PRESSTEK INC /DE/
Form 10-Q
May 14, 2001

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 March 31, 2001

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

9 COMMERCIAL STREET, HUDSON, NEW HAMPSHIRE 03051-4903
(Former address of principal executive offices including zip 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 [X] No [ ]

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

As of May 7, 2001, there were 34,098,581 shares of the registrant's common stock, $.01 par value per share, outstanding.

PRESSTEK, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PRESSTEK, INC.

BALANCE SHEETS (In thousands, except share data)	MAR 31 2001 (UNAUDIT
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 7,7

Accounts receivable, net of allowance for losses of $2,529 and $2,842 in fiscal 2001 and 2000, respectively	16,2
Inventories	14,2
Advances to suppliers	7,1
Other current assets	7
Total current assets	46,1
PROPERTY, PLANT AND EQUIPMENT, NET	63,8
OTHER ASSETS:	
Patent application costs and license rights, net	4,8
Other	2,0
Total other assets	6,9
TOTAL	$ 116,9
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Current portion of long-term debt	$ 2,1
Accounts payable and accrued expenses	9,9
Accrued salaries and employee benefits	2,1
Deferred revenues	7
Net current liabilities of discontinued operations	1,4
Total current liabilities	16,4
LONG-TERM DEBT, NET OF CURRENT PORTION	15,9
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 34,098,581 shares at March 31, 2001; 34,027,981 shares at December 30, 2000	3
Additional paid-in capital	97,2
Accumulated deficit	(12,9
Total stockholders' equity	84,6
TOTAL	$ 116,9

See notes to financial statements

PRESSTEK, INC.

STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share data)

FOR THE THREE MONTHS ENDED	MAR 31 2001
REVENUES:	
Product sales	$ 23,641
Royalties and fees from licensees	2,124
Total revenues	25,765
COSTS AND EXPENSES:	
Cost of products sold	15,442
Research and product development	2,935
Sales, marketing and customer support	3,140
General and administrative	3,072
Total costs and expenses	24,589
INCOME FROM OPERATIONS	1,176
OTHER INCOME (EXPENSE), NET:	
Dividend and interest, net	(218)
Other, net	15
Total other income (expense), net	(203)
INCOME BEFORE INCOME TAXES	973
PROVISION FOR INCOME TAXES	--
NET INCOME	$ 973
EARNINGS PER SHARE - BASIC	$ 0.03
EARNINGS PER SHARE - DILUTED	$ 0.03
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC	34,064
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	34,621

See notes to financial statements

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PRESSTEK, INC.

STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

FOR THE THREE MONTHS ENDED

CASH FLOWS - OPERATING ACTIVITIES:	
Net Income	$
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities of continuing operations:	
Depreciation and amortization	
Provision for warranty and other costs	
Provision for losses on accounts receivable	
Other, net	
Changes in operating assets and liabilities, net of effects from acquisitions:	
Decrease (increase) in accounts receivable	
Increase in inventories	
Increase in advances to suppliers and other current assets	
Increase (decrease) in accounts payable and accrued expenses	
Increase in accrued salaries and employee benefits	
Decrease in deferred revenue	
Net cash provided by (used in) operating activities of continuing operations	
Net cash used in operating activities of discontinued operations	
Net cash provided by (used in) operating activities	
CASH FLOWS - INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	
Increase in other assets	
Net cash used in investing activities	
CASH FLOWS - FINANCING ACTIVITIES:	
Net proceeds from sale of common stock	
Repayments of mortgage term loan	
Repayments of lease line of credit	
Net cash provided by financing activities	
DECREASE IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD	
CASH AND CASH EQUIVALENTS END OF PERIOD	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the period for:	
Interest	$
Income taxes	$
NON-CASH INVESTING AND FINANCING ACTIVITIES:	
Warrants issued in exchange for consulting services rendered	$

See notes to financial statements

PRESSTEK, INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2001

1. BASIS OF PRESENTATION

Presstek, Inc. ("Presstek", or "the Company") is a manufacturer, developer, and marketer of non-photographic, digital imaging and printing plate technologies for the printing and graphic arts industries. Presstek's products and applications incorporate PEARL(R) and DI(R) digital imaging technologies and utilize PEARL consumables for computer-to-plate ("CTP") and direct-to-press applications. The Company's patented DI and PEARL thermal laser diode product family enables its customers to produce high quality, full-color lithographic printed materials more quickly and cost efficiently than conventional processes.

