PRESSTEK INC /DE/
Form 10-Q
November 15, 2011

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 October 1, 2011

Or

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

For the transition period from to

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes 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 Smaller reporting company þ

(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
As of November 10, 2011, there were 37,374,872 shares of the Registrant's Common Stock, $0.01 par value, outstanding.

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

DI is a registered trademark of Presstek, Inc.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	October 1, 2011	January 1, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$3,293	$4,165
Accounts receivable, net	15,808	18,647
Inventories	27,382	29,143
Other current assets	2,563	1,609
Total current assets	49,046	53,564
Property, plant and equipment, net	19,191	21,156
Intangible assets, net	5,158	4,748
Other noncurrent assets	1,021	1,057
Total assets	$74,416	$80,525
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Line of credit	$13,130	$10,252
Accounts payable	8,345	9,733
Accrued expenses	4,964	6,624
Deferred revenue	5,128	4,643
Total current liabilities	31,567	31,252
Other long-term liabilities	50	95
Total liabilities	31,617	31,347
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, 37,343,286 and 36,942,166 shares issued and outstanding at October 1, 2011 and January 1, 2011, respectively	373	369
Additional paid-in capital	124,761	122,664
Accumulated other comprehensive loss	(3,344)	(3,517)
Accumulated deficit	(78,991)	(70,338)
Total stockholders' equity	42,799	49,178
Total liabilities and stockholders' equity	$74,416	$80,525

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 October 1, 2011	Three months ended October 2, 2010	Nine months ended October 1, 2011	Nine months ended October 2, 2010
Revenue				
Equipment	$3,396	$4,760	$14,744	$15,890
Consumables	18,214	20,584	58,201	62,807
Service and parts	5,290	6,070	17,231	18,815
Total revenue	26,900	31,414	90,176	97,512
Cost of revenue				
Equipment	4,422	4,965	16,254	16,312
Consumables	11,078	11,127	32,693	34,088
Service and parts	4,115	5,016	14,040	15,117
Total cost of revenue	19,615	21,108	62,987	65,517
Gross profit	7,285	10,306	27,189	31,995
Operating expenses				
Research and development	1,194	1,154	3,379	3,207
Sales, marketing and customer support	5,028	5,302	15,901	16,366
General and administrative	5,063	4,580	13,517	14,712
Amortization of intangible assets	256	204	667	617
Restructuring and other charges	413	412	777	461
Total operating expenses	11,954	11,652	34,241	35,363
Operating loss	(4,669)	(1,346)	(7,052)	(3,368)
Interest and other income (expense), net	(696)	8	(1,370)	(848)
Loss from continuing operations before income taxes	(5,365)	(1,338)	(8,422)	(4,216)
Provision (benefit) for income taxes	50	158	231	(331)
Loss from continuing operations	(5,415)	(1,496)	(8,653)	(3,885)
Loss from discontinued operations, net of tax	-	-	-	(70)
Net loss	$(5,415)	$(1,496)	$(8,653)	$(3,955)
Loss per share - basic and diluted	$(0.15)	$(0.04)	$(0.23)	$(0.11)
Weighed average shares outstanding - basic and diluted	37,229	36,908	37,274	36,887

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

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

	Nine months ended October 1, 2011	Nine months ended October 2, 2010
Operating activities		
Net loss	$(8,653)	$(3,955)
Add loss from discontinued operations	-	70
Loss from continuing operations	(8,653)	(3,885)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,971	3,426
Amortization of intangible assets	667	617
Provision for warranty costs	-	(55)
Provision for accounts receivable allowances	1,840	607
Stock compensation expense	1,304	1,908
Accrual for non-cash bonus plan	-	598
Loss on disposal of long-lived assets	69	-
Changes in operating assets and liabilities:		
Accounts receivable	727	(388)
Inventories	1,007	(1,328)
Other current assets	(951)	(309)
Deferred income taxes	-	(338)
Other noncurrent assets	287	248
Accounts payable	(1,389)	837
Accrued expenses	(1,761)	(2,141)
Restructuring and other charges	777	461
Deferred revenue	484	(973)
Net cash used in operating activities from continuing operations	(2,621)	(715)
Investing activities		
Purchase of property, plant and equipment	(250)	(802)
Investment in patents and other intangible assets	(1,146)	(943)
Net cash used in investing activities from continuing operations	(1,396)	(1,745)
Financing activities		
Net proceeds from issuance of common stock	77	143
Payments of loan origination costs	-	(973)
Net borrowings (repayments) under line of credit agreement	2,878	(8,486)
Net cash provided by (used in) financing activities from continuing operations	2,955	(9,316)
Cash provided by discontinued operations		
Operating activities	-	1,452
Investing activities	-	7,372
Net cash provided by discontinued operations	-	8,824

