PRESSTEK INC /DE/
Form 10-Q
November 06, 2008

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

FORM 10-Q

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

For the quarterly period ended September 27, 2008

Or

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

For the transition period from to

Commission file number 0-17541

PRESSTEK, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

(203) 769-8032
Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check One):
Large accelerated filer o Accelerated filer þ Non-accelerated filer o (do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

As of October 31, 2008, there were 36,637,181 shares of the Registrant's Common Stock, $0.01 par value, outstanding.

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

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	September 27, 2008	December 29, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,634	$ 12,558
Accounts receivable, net	34,911	41,094
Inventories	43,439	45,010
Assets of discontinued operations	13,727	16,689
Deferred income taxes	7,356	6,740
Other current assets	4,453	4,594
Total current assets	106,520	126,685
Property, plant and equipment, net	25,773	29,049
Goodwill	19,891	19,891
Intangible assets, net	4,481	5,209
Deferred income taxes	9,463	11,124
Other noncurrent assets	569	869
Total assets	$ 166,697	$ 192,827
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt and capital lease obligation	$ 3,246	$ 7,035
Line of credit	11,890	20,000
Accounts payable	14,761	17,312
Accrued expenses	15,500	23,212
Deferred revenue	6,902	7,100
Liabilities of discontinued operations	5,995	2,776
Total current liabilities	58,294	77,435
Long-term debt and capital lease obligation, less current portion	834	8,500
Other long-term liabilities	58	-
Total liabilities	59,186	85,935
Commitments and contingencies (See Note 19)		
Stockholders' equity		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, no shares issued	-	-
Common stock, $0.01 par value, 75,000,000 shares authorized, 36,619,078 and 36,565,474 shares issued and outstanding at September 27, 2008 and		

December 29, 2007, respectively		366		366
Additional paid-in capital		117,426		115,884
Accumulated other comprehensive income (loss)		(871)		1,032
Accumulated deficit		(9,410)		(10,390)
Total stockholders' equity		107,511		106,892
Total liabilities and stockholders' equity	$	166,697	$	192,827

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

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

	Three months ended		Nine months ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Revenue				
Product	$ 40,288	$ 48,174	$ 124,764	$ 158,414
Service and parts	8,246	9,488	26,170	29,276
Total revenue	48,534	57,662	150,934	187,690
Cost of revenue				
Product	25,589	34,457	78,659	112,696
Service and parts	6,096	8,097	19,561	24,568
Total cost of revenue	31,685	42,554	98,220	137,264
Gross profit	16,849	15,108	52,714	50,426
Operating expenses				
Research and development	1,059	1,212	3,697	3,789
Sales, marketing and customer support	7,088	9,315	22,411	29,810
General and administrative	5,932	8,796	18,321	23,603
Amortization of intangible assets	258	517	823	1,819
Restructuring and other charges	374	399	1,569	1,527
Total operating expenses	14,711	20,239	46,821	60,548
Operating income (loss)	2,138	(5,131)	5,893	(10,122)
Interest and other income (expense), net	(359)	(285)	(646)	(1,610)
Income (loss) from continuing operations before income taxes	1,779	(5,416)	5,247	(11,732)
Provision (benefit) for income taxes	1,153	(2,732)	2,731	(3,541)
Income (loss) from continuing operations	626	(2,684)	2,516	(8,191)
Loss from discontinued operations, net of tax	(431)	(932)	(1,536)	(1,233)
Net income (loss)	$ 195	$ (3,616)	$ 980	$ (9,424)
Earnings (loss) per share - basic				
Income (loss) from continuing operations	$ 0.02	$ (0.07)	$ 0.07	$ (0.23)
Loss from discontinued operations	(0.01)	(0.03)	(0.04)	(0.03)
	$ 0.01	$ (0.10)	$ 0.03	$ (0.26)
Earnings (loss) per share - diluted				
Income (loss) from continuing operations	$ 0.02	$ (0.07)	$ 0.07	$ (0.23)

Loss from discontinued operations		(0.01)		(0.03)		(0.04)		(0.03)
	$	0.01	$	(0.10)	$	0.03	$	(0.26)
Weighted average shares outstanding								
Weighted average shares outstanding - basic		36,603		36,545		36,586		36,080
Dilutive effect of options		13		-		12		-
Weighed average shares outstanding - diluted		36,616		36,545		36,598		36,080

