss)	$ 2,437	$ 621
Weighted average common shares outstanding - Basic	34,177	34,125
Effect of assumed conversion of stock options	448	2
Weighted average common shares outstanding - Diluted	34,625	34,127
Earnings (loss) per share - Basic:		
From continuing operations	$ 0.03	$ 0.02
From discontinued operations	$ 0.04	$ 0.00
Earnings (loss) per share - Basic	$ 0.07	$ 0.02
Earnings (loss) per share - Diluted:		
From continuing operations	$ 0.03	$ 0.02
From discontinued operations	$ 0.04	$ 0.00
Earnings (loss) per share - Diluted	$ 0.07	$ 0.02

Options and warrants to purchase 1,590,427 and 2,412,275 shares of common stock at exercise prices ranging from $6.10 to $22.75 per share were outstanding during a portion of the third quarter and first nine 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 during those periods.

Options and warrants to purchase 3,993,045 shares of common stock at exercise prices ranging from $3.35 to $26.94 per share were outstanding during a portion of the third quarter of fiscal 2002, 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 during that period. All options and warrants outstanding during the first nine months of fiscal 2002 were not included in the computation of diluted earnings per share as their effect would be anti-dilutive.

9. 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 third quarter and first nine months of fiscal 2003 and fiscal 2002, comprehensive income was comprised solely of net income.

10. Segment Information

The following table presents a summary of the Company's operations by segment for the three and nine months ended September 27, 2003 and September 28, 2002:

(In thousands)	Digital Imaging Products	Lasertel	Inter- Segment	
Three months ended September 27, 2003				
Revenue	$ 19,348	$ 1,608	$ (1,198)	$
Income (loss) from operations	1,738	(709)	--	
Total assets	91,229	14,649	--	1
Three months ended September 28, 2002				
Revenue	$ 20,961	$ 1,321	$ (1,296)	$
Income (loss) from operations	2,781	(1,947)		
Total assets	85,486	16,535		1
Nine months ended September 27, 2003				
Revenue	$ 63,706	$ 5,066	$ (4,053)	$
Income (loss) from operations	7,673	(2,778)		
Total assets	91,229	14,649		1
Nine months ended September 28, 2002				
Revenue	$ 61,050	$ 1,555	$ (1,529)	$
Income (loss) from operations	(3,872)	(6,194)		(
Total assets	85,486	16,535		1

11. Discontinued Programs and Special Charges

In the second quarter of fiscal 2003, the Company expanded its repositioning actions to reduce costs, which had been 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 tables summarize the activity related to the discontinued programs and special charges and accrued balances for the nine months ended September 27, 2003:

(In thousands)	Balance at December 28, 2002	Additional provisions through September 27, 2003	Utilizatio through September 27,
Equipment and other asset			

write-downs	$ 39	$ --	$ --
Discontinued programs	1,501		(2)
Executive contractual obligations	1,257		(323)
Severance and fringe benefits	262	550	(414)
Lease termination and other costs	167		(107)
Total accrued special charges and discontinued programs	$ 3,226	$ 550	$ (846)
Deferred revenue associated with discontinued programs	$ 120	$ --	$ (70)

The cumulative cash paid by the Company at September 27, 2003 as a result of the forgoing repositioning actions totaled $2.7 million. The Company anticipates the remaining payments related to the discontinued programs and special charges will be completed by May 2005.

12. Other Information

On September 16, 2003, Presstek filed an action against Fuji Photo Film Corporation, Ltd., in the District Court of Mannheim, Germany for patent infringement. In this action, Presstek alleges that Fuji has manufactured and distributed a product that violates Presstek European Patent 0 644 047 registered under number DE 694 17 129 with the German Patent and Trademark Office. Presstek seeks an order from the court that Fuji refrain from offering the infringing product for sale, from using the infringing material or introducing it for the named purposes, or from possessing such infringing material.

In August 2003, the Company was served with a lawsuit filed on June 2, 2003, in the United States District Court for the District of New Hampshire against the Company and two of its former officers, captioned "James B. Zouras v. Robert Hallman et al." The lawsuit allegedly was filed on behalf of all purchasers of the Company's common stock between December 10, 1999 and July 16, 2001 and alleges, among other things, that misstatements were made to the investing public regarding an arbitration proceeding commenced in 1999 and concluded in 2001 with one of the Company's customers. The complaint does not specify the amount of any damages being claimed. The Company disputes all material allegations of the complaint and intends to vigorously defend the litigation.