Effect of exchange rate changes on cash and cash equivalents	190	(342)
Net decrease in cash and cash equivalents	(872)	(3,294)
Cash and cash equivalents, beginning of period	4,165	5,843
Cash and cash equivalents, end of period	$3,293	$2,549
Supplemental disclosure of cash flow information		
Cash paid for interest	$559	$697
Cash paid for income taxes	$22	$32

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

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 1, 2011
(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 October 1, 2011 and January 1, 2011, its results of operations for the three and nine months ended October 1, 2011 and October 2, 2010 and its cash flows for the nine months ended October 1, 2011 and October 2, 2010, 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. Certain reclassifications were made to prior years' amounts to conform to the 2011 presentation.

The results of the three and nine months ended October 1, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2011. The information contained in this Quarterly Report on Form 10-Q should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures About Market Risk" and the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2011, filed with the U.S. Securities and Exchange Commission ("SEC") on March 16, 2011.

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 October 1, 2011 (the "third quarter and first nine months of fiscal 2011" or "the nine months ended October 1, 2011") and October 2, 2010 (the "third quarter and first nine months of fiscal 2010" or "the nine months ended October 2, 2010").

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 reported amounts and related disclosures. 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 intangible assets, long-lived assets and deferred tax assets; stock-based compensation; and litigation. The Company bases its estimates and judgments 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 revenues and expenses that are not readily apparent from other sources. Actual results could differ from those estimates.

Long-Lived Assets

Our management assesses the recoverability of its long-lived assets by determining whether the depreciation and amortization of long lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment if any, is measured based on fair value and is charged to operations in the period in which long-lived assets impairment is determined by management. Due to the decline in the market value of the Company's common stock, we tested our long-lived assets for impairment at the end of the third quarter of 2011. Our projected future undiscounted cash flows exceeded the carrying value of long-lived assets. Accordingly, no impairment was indicated or recorded. There can be no assurance that market conditions will not change or demand for our services will continue, which could result in impairment of long-lived assets in the future.

For a complete discussion of our critical accounting policies and estimates, refer to our Annual Report on Form 10-K for the fiscal year ended January 1, 2011, which was filed with the SEC on March 16, 2011. There were no significant changes to the Company's critical accounting policies during the nine months ended October 1, 2011.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 1, 2011
(Unaudited)

Recently Issued Accounting Standards

In October 2009, the FASB issued ASU 2009-13, Revenue Recognition (Topic 605) – Multiple-Deliverable Revenue Arrangements. This guidance modifies the fair value requirements of FASB ASC subtopic 605-25, Revenue Recognition-Multiple Element Arrangements, by allowing the use of the "best estimate of selling price" in addition to vendor specific objective evidence and third-party evidence for determining the selling price of a deliverable. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence, (b) third-party evidence, or (c) estimates. In addition, the residual method of allocating arrangement consideration is no longer permitted. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010. The adoption of this guidance did not have a material impact upon our financial position or results of operations.