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 the quarterly report should be read in conjunction with the Company's audited financial statements and related notes thereto for the fiscal year ended December 30, 2000. The December 30, 2000 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 months ended March 31, 2001 are not necessarily indicative of the results that may be expected for the fiscal year ending December 29, 2001.

In April 2000 the Company incorporated an Arizona subsidiary, LaserTel, Inc. ("LaserTel") for the purpose of securing its supply of laser diodes. LaserTel is located in the former Delta V Technologies, Inc. ("Delta V") facility in Tucson, Arizona. LaserTel operates as a subsidiary of Presstek, and is primarily engaged in the manufacture and development of the Company's high-powered laser diodes.

The divestiture of Delta V was recorded in the quarter ended October 2, 1999, and the financial statements for all periods reflect Delta V as a discontinued operation. See Note 6 of notes to the financial statements. All of the following notes, unless otherwise indicated, refer to the continuing operations of Presstek.

The Company operates and reports on a 52/53 week fiscal year ending on the Saturday closest to December 31. Accordingly, the financial statements include the thirteen week periods ended March 31, 2001 ("the first quarter of fiscal 2001") and April 1, 2000 ("the first quarter of fiscal 2000").

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 sales of proprietary 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 Presstek's high-powered laser diodes. See Note 8 of notes to the financial statements.

2. INVENTORIES

Inventories are valued at the lower of cost or market value, with cost determined using the first-in, first-out method. At March 31, 2001 and December 30, 2000, inventories consisted of the following:

(In thousands)	MAR 31 2001	DEC 30 2000

Raw materials	$ 5,106	$ 3,800
Work in process	5,285	5,082
Finished goods	3,904	3,163
Total	$ 14,295	$ 12,045

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3. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, at cost consisted of the following at March 31, 2001 and December 30, 2000:

(In thousands)	MAR 31 2001	DEC 30 2000
Land and improvements	$ 2,038	$ 2,038
Buildings and leasehold improvements	26,928	26,711
Production equipment and other	51,055	44,610
Equipment in process	5,255	6,450
	85,276	79,809
Less accumulated depreciation	(21,416)	(19,561)
	$ 63,860	$ 60,248

4. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed giving effect to all diluted potential common shares that were outstanding during the period. Diluted potential common shares consist of the incremental common shares issuable upon exercise of stock options and warrants.

The following represents the calculation of basic and diluted earnings per share at March 31, 2001 and April 1, 2000:

(In thousands, except per share data)	MAR 31 2001	APR 1 2000
Net income	$ 973	$ 391
Weighted average common shares outstanding - Basic	34,064	32,561
Effect of assumed conversion of stock options	557	1,634
Weighted average common shares outstanding - Diluted	34,621	34,195
Earnings per share - Basic	$ 0.03	$ 0.01

Earnings per share - Diluted	$ 0.03	$ 0.01

Options and warrants to purchase 1,696,626 shares of common stock at exercise prices ranging from $11.69 to $26.94 per share were outstanding during a portion of the first quarter of fiscal 2001, 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 common shares. These options and warrants, which expire from January 2, 2002 through March 19, 2011, were all outstanding at March 31, 2001.

Options to purchase 3,250 shares of common stock at an exercise price of $26.94 per share were outstanding during a portion of the first quarter of fiscal 2000, but were not included in the computation of diluted earnings per share as the exercise prices of the options were greater than the average market price of the common shares. These options which expire on March 27, 2010 were all outstanding at April 1, 2000.

5. INCOME TAXES

The Company did not record a provision for or a charge in lieu of United States federal income taxes or state income taxes due to tax losses incurred for the first quarter of fiscal 2001 and the first quarter of fiscal 2000, prior to the deductions related to stock compensation.