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

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

	Nine months ended September 27, 2008	Nine months ended September 29, 2007
Operating activities		
Net income (loss)	$ 980	$ (9,424)
Add loss from discontinued operations	1,536	1,233
Income (loss) from continuing operations	2,516	(8,191)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	3,608	4,179
Amortization of intangible assets	823	1,819
Restructuring and other charges	166	-
Writedown of asset to net realizable value	422	-
Provision for warranty costs	350	2,854
Provision for accounts receivable allowances	746	1,087
Stock compensation expense	1,321	3,447
Deferred income taxes	1,045	(4,429)
Loss on disposal of assets	37	72
Changes in operating assets and liabilities, net of effects from business acquisitions and divestitures:		
Accounts receivable	6,073	1,651
Inventories	1,381	(3,247)
Other current assets	164	(532)
Other noncurrent assets	(142)	70
Accounts payable	(2,612)	(5,387)
Accrued expenses	(9,041)	1,717
Restructuring and other charges	981	1,527
Deferred revenue	(187)	(347)
Net cash provided by (used in) operating activities	7,651	(3,710)
Investing activities		
Purchase of property, plant and equipment	(946)	(2,114)
Business acquisitions, net of cash acquired	-	(20)
Investment in patents and other intangible assets	(125)	(58)
Net cash used in investing activities	(1,071)	(2,192)
Financing activities		
Net proceeds from issuance of common stock	221	3,069
Repayments of term loan and capital lease	(11,455)	(5,274)
Net borrowings (repayments) under line of credit agreement	(8,110)	6,000
Net cash provided by (used in) financing activities	(19,344)	3,795
Cash provided by (used in) discontinued operations		
Operating activities	(3,145)	(305)
Investing activities	7,811	(419)

Financing activities		-		-
Net cash provided by (used in) discontinued operations		4,666		(724)
Effect of exchange rate changes on cash and cash equivalents		(1,826)		667
Net decrease in cash and cash equivalents		(9,924)		(2,164)
Cash and cash equivalents, beginning of period		12,558		9,547
Cash and cash equivalents, end of period	$	2,634	$	7,383
Supplemental disclosure of cash flow information				
Cash paid for interest	$	1,384	$	2,417
Cash paid for income taxes	$	547	$	374

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

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 27, 2008
(Unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements of Presstek, Inc. and its subsidiaries (“Presstek,” the “Company,” “we” or “us”) contain all adjustments, including normal recurring adjustments, necessary to present fairly Presstek’s financial position as of September 27, 2008 and December 29, 2007, its results of operations for the three and nine months ended September 27, 2008 and September 29, 2007 and its cash flows for the nine months ended September 27, 2008 and September 29, 2007, in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and the interim reporting requirements of Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

The results of the three and nine months ended September 27, 2008 are not necessarily indicative of the results to be expected for the year ending January 3, 2009. The information contained in this Quarterly Report on Form 10-Q should be read in conjunction with the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Quantitative and Qualitative Disclosures About Market Risk” and the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 29, 2007, filed with the U.S. Securities and Exchange Commission (“SEC”) on April 30, 2008.

The Company’s operations are currently organized into two segments: (i) Presstek and (ii) Lasertel. The Presstek segment is primarily engaged in the development, manufacture, sale and servicing of the Company’s patented digital imaging systems and patented printing plate technologies as well as traditional, analog systems and related equipment and supplies for the graphic arts and printing industries, primarily the short-run, full-color market segment. The Lasertel segment manufactures and develops high-powered laser diodes and related laser products for the Presstek segment and for sale to external customers. The Lasertel segment has been presented as discontinued operations in the third quarter of fiscal 2008 as the operations are currently held for sale. The Lasertel business will continue to operate as normal, as will all of its marketing and new business/product development activities. Presstek has no intentions to shut down the business. Any future changes to this organizational structure may result in changes to the segments currently disclosed.

Principles of Consolidation

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

The Company operates and reports on a 52- or 53-week, fiscal year ending on the Saturday closest to December 31. Accordingly, the accompanying consolidated financial statements include the thirteen and thirty-nine week periods ended September 27, 2008 (the “third quarter and first nine months of fiscal 2008” or “the nine months ended September 27, 2008”) and September 29, 2007 (the “third quarter and first nine of fiscal 2007” or “the nine months ended September 29, 2007”).