In December 1999, PPG, Inc. brought suit against Delta V Technologies, Inc. ("Delta V"), a subsidiary of the Company, and Presstek. The suit alleged that Delta V sold to PPG certain vacuum coating equipment that did not meet certain product specifications. PPG sought damages in excess of $7.0 million. PPG sought to hold Presstek liable for the alleged breach of contract by its subsidiary, Delta V, on a theory of indirect liability. Presstek and Delta V answered PPG's complaint. Delta V asserted a counterclaim against PPG for PPG's failure to make the final installment payment in excess of $400,000 for Delta V's work. In November 2002, the U.S. District Court granted summary judgment in favor of Presstek, because, as a matter of law, PPG was unable to demonstrate any grounds upon which to hold Presstek liable for any alleged breach of contract by Delta V. In August 2003, PPG and Delta V reached a settlement in this matter and the suit was dismissed with prejudice.

13

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 "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 Druckmaschinen, AG, ("Heidelberg"); our expectations regarding the sale of our products and use of our technology including pricing; our expectations regarding the manufacture and 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 effectively than conventional methods. Our DI technology eliminates photographic darkrooms, film, and chemical processing, which results in reduced

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 September 27, 2003 ("the third quarter of fiscal 2003") and September 28, 2002 ("the third quarter of fiscal 2002"), and the thirty-nine week periods ended September 27, 2003 ("the first nine months of fiscal 2003"), and September 28, 2002 ("the first nine 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.

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 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 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 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 September 27, 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 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 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.

16

RESULTS OF OPERATIONS

REVENUE

Revenue for the third quarter and first nine months of fiscal 2003 of $19.8 million and $64.7 million, respectively, consisted of product sales, customer support revenue, royalties and license fees. Revenue for the third quarter decreased $1.2 million or 6%, as compared to $21.0 million for the third quarter of fiscal 2002. Revenue for the first nine months of fiscal 2003 increased $3.6 million or 6%, as compared to $61.1 million for the first nine months of 2002.

Product sales for the Digital Imaging Products segment, including the sale of equipment and consumables, were $18.4 million and $60.1 million for the third quarter and first nine months of fiscal 2003, respectively, a decrease of $1.3 million or 7% and an increase of $3.4 million or 6%, as compared to $19.7 million and $56.7 million for the third quarter and first nine months of fiscal 2002, respectively. The decrease in product sales for the third quarter of fiscal 2003 was primarily due to volume decreases in the sale of our consumable products, as well as decreased shipments of direct imaging kits to Heidelberg, partially offset by increased sales of presses and CTP equipment. The increase in product sales for the first nine 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"), as well as our CTP platesetter products, partially offset by decreases in shipments of direct imaging kits to Heidelberg for use in the Quickmaster DI, and shipments to Xerox Corporation ("Xerox") of the DocuColor 233DI.

The revenue generated from the sale of consumable products was $12.2 million and $39.5 million for the third quarter and first nine months of fiscal 2003, respectively, a decrease of $1.6 million or 12% and $127,000 or less than 1%, as compared to $13.8 million and $39.7 million in the third quarter and first nine months of fiscal 2002, respectively. These decreases are primarily related to volume decreases in sales of our Quickmaster DI consumables, as well as price reductions on sales of these consumables through select dealers in our European distribution channel.

In July 2003, we entered into OEM agreements with 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. Shipments to Heidelberg of the branded consumable product began in August 2003.

Consumable product revenue includes sales under our agreements with Heidelberg and its distributors of $3.3 million and $12.3 million for the third quarter and first nine months of fiscal 2003, a decrease of $3.4 million or 51% and $4.8 million or 28%, respectively, as compared to $6.7 million and $17.1 million in the third quarter and first nine months of fiscal 2002. These decreases are primarily the result of a re-alignment of Quickmaster DI consumable inventory levels in the Heidelberg channel from the Presstek branded product to the Heidelberg OEM consumable product.