6. DISCONTINUED OPERATIONS

During fiscal 1999 the Company discontinued the operations of Delta V to allow the Company to further focus its efforts on the core business of digital imaging and plate manufacturing. Located in Tucson, Arizona, Delta V was engaged in the development, manufacture, and sale of vacuum deposition coating equipment for vacuum coating applications. The Company concluded the operations of Delta V at the end of fiscal 1999.

Delta V was reported separately as a discontinued operation in prior periods. Net current liabilities of discontinued operations at March 31, 2001 and December 30, 2000 were $1.5 million and $1.6 million, respectively. The remaining net current liabilities of discontinued operations represent primarily product warranties and other liabilities related to Delta V's equipment installations.

7. 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, which for the Company includes unrealized gains on marketable securities. For the first quarter of fiscal 2001 and the first quarter of fiscal 2000 there were no differences between net income and comprehensive income.

8. SEGMENT INFORMATION

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 sales of its proprietary 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 the Company's high-powered laser diodes. The Company operated in one business segment for the first quarter of fiscal 2000.

A summary of the Company's operations by segment for the first quarter of fiscal 2001 were as follows:

(In thousands)	DIGITAL IMAGING PRODUCTS	LASERTEL	TOTAL
Revenues	$ 25,765	$ -	$ 25,765
Inter-segment sales	-	588	588
Income (loss) from operations	3,965	(2,789)	1,176
Total assets	97,534	19,458	116,992
Depreciation and amortization	1,842	211	2,053
Capital expenditures	1,270	4,240	5,510

9. OTHER INFORMATION

In March 2000, the Company entered into an agreement with the plaintiffs in several class actions lawsuits consolidated under the common caption "Bill Berke, et al. v. Presstek, Inc., et al." in the United States District Court, District of New Hampshire to settle the class action lawsuit. The Company also executed a memorandum of understanding with respect to the settlement of the derivative lawsuits, filed on behalf of the Company, one in the Chancery Court of the State of Delaware and the other in the United States District Court, District of New Hampshire. Under the terms of the class action settlement, $22.0 million, in the form of 1,245,246 shares of the Company's common stock, was to be paid to the class. The Company issued 437,196 of such shares during the fourth quarter of fiscal 2000, and issued 808,050 of such shares during the first quarter of fiscal 2001. In the memorandum of understanding in the derivative litigation, the Company agreed to issue 60,582 shares of common stock and has agreed to certain therapeutic improvements to its internal policies, some of which have already been instituted. The Company issued 60,582 of such shares in the third quarter of fiscal 2000. As a result of these issuances, all shares of common stock required to be issued under both the class action settlement and the memorandum of understanding in the derivative litigation have been issued. The Company recorded a charge of $23.2 million in the fourth quarter of fiscal 1999 related to the settlements, $22.9 million of which was recorded as a long-term liability.

10. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." ("SFAS No. 133"), which requires companies to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133 (as amended by SFAS No. 137) is effective for fiscal years beginning after June 15, 2000 and therefore became effective for the Company in the current fiscal quarter. The Company does not presently enter into any transactions involving derivative financial instruments and, accordingly, does not anticipate the new standard will have any effect on its financial statements for the foreseeable future.

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 Form 10-Q constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the Company's expectations for its financial and operating performance in 2001, the need for additional capital to support operations and growth at the Company's LaserTel subsidiary, the adequacy of internal cash for the Company's operations, the strength of the Company's various strategic partnerships (both on manufacturing and distribution) and any other forward looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the risks of uncertainty and delays associated with launching new market channels with new distribution partners (including Xerox), the Company's dependency on its strategic partners (both on manufacturing and distribution), the impact of third-party suppliers and potential shortages of critical or sole-source component supplies, cash flow adequacy, manufacturing constraints or difficulties (as well as manufacturing difficulties experienced by our sub-manufacturing partners and their capacity constraints), the ability of the Company's LaserTel subsidiary to meet production demands and develop other markets for its laser prototypes, the risks of uncertainty of patent protection and the outcome of patent proceedings (including the Company's current patent litigation), the impact of general market factors in the printing industry generally and the economy as a whole, market acceptance of and demand for the Company's products and resulting revenues, the impact of competitive products and pricing, the ability of the Company to respond to changes in technology, litigation and other risks detailed in the Company's filings with the Securities and Exchange Commission including, without limitation, the Company's Annual Report on Form 10-K for the fiscal year ending December 30, 2000 and filed with the Commission on March 30, 2001. The words "looking forward," "looking ahead", "believe(s)," "should," "plan," "may," "expect(s)," "project(s), "anticipate(s)," "likely," "potential," "opportunity," and similar expressions, among others, 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 statement was made. Presstek undertakes no obligation to update any forward-looking statements contained in this Form 10-Q.