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PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 27, 2008
(Unaudited)

Earnings (Loss) per Share

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

Approximately 4,088,000 and 3,661,400 options to purchase common stock were excluded from the calculation of diluted earnings (loss) per share for the three months ended September 27, 2008 and September 29, 2007, respectively, as their effect would be antidilutive. Approximately 4,058,200 and 3,661,400 options to purchase common stock were excluded from the calculation of diluted earnings (loss) per share for the nine months ended September 27, 2008 and September 29, 2007, respectively, as their effect would be antidilutive.

Foreign Currency Translation and Transactions

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

Gains and losses arising from foreign currency transactions are reported as a component of Interest and other income (expense), net in the Company’s Consolidated Statements of Operations. The Company recorded a loss on foreign currency transactions of approximately $0.3 million for the three months ended September 27, 2008 and a gain of $0.3 million for the three months ended September 29, 2007 and a loss of $0.2 million and a gain of $29,000 for the nine months ended September 27, 2008 and September 29, 2007, respectively.

Use of Estimates

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

For a complete discussion of our critical accounting policies and estimates, refer to our Annual Report on Form 10-K for the fiscal year ended December 29, 2007, which was filed with the SEC on April 30, 2008. There were no significant changes to the Company’s critical accounting policies during the nine months ended September 27, 2008.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 27, 2008
(Unaudited)

Recent Accounting Pronouncements

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

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”), which permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. The Company adopted SFAS 159 in the first quarter of 2008. The adoption of SFAS 159 did not have a material impact on our consolidated financial statements.

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

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

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

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PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 27, 2008
(Unaudited)

2. DISCONTINUED OPERATIONS

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

Precision

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

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

	Three months ended		Nine months ended	
	September 27 , 2008	September 29 , 2007	September 27 , 2008	September 29 , 2007
Revenues from external customers	$ --	$ --	$ --	$ 195
Income (loss) before income taxes	31	16	137	(132)
Provision (benefit) from income taxes	--	6	43	(54)
Income (loss) from discontinued operations	$ 31	$ 10	$ 94	$ (78)
Earnings (loss) per share	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Assets and liabilities of the Precision analog newspapers business of discontinued operations consist of the following (in thousands):

	September 27, 2008	December 29, 2007
Receivables, net	$ 2	$ 15
Total current assets	$ 2	$ 15
Accounts payable	$ 189	$ 189
Accrued expenses	71	699
Total current liabilities	$ 260	$ 888

Lasertel

On September 24, 2008, the Board of Directors approved a plan to sell the Lasertel subsidiary as the Lasertel business is not a core focus for the Presstek graphics business. Although Lasertel is a supplier of diodes for the Company, it has grown its presence in the external market, and management believes that Lasertel would be in a better position to realize its full potential in conjunction with other companies or investors who can focus resources on the external market. The disposal of this asset group is currently anticipated to be an asset sale and to occur within a one year period. As such, the Company has presented the results of operations of this subsidiary within discontinued operations, classified the assets as “Assets of discontinued operations” and liabilities as “Liabilities of discontinued operations”. The Lasertel business will continue to operate as it previously operated, including its marketing and new business/product development activities. Presstek has no intentions to shut down the business.

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

	Three months ended		Nine months ended	
	September 27 , 2008	September 29 , 2007	September 27 , 2008	September 29 , 2007
Revenues from external customers	$ 2,535	$ 1,950	$ 6,833	$ 5,825
Loss before income taxes	(733)	(1,534)	(2,636)	(1,881)
Benefit from income taxes	(271)	(592)	(1,006)	(726)
Loss from discontinued operations	$ (462)	$ (942)	$ (1,630)	$ (1,155)
Loss per share	$ (0.01)	$ (0.03)	$ (0.04)	$ (0.03)

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

	September 27, 2008	December 29, 2007
Cash and cash equivalents	$ --	$ 691
Receivables, net	2,826	1,785
Inventories	4,766	4,074
Other current assets	542	72
Property, plant & equipment, net	4,692	8,974
Intangible assets, net	899	1,078
Total assets	$ 13,725	$ 16,674
Accounts payable	$ 733	$ 1,291
Accrued expenses	518	501
Deferred revenue	--	96
Deferred gain	4,484	--
Total Liabilities	$ 5,735	$ $$1,888

3. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 27, 2008
(Unaudited)

4. ACCOUNTS RECEIVABLE, NET

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

	September 27, 2008	December 29, 2007
Accounts receivable	$ 37,233	$ 43,632
Less allowances	(2,322)	(2,538)
	$ 34,911	$ 41,094

5. INVENTORIES

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

	September 27, 2008	December 29, 2007
Raw materials	$ 3,287	$ 3,660
Work in process	5,248	4,939
Finished goods	34,904	36,411
	$ 43,439	$ 45,010

During the nine months ended September 27, 2008 and September 29, 2007, the Company disposed of $2.4 million and $3.5 million, respectively, of excess and obsolete inventories. The inventories disposed were primarily comprised of machine components and repair parts relating to technology that is no longer produced or serviced by the Company, and were fully reserved for prior to disposal.