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 distribution channel by up to 20%. This new pricing reduced the revenue we generated from sales of our spooled consumable products by approximately $140,000 in the third quarter of fiscal 2003. This new pricing, in addition to the pricing under our new OEM agreements with Heidelberg, may result in a further reduction of revenue generated from spooled consumables sales of up to $750,000 in the fourth quarter 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 $470,000 and $1.5 million for the third quarter and first nine months of fiscal 2003, respectively, an increase of $201,000 or 75% and $500,000 or 50%, as compared to $269,000 and $1.0 million for the third quarter and first nine months of fiscal 2002, respectively. These increases relate primarily to the sale of service maintenance agreements related to our CTP Dimension products.

Royalties and fees from licensees for the third quarter and first nine months of fiscal 2003 were $491,000 and $2.1 million, a decrease of $533,000 or 52% and $1.3 million or 38%, as compared to $1.0 million and $3.4 million for the third quarter and first nine months of fiscal 2002, respectively. These decreases relate 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 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 $3.5 million and $14.9 million for the third quarter and first nine months of fiscal 2003, a decrease of $4.8 million or 58%, and $8.6 million or 37%, respectively, as compared to $8.3 million and $23.5 million in the third quarter and first nine months of fiscal 2002, respectively. These decreases are due primarily to decreased shipments to Heidelberg of direct imaging kits used in the Quickmaster DI, as well as decreased consumable shipments. Revenue from

Heidelberg represented 18% and 23% of total revenue for the third quarter and first nine months of fiscal 2003, as compared to 38% and 42% of total revenue for the third quarter and first nine months of fiscal 2002, respectively.

Heidelberg announced in March 2003 that it planned to introduce a competitive plate product, as an alternative to Presstek's PEARLdry for the Quickmaster DI. While the impact to our business from this competitive plate has not been material to date, it is still too early to estimate the impact this plate may have on our business in the future. The introduction of a competitive plate could reduce the revenue generated by Presstek under its agreements with Heidelberg, including the OEM agreements entered into in July 2003. It could also lead to downward pricing pressure on 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 $2.0 million and $7.0 million for the third quarter and first nine months of fiscal 2003, respectively, an increase of $1.1 million or 133% and $3.6 million or 106%, as compared to $858,000 and $3.4 million for the comparable periods in fiscal 2002, respectively. These increases are primarily the result of increased press sales to KBA.

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 third quarter and first nine months of fiscal 2003 was $410,000 and $1.0 million, respectively, and primarily related to the sale of products for defense industry applications. Product sales to external customers for the third quarter and first nine months of fiscal 2002 were not material.

18

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 $11.5 million or 60% of revenue and $36.2 million or 57% of revenue, for the third quarter and first nine months of fiscal 2003, respectively, a decrease of $300,000 and $1.0 million or 3%, as compared to $11.8 million or 56% of revenue and $37.2 million or 61% of revenue, for the comparable periods in fiscal 2002, respectively. These decreases are primarily the result of decreased production costs as a result of decreased sales volume.

Gross margin (defined as total revenue less cost of products sold) as a percentage of total revenue for the Digital Imaging Products segment was 40% for the third quarter and 43% for the first nine months of fiscal 2003, respectively, as compared to 44% and 39% for the third quarter and first nine months of fiscal 2002, respectively. The reduction in gross margin in the third quarter of 2003 was primarily the result of an unfavorable product mix. In the first nine 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.

Cost of products sold for the Lasertel segment was $623,000 and $2.4 million for the third quarter and first nine months of fiscal 2003, respectively, a decrease of approximately $862,000 or 58% and $2.4 million or 50%, as compared to $1.5 million and $4.8 million for the third quarter and first nine 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.

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 $1.5 million and $4.8 million or 8% of revenue, for the third quarter and first nine months of fiscal 2003, respectively, a decrease of $500,000 and $2.4 million as compared to $2.0 million or 10% of revenue and $7.2 million or 12% 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 $151,000 and $670,000, for the third quarter and first nine months of fiscal 2003, respectively, an increase of $135,000 and $581,000, as compared to $16,000 and $89,000 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 $2.8 million or 15% of revenue and $8.5 million or 13% of revenue, for the third quarter and first nine months of fiscal 2003, respectively, an increase of $500,000 and $600,000, as compared to $2.3 million or 11% of revenue and $7.9 million or 13% of revenue for the comparable periods in fiscal 2002, respectively.