In May 2011, the FASB issued ASU 20011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS. These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), result in a common definition of fair value and common requirements for measurement of and disclosure requirements between U.S. GAAP and IFRS. The amendments change some fair value measurement principles and disclosure requirements. The adoption of this guidance is not expected to have a material impact upon our financial position and results of operations.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income (Topic 220). This guidance, effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The adoption of this guidance is not expected to have a material impact upon our financial position and results of operations.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 1, 2011
(Unaudited)

2. DISCONTINUED OPERATIONS

The Company accounts for its discontinued operations under the provisions of FASB Accounting Standards Codification Topic 360. Accordingly, results of operations and the related charges for discontinued operations have been classified as “Loss from discontinued operations, net of tax” in the accompanying Consolidated Statements of Operations. For comparative purposes, all prior periods presented have been reclassified on a consistent basis.

On March 5, 2010, Presstek sold Lasertel to SELEX Galileo Inc. (“SELEX”). The sale of Lasertel to SELEX was for $8.0 million in cash and, in addition, Presstek was able to retain approximately $2.0 million of laser diodes inventory for Presstek’s future production requirements. Lasertel, as a subsidiary of SELEX, and in accordance with a supply agreement established between Lasertel and Presstek on March 5, 2010, continues to manufacture semiconductor laser diodes for Presstek for an initial period of three years. The net cash proceeds from this sale were used to pay down debt. SELEX also assumed the current lease on the Lasertel property in Tucson, Arizona.

Lasertel incurred an operating loss of $0.6 million during the first quarter of fiscal 2010 prior to the sale date. Presstek recorded a minor adjustment in the second quarter of fiscal 2010. Presstek recorded a gain on the disposition of Lasertel of $0.5 million during the nine months ended October 1, 2010, bringing the aggregate loss from discontinued operations for the first nine months of fiscal 2010 to approximately $0.1 million.

Results of operations of the discontinued business of Lasertel included in the Company’s Statements of Operations for the first nine months of 2010 consist of the following (in thousands, except per-share data):

	Three months ended October 2, 2010	Nine months ended October 2, 2010
Revenues from external customers	$-	$1,394
Loss from operations	-	(555)
Gain on disposition	-	485
Loss before income taxes	-	(70)
Provision (benefit) for income taxes	-	-
Net loss from discontinued operations	$-	$(70)
Earnings (loss) per share	$0.00	$0.00

The Company had no assets and liabilities of the discontinued business of Lasertel at October 1, 2011 or January 1, 2011.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 1, 2011
(Unaudited)

3. ACCOUNTS RECEIVABLE, NET

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

	October 1, 2011	January 1, 2011
Accounts receivable	$22,717	$24,278
Less allowances	(6,909)	(5,631)
	$15,808	$18,647

4. INVENTORIES

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

	October 1, 2011	January 1, 2011
Raw materials	$3,376	$4,433
Work in process	1,030	1,170
Finished goods	22,976	23,540
	$27,382	$29,143

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 1, 2011
(Unaudited)

5. PROPERTY, PLANT AND EQUIPMENT, NET

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

	October 1, 2011	January 1, 2011
Land and improvements	$1,301	$1,301
Buildings and leasehold improvements	22,623	22,442
Production and other equipment	44,802	44,104
Office furniture and equipment	11,016	10,868
Construction in process	348	589
Total property, plant and equipment, at cost	80,090	79,304
Accumulated depreciation and amortization	(60,899)	(58,148)
Net property, plant and equipment	$19,191	$21,156

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

The Company recorded depreciation expense of $1.3 million and $3.0 million in the third quarter and first nine months of fiscal 2011 and $1.1 million and $3.4 million in the third quarter and first nine months of fiscal 2010. Under the Company's financing arrangements (see Note 6), all property, plant and equipment is pledged as security.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 1, 2011
(Unaudited)

6. FINANCING ARRANGEMENTS

The components of the Company's outstanding borrowings are as follows (in thousands):

	October 1, 2011	January 1, 2011
Line of credit	$13,130	$10,252

The primary sources of the Company's liquidity are (i) cash generated by the Company's operations and (ii) a $25 million Revolving Credit and Security Agreement with a term that expires on March 5, 2013 ("Credit Agreement"). The Company utilizes its sources of liquidity to fund current operations and make capital and other investments in support of the business.