6. PROPERTY, PLANT AND EQUIPMENT, NET

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

	September 27, 2008	December 29, 2007
Land and improvements	$ 1,302	$ 1,363
Buildings and leasehold improvements	22,169	22,695
Production and other equipment	42,368	42,204
Office furniture and equipment	9,397	7,098

Construction in process	406	2,355
Total property, plant and equipment, at cost	75,642	75,715
Accumulated depreciation and amortization	(49,869)	(46,666)
Net property, plant and equipment	$ 25,773	$ 29,049

Construction in process is generally related to production equipment and information technology systems not yet placed into service.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 27, 2008
(Unaudited)

Property, plant and equipment at September 27, 2008 and December 29, 2007 includes $110,000 of office furniture and equipment and related accumulated depreciation of $104,000 and $77,000, respectively, associated with a capital lease.

The Company recorded depreciation expense of $1.1 million and $3.6 million in the third quarter and first nine months of fiscal 2008, respectively, and $1.4 million and $4.2 million in the third quarter and first nine months of fiscal 2007, respectively. Under the Company's financing arrangements (see Note 8), all property, plant and equipment are pledged as security.

7. INTANGIBLE ASSETS AND GOODWILL

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

The Company commences amortization of capitalized costs related to either patents or purchased intellectual property at the time the respective asset has been placed into service. At both September 27, 2008 and December 29, 2007, the Company had recorded $0.5 million related to patents and intellectual property not yet in service.

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

	September 27, 2008		December 29, 2007	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Patents and intellectual property	$ 9,435	$ 7,735	$ 9,360	$ 7,323
Trade names	2,360	2,360	2,360	2,360
Customer relationships	4,452	2,140	4,452	1,855
Software licenses	450	450	450	450
License agreements	750	353	750	296
Non-compete covenants	100	100	100	100
Loan origination fees	332	260	332	211
	$ 17,879	$ 13,398	$ 17,804	$ 12,595

The Company recorded amortization expense for its identifiable intangible assets of $0.3 million and $0.6 million in the third quarters of fiscal 2008 and fiscal 2007, respectively, and $0.8 million and $1.8 million in the first nine months of fiscal 2008 and fiscal 2007, respectively. Estimated future amortization expense for the Company's identifiable intangible assets in service at September 27, 2008, is as follows (in thousands):

Remainder of fiscal 2008	$ 283
Fiscal 2009	$ 1,033
Fiscal 2010	$ 904
Fiscal 2011	$ 677

Fiscal 2012	$	403
Fiscal 2013	$	384
Thereafter	$	317

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 27, 2008
(Unaudited)

The carrying amount of goodwill recorded by the Company's Presstek reporting unit was $19.9 million at September 27, 2008 and December 29, 2007.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is tested annually, as of the first business day of the third quarter, for impairment. The Company's impairment review is based on a fair value test. The Company uses its judgment in assessing whether goodwill may have become impaired between annual impairment tests. Indicators such as unexpected adverse business conditions, economic factors, unanticipated technological change or competitive activities, loss of key personnel and acts by governments and courts may signal that an asset has been impaired. Should the fair value of a reporting unit's goodwill, as determined by the Company at any measurement date, fall below the carrying value of the respective reporting unit's net assets, an expense for impairment will be recorded in the period. For the third quarter ending September 27, 2008, there was no impairment recorded. There can be no assurance that goodwill will not become impaired in future periods.

8. FINANCING ARRANGEMENTS

The components of the Company's outstanding borrowings at September 27, 2008 and December 29, 2007 are as follows (in thousands):

	September 27, 2008	December 29, 2007
Term loan	$ 4,074	$ 15,500
Line of credit	11,890	20,000
Capital lease obligation	6	35
	15,970	35,535
Less current portion	(15,136)	(27,035)
Long-term debt	$ 834	$ 8,500

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

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

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

At September 27, 2008 and December 29, 2007, the Company had outstanding balances on the Revolver of $11.9 million and $20.0 million, respectively, with interest rates of 4.9% and 7.5%, respectively. At September 27, 2008, there were $1.3 million of outstanding letters of credit, thereby reducing the amount available under the Revolver to $31.8 million at that date.