These increases relate primarily to an increase in salaries and related benefits, as well as, professional fees associated with promotional activities directed at product distribution, offset in part by reduced travel and related expenses for customer support activities.

Sales and marketing expenses for the Lasertel segment were $74,000 and $247,000 for the third quarter and first nine months of fiscal 2003, respectively, an increase of $52,000 and $67,000, as compared to $22,000 and $180,000 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 activities.

General and administrative expenses for the Digital Imaging Products segment were $1.8 million or 9% of revenue and $6.3 million or 10% of revenue, for the third quarter and first nine months of fiscal 2003, respectively, a decrease of $300,000 and $400,000, as compared to $2.1 million or 10% of revenue and $6.7 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 $271,000 and $787,000, for the third quarter and first nine months of fiscal 2003, respectively, a decrease of $179,000 and $313,000, as compared to $450,000 and $1.1 million, for the comparable periods in fiscal 2002, respectively. These decreases relate primarily to a decrease in professional services and fees.

DISCONTINUED OPERATIONS

During the third quarter of fiscal 2003, we filed a joint motion for dismissal of a lawsuit that PPG, Inc. ("PPG") brought against our subsidiary Delta V Technologies, Inc., ("Delta V") whose operations were discontinued in fiscal 1999. As a result of the dismissal, we reversed all previously recorded liabilities associated with this discontinued operation in the third quarter of fiscal 2003, resulting in net income of $1.4 million from discontinued operations in the quarter.

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 $97,000 and $369,000 for the third quarter and first nine months of

fiscal 2003 respectively, a decrease of $127,000 and $310,000, respectively, as compared to $224,000 and $679,000 for the comparable periods in fiscal 2002.

Interest income was $82,000 and $233,000 for the third quarter and first nine months of fiscal 2003, an increase of $27,000 and $115,000, respectively, as compared to $55,000 and $118,000 for the comparable periods in fiscal 2002. These increases are a result of increased cash balances available for investment.

Interest expense was $179,000 and $602,000 for the third quarter and first nine months of fiscal 2003, a decrease of $100,000 and $195,000, respectively, as compared to $279,000 and $797,000 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 third quarter and first nine 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 third quarter and first nine months of fiscal 2002 as a result of tax losses incurred in the nine months ended September 28, 2002.

INCOME (LOSS) FROM CONTINUING OPERATIONS

As a result of the foregoing, we had income from continuing operations of $1.0 million and $4.6 million for the third quarter and first nine months of fiscal 2003, as compared to income from continuing operations of $621,000 for the third quarter of fiscal 2002 and a loss from continuing operations of $10.7 million for the first nine months of fiscal 2002.

INCOME FROM DISCONTINUED OPERATIONS

As a result of the dismissal of the lawsuit that PPG brought against our subsidiary Delta V, whose operations were discontinued in fiscal 1999, we reversed all previously recorded liabilities associated with this discontinued operation in the third quarter of fiscal 2003, resulting in net income of $1.4 million from discontinued operations for the third quarter and first nine months of fiscal 2003. There was no income or loss from discontinued operations for the third quarter and first nine 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 September 27, 2003, we had cash and cash equivalents of $26.7 million and working capital (defined as total current assets less total current liabilities) of $37.8 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 $9.1 million for the first nine months of fiscal 2003 was primarily due to net cash provided by operating activities of $12.2 million, offset by cash of $3.1 million used in investing and financing activities.

Net cash provided by operating activities of continuing operations was $12.2 million for the first nine months of fiscal 2003, and is due primarily to income from continuing operations of $4.6 million, non-cash charges of depreciation, amortization, and other charges of $9.6 million, including $550,000 in special charges as a result of head count reductions, and an increase in accounts payable of $941,000, offset primarily by increases in accounts receivable, and other assets of $1.7 million and a decrease in accrued and other expenses of $1.2 million. The increase in accounts receivable is attributable primarily to the timing of sales later in the third quarter of fiscal 2003. The increase in accounts payable is primarily the result of an increase in equipment payable at the end of the third quarter of fiscal 2003. The decrease in accrued expenses is primarily related to the reversal of all previously recorded liabilities associated with our discontinued operation, Delta V, in the third quarter of fiscal 2003.