BACKGROUND

Presstek, Inc. (the "Company" or "Presstek"), incorporated in Delaware in 1987, is a manufacturer, developer, and marketer of non-photographic, digital imaging and printing plate technologies for the printing and graphic arts industries. Presstek's products and applications incorporate its patented, proprietary PEARL(R) and DI(R) digital imaging technologies and utilize PEARL consumables for computer-to-plate ("CTP") and direct-to-press applications. The Company's patented DI and PEARL thermal laser diode product family, enables its customers to produce high quality, full-color lithographic printed materials more quickly and cost effectively. In the late 1980's, the Company developed a direct imaging system that would allow digitally formatted file data to be used to image a plate directly on the printing press. Presstek's technology and products use thermal energy generated by lasers to reproduce digital files directly onto printing plates. This eliminates the daylight sensitive, photomechanical and chemical processes associated with other imaging methods.

The Company is also engaged in the development of additional PEARL and DI products that incorporate its patented, proprietary, digital imaging system and process-free thermal ablation printing plate technologies for CTP and direct-to-press applications.

In fiscal 2000, Presstek and Ryobi Limited ("Ryobi") of Japan completed the development of an A3 format size four-color sheet-fed press, which was introduced in May 2000, and is marketed by Ryobi as the 3404DI. During fiscal 2000 the Company entered into an agreement with Xerox Corporation ("Xerox") to supply Xerox with a series of three Presstek enabled DI presses and related consumables, which will be marketed, distributed and serviced worldwide on a co-branded basis. The products included in the Xerox relationship are four and five color versions of a B3 size sheet-fed press, which is marketed as the DocuColor 400 DI and an A3 size four-color sheet-fed press, which is marketed as the DocuColor 233 DI.

In April 2000 the Company incorporated an Arizona subsidiary, LaserTel, Inc. ("LaserTel") for the purpose of securing its supply of laser diodes. LaserTel is located in the former Delta V Technologies, Inc. ("Delta V") facility in Tucson, Arizona, and is primarily engaged in the manufacture and development of the Company's high-powered laser diodes. While the Company established LaserTel primarily to gain some control over the

source of laser diodes, the nature of LaserTel's technology and the Company's available capacity have enabled LaserTel to find additional market applications for its laser technology. As a result, LaserTel is also currently developing laser prototypes for qualification to the telecommunications, defense, and medical industries. LaserTel has particular experience in the design and fabrication of multi-mode high power laser diodes. This experience spans ten years of development activity at Presstek and is expected to support applications in telecommunications as well as graphic arts. There can be no assurance, however that these products will be commercially successful or produce significant revenues for the Company or LaserTel.

In fiscal 1999 the Company discontinued the operations of its Delta V subsidiary to allow the Company to further focus its efforts on the core business of digital imaging and plate manufacturing. Located in Tucson, Arizona, Delta V was engaged in the development, manufacture, and sale of vacuum deposition coating equipment for vacuum coating applications. The Company concluded the operations of Delta V as of the end of the fiscal 1999.

The Company operates and reports on a 52/53 week fiscal year ending on the Saturday closest to December 31. Accordingly, the financial statements include the thirteen week periods ended March 31, 2001 ("the first quarter of fiscal 2001) and April 1, 2000 ("the first quarter of fiscal 2000").

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 sales of proprietary 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 Presstek's high-powered laser diodes.