On March 5, 2010, the Company entered into the Credit Agreement among the Company and PNC Bank, National Association ("PNC"), as Lender and as administrative agent for Lenders (PNC, in such agency capacity, the "Agent"). The Credit Agreement, which matures on March 5, 2013, provides for funding of up to $25.0 million through a revolving credit facility (the "Revolver"). Borrowing availability under the Revolver is determined based on a percentage of eligible accounts receivable and inventory of the Company and certain of its subsidiaries. The Company may terminate the Credit Agreement at any time prior to the maturity date upon thirty (30) days' prior written notice and upon payment in full of all outstanding obligations under the Credit Agreement. If the Company terminates the Credit Agreement at any time prior to the end of the term the Company must pay an early termination fee as specified in the Credit Agreement. The Credit Agreement requires the Company to prepay a portion of borrowings under the Credit Agreement out of the proceeds of certain dispositions of property.

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

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

Under the Credit Agreement the Company is required to provide monthly Borrowing Base Certificates to the Agent that become the basis for calculating the Credit Agreement's Formula Amount. The Formula Amount, capped at $25 million, represents the maximum amount of advances available to the Company at a given point in time. The Formula

Amount is normally calculated 20 days subsequent to the close of each fiscal month. Because of the timing delay, the Agent utilizes a process that estimates the maximum amount available daily during each fiscal period. As of October 1, 2011 and January 1, 2011 the Formula Amount was $18.1 and $15.0 million, respectively. The Company had outstanding balances on its line of credit of $13.1 million and $10.3 million, at October 1, 2011 and January 1, 2011, respectively. At October 1, 2011, there were $1.0 million of outstanding letters of credit, thereby reducing the amount available under the credit line, based on the Formula amount, to $4.0 million. The amount

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 1, 2011
(Unaudited)

available under the credit line, based on the Formula Amount, as of January 1, 2011 was $4.7 million. The computed preliminary availability based on the daily estimation process was $2.0 million and $4.6 million as of October 1, 2011 and January 1, 2011, respectively.

Under the terms of the Credit Agreement, the Company is required to comply with certain financial and non-financial covenants. Among other restrictions, the Company is restricted in its ability to pay dividends, incur additional debt and make acquisitions and divestitures, with certain exceptions. The key financial covenants include a requirement for the Company to maintain (i) for the fiscal quarter ending January 1, 2011, a fixed charge coverage ratio (the ratio of "EBITDA" (as defined in the Credit Agreement) to the total of (i) interest expense, plus (ii) capital expenditures) of not less than 1.0 to 1.0; (ii) for each quarter ending on or after April 2, 2011, for the four fiscal quarter periods then ended, a fixed charge coverage ratio of not less than 1.0 to 1.0; and (iii) an annual limit on capital expenditures of $4.0 million in each fiscal year beginning in 2011.

On August 24, 2011, the Company entered into a Second Amendment (the "Amendment") to the Credit Agreement. The Amendment modified the Credit Agreement as follows: (a) the Availability Block (as defined in the Credit Agreement) of $2,000,000 was eliminated until the earlier of January 31, 2012 or the date of the completion of a sale-leaseback transaction for the Company's real property located in Hudson, New Hampshire (the "Sale-Leaseback Transaction"); (b) the definitions of "EBITDA" and "Restructuring Charges" were amended to provide for add-backs for (i) restructuring charges for the fiscal year ending December 31, 2011 of up to $1,400,000 and (ii) marketing expenses for the Company's 75DI printing press of up to $1,500,000 incurred through the fiscal quarter ending on or about June 30, 2012; (c) the early termination fee due in the event obligations are prepaid in full prior to the end of the Term (March 5, 2013) was increased from (x)$500,000 if prepaid prior to March 5, 2012 and $125,000 if prepaid prior to the date that was 30 days prior to the last day of the Term to (y) $750,000 at all times prior to the last day of the Term; and (d) an additional fee in the amount of $100,000 will be due to the Lender in the event that a Sale-Leaseback Transaction is not completed by November 30, 2011; it is anticipated that a Sale-Leaseback Transaction will not be completed by November 30, 2011 and that this fee will become payable to the Lender.