Net cash used in investing activities was $1.0 million for the first nine months of fiscal 2003, and consisted primarily of additions to property, plant and equipment used in the business.

21

Net cash used in financing activities was $2.1 million for the first nine months of fiscal 2003, and consisted primarily of payments on the mortgage term loans and the equipment lease line of credit facility.

In October 2003, we renegotiated our existing credit facilities, entering into a $50.0 million senior secured credit facility jointly with two lenders. This new credit facility includes a $35.0 million revolving line of credit (the "Revolver") and a $15.0 million term loan (the "Term Loan"). These credit facilities are secured by all our assets, and bear interest, at our election, at either the Prime rate or the LIBOR rate, plus an applicable margin based on certain financials ratios, ranging from a minimum of .25% to a maximum of 2.5%.

The Revolver is a five-year loan, expiring in September 2008, under which we may borrow a maximum of $35.0 million, reduced by the amount of all letters of credit outstanding. Advances under the Revolver may be used to finance working capital requirements, capital expenditures, and future acquisitions as permitted under the loan agreement. At October 15, 2003, we had $35.0 million available under the revolving line of credit loan, reduced by $5.5 million outstanding under standby letters of credit.

The Term Loan is a five-year loan in the amount of $15.0 million. Under the Term Loan, principal and interest payments will be made in nineteen quarterly installments of $535,714 plus interest, with a final payment of all remaining principal, and accrued and unpaid interest due on September 30, 2008. At October 15, 2003, the effective interest rate was 3.65%. Proceeds from the Term Loan were used to re-finance all debt outstanding under our previous credit facilities.

Under the terms of the Revolver and Term Loan, we are required to meet various financial covenants on a quarterly and annual basis, including maximum funded debt to EBITDA and minimum fixed charge coverage convents. As of September 27, 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 September 27, 2003 and December 28, 2002:

(In thousands)	September 27, 2003	December 28, 2002
Credit facilities	$ 14,365	$ 16,707
Royalty obligation	11,567	11,900
Executive contractual obligations	2,695	3,100
Lease agreements	10	121
Total contractual obligations	$ 28,637	$ 31,828

Heidelberg announced in March 2003 that it planned to introduce a competitive plate product, as an alternative to Presstek's PEARLdry for the Quickmaster DI. While the impact to our business from this competitive plate has not been material to date, it is still too early to estimate the impact this plate may have on our business in the future. The introduction of a competitive plate could reduce the revenue generated by Presstek under its agreements with Heidelberg, including the OEM agreements entered into in July 2003. It could also lead to downward pricing pressure on our full line of spooled consumable products, which could have a material adverse effect on our business, results of operations or financial condition.

We believe that existing funds, cash flows from operations, and cash available under our Revolver should be sufficient to satisfy working capital requirements and capital expenditures through the next twelve months. There can be no assurance, however, that we will not require additional financing, or that such additional financing, if needed, 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 variable rate instruments. We have entered into interest rate swap agreements related to our new credit facility. 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 September 27, 2003, 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 Presstek's disclosure controls and procedures pursuant to Rule 13a-15(b) 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 September 27, 2003, 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 Control over Financial Reporting

There were no changes in Presstek's internal control over financial reporting over our last fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

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.

On September 16, 2003, Presstek filed an action against Fuji Photo Film Corporation, Ltd. in the District Court of Mannheim, Germany for patent infringement, alleging a disputed value tentatively estimated at 1,000,000.00 euros. In this action, Presstek alleges that Fuji has manufactured and distributed a product that violates Presstek European Patent 0 644 047 registered under number DE 694 17 129 with the German Patent and Trademark Office. Presstek seeks an order from the court that Fuji refrain from offering the infringing product for sale, from using the infringing material or introducing it for the named purposes, or from possessing such infringing material.

In August 2003, the Company was served with a lawsuit filed on June 2, 2003, in the United States District Court for the District of New Hampshire against the Company and two of its former officers, captioned "James B. Zouras v. Robert Hallman et al." The lawsuit allegedly was filed on behalf of all purchasers of the Company's common stock between December 10, 1999 and July 16, 2001 and alleges, among other things, that misstatements were made to the investing public regarding an arbitration proceeding commenced in 1999 and concluded in 2001 with one of the Company's customers. The complaint does not specify the amount of any damages being claimed. The Company disputes all material allegations of the complaint and intends to vigorously defend the litigation.