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Prior to an amendment to the Facilities in the third quarter of 2008, principal payments on the Term Loan were payable in consecutive quarterly installments of $1.75 million, with a final settlement of all remaining principal and unpaid interest on November 4, 2009. In the third quarter of fiscal 2008, the Company used the net proceeds of the sale of its Arizona property to pay down the principal balance of the term loan and entered into an amendment to the Facilities dated July 29, 2008 which amended the payment schedule of the Term Loan to reduce the required quarterly installments of principal to $810,000, with no installment due in the third quarter of fiscal 2008 and a final installment of all remaining principal (approximately $834,000) due on November 4, 2009. At September 27, 2008 and December 29, 2007, outstanding balances under the Term Loan were $4.1 million and $15.5 million, respectively, with interest rates of 5.0% and 7.5%, respectively.

The weighted average interest rate on the Company’s short-term borrowings was 4.9% at September 27, 2008.

Under the terms of the Revolver and the Term Loan, the Company is required to meet various financial covenants on a quarterly and annual basis, including maximum funded debt to EBITDA (a non-U.S. GAAP measurement that the Company defines as earnings before interest, taxes, depreciation, amortization, and restructuring and other charges) and minimum fixed charge coverage covenants. At September 27, 2008, the Company was in compliance with all covenants.

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

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

Remainder of 2008	$	10,706
2009	$	5,264

9. ACCRUED EXPENSES

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

		September 27, 2008		December 29, 2007
Accrued payroll and employee benefits	$	4,502	$	5,478
Accrued warranty		2,844		3,534
Accrued restructuring and other charges		676		1,592
Accrued royalties		232		432
Accrued income taxes		1,129		569
Accrued legal		2,517		5,815

Accrued professional fees		863		2,545
Other		2,737		3,247
	$	15,500	$	23,212

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10. ACCRUED WARRANTY

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

Balance at December 29, 2007	$	3,534
Accruals for warranties		350
Utilization of accrual for warranty costs		(1,040)
Balance at September 27, 2008	$	2,844

11. DEFERRED REVENUE

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

	September 27, 2008	December 29, 2007
Deferred service revenue	$ 5,973	$ 6,718
Deferred product revenue	929	382
	$ 6,902	$ 7,100

12. RESTRUCTURING AND OTHER CHARGES

In the first nine months of fiscal 2008, the Company recognized $1.6 million in restructuring and other charges related to severance and separation costs under the consolidation efforts of the Business Improvement Plan ("BIP") that was introduced in the third quarter of fiscal 2007 and certain asset impairment charges.

In the third quarter of fiscal 2008, the Company announced its plans to transfer certain of its corporate functions from the Hudson, NH facility to the Greenwich, CT facility. As such, the Company will accrue for severance and any retention bonuses related to this plan ratably over the requisite service period. The Company recorded expense of approximately $70,000 in the third quarter of fiscal 2008 related to this event, and expects to incur additional expenses through the second quarter of 2009.

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

	Balance December 29, 2007	Charged to expense	Utilization	Balance September 27, 2008
Lease termination and other costs	$ --	$ 881	$ (881)	$ --
Executive contractual obligations	904	223	(763)	364
Severance and fringe benefits	688	465	(841)	312

$	1,592	$	1,569	$	(2,485)	$	676

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13. STOCK-BASED COMPENSATION

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

1998 Stock Option Plan

The 1998 Stock Incentive Plan (the “1998 Incentive Plan”) provides for the award of stock options, restricted stock, deferred stock, and other stock based awards to officers, directors, employees, and other key persons (collectively “awards”). A total of 3,000,000 shares of common stock, subject to anti-dilution adjustments, have been reserved under this plan. Any future options granted under the 1998 Incentive Plan will become exercisable upon the earlier of a date set by the Board of Directors or Committee at the time of grant or the close of business on the day before the tenth anniversary of the stock options’ date of grant. There were 35,000 options granted under this plan in the first nine months of fiscal 2008. At September 27, 2008, there were 499,325 options outstanding. The options will expire at various dates as prescribed by the individual option grants. This plan expired on April 6, 2008 and therefore no options will be granted under this plan after this date.

2003 Stock Option Plan

The 2003 Stock Option and Incentive Plan (the &#