As of January 1, 2011 and October 1, 2011, the Company was in compliance with all financial covenants. The fixed charge coverage ratio for the quarter ended January 1, 2011 was 3.5 to 1.0, in excess of the 1.0 to 1.0 minimum required ratio. The fixed charge coverage ratio for the quarter ended October 1, 2011 was 3.0 to 1.0, also in excess of the 1.0 to 1.0 minimum required ratio. Additionally, since the inception of the Credit Agreement, the Company's capital expenditures have been below the maximum levels allowed.

The weighted average interest rate on the Company's short-term borrowings was 4.50% at October 1, 2011.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 1, 2011
(Unaudited)

7. ACCRUED EXPENSES

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

	October 1, 2011	January 1, 2011
Accrued payroll and employee benefits	$1,556	$1,561
Accrued warranty	797	919
Accrued restructuring and other charges	296	225
Accrual for non-cash bonus plan	-	1,186
Accrued legal	31	83
Accrued professional fees	715	1,020
Other	1,569	1,630
	$4,964	$6,624

The Company's 2010 bonus plans provided for any management bonuses to be paid in the form of shares of Common Stock. The Company had an accrued expense related to its non-cash bonus plan of $598,000 for the first nine months of fiscal 2010. There is no comparable accrual recorded for the first nine months of 2011.

8. ACCRUED WARRANTY

Product warranty activity in the first nine months of fiscal 2011 is as follows (in thousands):

Balance at January 1, 2011	$919
Accruals for warranties	-
Utilization of accrual for warranty costs	(122)
Balance at October 1, 2011	$797

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 1, 2011
(Unaudited)

9. DEFERRED REVENUE

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

	October 1, 2011	January 1, 2011
Deferred service revenue	$4,717	$4,054
Deferred equipment revenue	411	589
	$5,128	$4,643

10. RESTRUCTURING AND OTHER CHARGES

During the first nine months of fiscal 2011, the Company utilized $0.7 million of reserves related to restructuring and other charges in the United States, Canada and the United Kingdom. The expenses incurred during the first nine months of fiscal 2011 are expected to be fully paid by the fourth quarter of fiscal 2012. These amounts are recorded on the restructuring and other charges line in the consolidated statements of operations.

The activity for the first nine months of fiscal 2011 related to the Company's restructuring and other charges accruals is as follows (in thousands):

	Balance January 1, 2011	Charged to expense	Utilization	Balance October 1, 2011
Severance and fringe benefits	$225	$767	$(696)	$296
Lease termination and other costs	-	10	(10)	-
	225	777	(706)	296

11. 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.

The 2003 Stock Option and Incentive Plan

The 2003 Stock Option and Incentive Plan (the "2003 Plan") provides for the award of stock options, stock issuances and other equity interests in the Company to employees, officers, directors (including those directors who are not an employee or officer of the Company, such directors being referred to as Non-Employee Directors), consultants and advisors of the Company and its subsidiaries. A total of 2,000,000 shares of common stock, subject to anti-dilution adjustments, have been reserved under this plan. Any future options granted under the 2003 Plan will become exercisable at such times and subject to such terms and conditions as the Board of Directors or Committee may specify at the time of each grant. At October 1, 2011, there were 1,885,567 options outstanding under the 2003 Plan, and 29,033 shares available for future grants under this plan. The options will expire at various dates prescribed by the individual option grants.

PRESSTEK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
October 1, 2011
(Unaudited)

With respect to all stock options previously granted to the Company's current executive officers and other current employees and Non-Employee Directors under the 2003 Stock Plan, the Compensation Committee approved on September 30, 2010 an amendment to the exercise prices of such options so that each such option outstanding shall have an exercise price equal to the per share closing price of the Company's common stock on that date of $2.19 per share. The amendment did not change the vesting schedules or any of the other terms of the respective stock options. This modification affected 331 employees who held 724,300 stock options on September 30, 2010. For purposes of stock activity disclosure the amended options are treated as option cancellations and new option grants with the only change from the original grant being the revised option price.