In December 1999, PPG, Inc. ("PPG") brought suit against Delta V and Presstek. The suit alleged that Delta V sold to PPG certain vacuum coating equipment that did not meet certain product specifications. PPG sought damages in excess of $7.0 million. PPG sought to hold Presstek liable for the alleged breach of contract by its subsidiary, Delta V, on a theory of indirect liability. Presstek and Delta V answered PPG's complaint. Delta V asserted a counterclaim against PPG for PPG's failure to make the final installment payment in excess of $400,000 for Delta V's work, and also asserted a cross-claim against Circonix, a Delta V subcontractor for the vacuum coater project. Circonix filed cross-claims against Presstek and Delta V. On February 1, 2002, Circonix filed a voluntary petition of bankruptcy in the United States Bankruptcy Court, staying the litigation of the claims against, and asserted by, Circonix. In November 2002, the U.S. District Court granted summary judgment in favor of Presstek, because, as a matter of law, PPG was unable to demonstrate any grounds upon which to hold Presstek liable for any alleged breach of contract by Delta V. In August 2003, PPG and Delta V reached a settlement in this matter and the suit was dismissed with prejudice.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1* OEM Consumables Supply Agreement by and between Presstek, Inc. and Heidelberg Druckmaschinen, AG., dated July 1, 2003 (filed herewith).

10.2* OEM Consumables Supply Agreement by and between Presstek, Inc. and Heidelberg U.S.A., Inc. dated July 1, 2003 (filed herewith).

10.3 Credit Agreement by and among Presstek, Inc., Lasertel Inc., Citizens Bank New Hampshire and Keybank National Association dated October 15, 2003 (filed herewith).

10.4 Revolving Note dated October 15, 2003 made by Presstek, Inc. in favor of Citizens Bank New Hampshire (filed herewith).

10.5 Revolving Note dated October 15, 2003 made by Presstek, Inc. in favor of KeyBank National Association (filed herewith).

10.6 Term Note dated October 15, 2003 made by Presstek, Inc. in favor of Citizens Bank New Hampshire (filed herewith).

10.7 Term Note dated October 15, 2003 made by Presstek, Inc. in favor of KeyBank National Association (filed herewith).

10.8 Swing Line Note dated October 15, 2003 made by Presstek, Inc. in favor of Citizens Bank New Hampshire (filed herewith).

10.9 Security Agreement by and between Presstek, Inc. and Citizens Bank New Hampshire dated October 15, 2003 (filed herewith).

10.10 Security Agreement by and between Lasertel Inc. and Citizens Bank New Hampshire dated October 15, 2003 (filed herewith).

10.11 Security Agreement (Intellectual Property) by and between Presstek, Inc. and Citizens Bank New Hampshire dated October 15, 2003 (filed herewith).

10.12 Security Agreement (Intellectual Property) by and between Lasertel Inc. and Citizens Bank New Hampshire dated October 15, 2003 (filed herewith).

10.13 Mortgage and Security Agreement between Presstek, Inc. and Citizens Bank New Hampshire dated October 15, 2003 (filed herewith).

10.14 Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing by and among Presstek, Inc., First American Title Insurance Company and Citizens Bank New Hampshire dated October 15, 2003 (filed herewith).

31.1 Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

31.2 Certification Pursuant to Rule 13a-14(a) of the Exchange Act, as Adopted

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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

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

* Confidential treatment requested as to omitted portions pursuant to Rule 24b-2 promulgated under the Securities and Exchange Act of 1934, as amended.

(b) Reports on Form 8-K

A Form 8-K was filed on July 24, 2003 furnishing information pursuant to Item 9 and 12 relating to the press release of Presstek, dated July 24, 2003 reporting Presstek's financial results for the fiscal quarter June 28, 2003.

SIGNATURES

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

PRESSTEK, INC.
(Registrant)

Date: November 12, 2003

/s/ Edward J. Marino

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

Date: November 12, 2003

/s/ Moosa E. Moosa

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

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