RESULTS OF OPERATIONS

REVENUES

Revenues for the first quarter of fiscal 2001 of $25.8 million consisted of product sales, royalties, license fees and product development reimbursements. Revenues for the first quarter of fiscal 2001 increased $6.8 million or 36% as compared to $19.0 million for the first quarter of fiscal 2000. Revenues generated for the first quarter of fiscal 2001 and the first quarter of fiscal 2000 relate solely to the Digital Imaging Products segment.

Product sales for the first quarter of fiscal 2001 were $23.7 million as compared to $17.1 million for the first quarter of fiscal 2000, an increase of $6.6 million or 39%. The increase was due primarily to volume increases of presses shipped to Xerox, which are marketed by Xerox as the DocuColor 400DI and the DocuColor 233DI, as well as volume increases in shipments of direct imaging systems used in the Ryobi 3404DI. The Company also experienced volume increases in sales of its CTP Dimension platesetter products, and volume increases of the Company's thermal consumable products. The revenues generated from the sale of the Company's PEARLdry and other consumable products were $12.5 million for the first quarter of fiscal 2001, an increase of $2.9 million or 30%, as compared to $9.6 million for the first quarter of fiscal 2000. These consumable product revenues included $5.1 million and $3.6 million for the first quarter of fiscal 2001 and fiscal 2000, respectively, sold under the Company's agreements with Heidelberg and its distributors.

Royalties and fees from licensees for the first quarter of fiscal 2001 of $2.1 million increased $200,000 or 11% as compared to royalties and fees of $1.9 million for the first quarter of fiscal 2000. Royalties decreased $273,000 or 14% comparing the first quarter of fiscal 2001 to the first quarter of fiscal 2000, as a result of decreased shipments to Heidelberg of direct imaging systems used in the Quickmaster DI. This decrease was offset by an increase of $469,000 in license fees primarily due to distribution fees received from Xerox in the first quarter of fiscal 2001.

Revenues generated under the Company's agreements with Heidelberg and its distributors were $11.3 million in the first quarter of fiscal 2001, an increase of $500,000 or 5% from the first quarter of fiscal 2000 revenues of $10.8 million. Revenues from Heidelberg represented 44% and 57% of total revenues for the first quarter of fiscal 2001 and fiscal 2000, respectively. The Company anticipates revenue for direct imaging kits sold to Heidelberg for use in the Quickmaster DI to decrease by approximately 10%, with no gross margin impact, in the third quarter of fiscal 2001, as Heidelberg begins manufacturing certain non-strategic components of the direct imaging kit.

COST OF PRODUCTS SOLD

Cost of products sold consists of the costs of material, labor and overhead as well as future warranty costs associated with product sales. Cost of products sold for the Digital Imaging Products segment for the first quarter of fiscal 2001 was $13.5 million, an increase of $2.8 million or 26% as compared to $10.7 million for the first quarter of fiscal 2000 as a result of increased product shipments. The gross margin on product sales for the Digital Imaging Products segment increased to 43% for the first quarter of fiscal 2001, from 37% for the first quarter of fiscal 2000. This increase is primarily the result of the increase in press products shipped to Xerox, as well as the result of economies of scale related to increased manufacturing volumes of proprietary digital media and consumable products. Cost of products sold for the LaserTel segment for the first quarter of fiscal 2001 included $1.9 million in manufacturing costs.

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 the Company's equipment and consumable product development efforts. Research and product development expenses, all of which were related to the Digital Imaging Products segment, were $2.9 million or 11% of revenues for the first quarter of fiscal 2001 as compared to $4.6 million or 24% of revenues for the first quarter of fiscal 2000. The decrease of $1.7 million is primarily the result of reduced expenditures for parts and components associated with developing prototypes of the Company's products introduced in fiscal 2000.

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. Sales, marketing and customer support expenses for the Digital Imaging Products segment were $3.0 million, or 12% of revenues for the first quarter of fiscal 2001 as compared to $1.7 million or 9% of revenues for the first quarter of fiscal 2000. The increase of $1.3 million resulted primarily from increases in salaries as a result of head count growth and increases in professional services related to the Company's continued expansion of its worldwide sales, distribution and customer support network. Sales, marketing and customer support expenses for the LaserTel segment were $136,000 or 1% of revenues for the first quarter of fiscal 2001 and primarily include salaries and advertising expenses related to establishing the Lasertel segment.