2008 Omnibus Incentive Plan

On June 2, 2011 the Company's stockholders approved the 2008 Omnibus Incentive Plan (As Amended and Restated) (the "2008 Plan"). The 2008 Plan provides for the award of stock options, stock issuances and other equity interests in the Company to employees, officers, directors (including Non-Employee Directors), consultants and advisors of the Company and its subsidiaries. A total of 5,500,000 shares of common stock, subject to anti-dilution adjustments, have been reserved under this plan. Awards granted under this plan may have varying vesting and termination provisions and can have no longer than a ten-year contractual life. There were 10,000 and 407,990 options granted under this plan for the three and nine months ended October 1, 2011, respectively. At October 1, 2011, there were 2,530,264 options outstanding and 2,565,652 shares available for future grants under this plan. In addition 336,511shares were issued out of the 2008 Plan for the Company's 2010 Stock Bonus Plans (See Note 7).

Employee Stock Purchase Plan

The Company's 2002 Employee Stock Purchase Plan ("ESPP") is designed to provide eligible employees of the Company and its participating U.S. subsidiaries an opportunity to purchase common stock of the Company through accumulated payroll deductions. The purchase price of the stock is equal to 85% of the fair market value of a share of common stock on the first day or last day of each three-month offering period, whichever is lower. All employees of the Company or participating subsidiaries who customarily work at least 20 hours per week and do not own five percent or more of the Company's common stock are eligible to participate in the ESPP. A total of 950,000 shares of the Company's common stock, subject to adjustment, have been reserved for issuance under this plan. The Company issued 22,917 and 64,609 shares of common stock under its ESPP for the three and nine months ended October 1, 2011, respectively. The Company issued 23,039 and 60,350 shares of common stock under its ESPP for the three and nine months ended October 2, 2010, respectively. At October 1, 2011, there were 348,049 shares available for future grants under this plan.

Non-plan Options

In fiscal 2007, the Company granted 300,000 shares of restricted common stock and stock options for 1,000,000 shares of common stock to its Chairman, President and Chief Executive Officer ("CEO") under a non-plan, non-qualified stock option agreement. The award of restricted stock vested on May 10, 2007, the effective date of the CEO's employment agreement with the Company. The award of stock options vests 20% on the date of grant, and an additional 20% vests on each of January 1, 2008, 2009, 2010 and 2011. Each portion of the option that vests will remain exercisable for five years after the applicable vesting date. As of October 1, 2011, 1,000,000 options remain outstanding.

PRESSTEK, INC. AND SUBSIDIARIES
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Stock-Based Compensation

Stock-based compensation associated with stock option grants to all officers, directors, and employees is included as a component of "General and administrative expense" in the Company's Consolidated Statements of Operations.

Stock based compensation expense for the three and nine months ended October 1, 2011 and October 2, 2010 is as follows (in thousands):

	Three months ended		Nine months ended	
Stock option plan	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
2003 Plan	$82	$341	$292	$535
2008 Plan	307	242	997	962
1998 Plan	1	-	2	2
ESPP	(6)	7	13	22
Non-plan, non-qualified	-	129	-	387
Total	$384	$719	$1,304	$1,908

As of October 1, 2011, there was $1.3 million of unrecognized compensation expense related to stock option grants. The weighted average period over which the remaining unrecognized compensation expense will be recognized is 1.5 years.

Valuation Assumptions

ESPP

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

	Three months ended		Nine months ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Risk-free interest rate	0.02 %	0.16 %	0.05 %	0.16 %
Volatility	102.2 %	82.3 %	80.7 %	71.4 %
Expected life (in years)	0.25	0.25	0.25	0.25
Dividend yield	--	--	--	--

Based on the above assumptions, the weighted average fair values of each stock purchase right under the Company's ESPP for the third quarter and first nine months of fiscal 2011 was $0.18 and $0.42 and for the third quarter and first nine months of fiscal 2010 was $0.49 and $0.54, respectively.

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Plan Options

The fair value of the options to purchase common stock granted in the third quarter and first nine months of fiscal 2011and fiscal 2010 under the 2008 Plan and were estimated on the respective grant dates using the Black-Scholes valuation model with the following assumptions:

Three months ended	Nine months ended