GENERAL AND ADMINISTRATIVE

General and administrative expenses consist primarily of payroll and related expenses for personnel, and contracted professional services. General and administrative expenses for the Digital Imaging Products segment were $2.3 million or 9% of revenues for the first quarter of fiscal 2001, as compared to $1.9 million or 10% of revenues for the first quarter of fiscal 2000. The increase of $458,000 related primarily to increases in legal fees as a result of patent litigation, and increases in other professional services necessary to conduct the finance, information systems, and administrative functions. The general and administrative expenses for the LaserTel segment were $753,000 or 3% of revenues for the first quarter of fiscal 2001, and relate primarily to salaries and other professional services necessary to conduct the finance, information systems and administrative functions.

OTHER INCOME AND EXPENSE

Other expense net, was $203,000 or 1% of revenues for the first quarter of fiscal 2001 as compared to other income net, of $99,000 or 1% of revenues for the first quarter of fiscal 2000. Dividend and interest income was $123,000 for the first quarter of fiscal 2001 as compared to $283,000 for the first quarter of fiscal 2000. The decrease of $160,000 is primarily attributed to the decrease in average cash balances available for investments. Interest expense was $341,000 for the first quarter of fiscal 2001 as compared to $184,000 for the first quarter of fiscal 2000. The increase of $157,000 is primarily attributed to the increased borrowings related to the Company's lease line of credit facility with Keybank National Association.

PROVISION FOR INCOME TAXES

The Company did not record a provision for or a charge in lieu of United States federal income taxes or state income taxes due to tax losses incurred for the three months ended March 31, 2001 and April 1, 2000, prior to the deductions related to stock compensation.

NET INCOME

As a result of the foregoing, the Company had net income of $973,000 for the first quarter of fiscal 2001, as compared to net income of $391,000 for the first quarter of fiscal 2000.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2001, the Company had cash and cash equivalents of $7.8 million and working capital of $29.8 million as compared to cash and cash equivalents of $12.0 million and working capital of $32.3 million at December 30, 2000. The decrease in cash of $4.2 million for the first quarter of fiscal 2001 was primarily attributable to cash used in investing activities of $5.6 million, offset by cash provided by operating activities of $1.4 million.

Net cash generated from operating activities was $1.4 million for the first quarter ended March 31, 2001, as a result of net income $973,000, adjusted for non-cash items of depreciation and amortization of $2.1 million and a decrease in accounts receivable of $429,000, offset by increases in inventories of $2.3 million as a result of greater production requirements, and increases in accounts payable and accrued expenses of $1.6 million. Advances to suppliers and other current assets increased by $283,000, primarily reflecting advanced payments made in connection with certain supply agreements. Deferred revenue decreased by $1.8 million as a result of product shipments in the first quarter of fiscal 2001, for which payment had been received in fiscal 2000.

Net cash used for investing activities was $5.6 million for the first quarter ended March 31, 2001, and consisted primarily of additions to property, plant and equipment used in the Company's business of $5.5 million. These additions included $4.2 million in equipment purchases related to the manufacture of laser diodes for the LaserTel segment.

Net cash provided by financing activities for the first quarter ended March 31, 2001 totaled $95,000, and consisted primarily of proceeds from the issuance of common stock upon the exercise of options of $528,000, offset by payments on the mortgage term loans and the lease line of credit of $433,000.

In June 2000, the Company borrowed the remaining $6.0 million under a $10.0 million lease line of credit facility from Keybank National Association. The

$10.0 million in borrowings is secured by equipment valued at $13.4 million. The loan bears a variable rate of interest based upon the prime rate, currently 8.5% with a fixed rate conversion provision. Principal and interest under the lease line are payable in 84 monthly installments beginning on July 31, 2000 for the $6.0 million in borrowings. Payments on the initial $4.0 million borrowed in September 1999 commenced in October 1999. The Company has received an extension on a commitment for a $5.0 million lease line of credit from Keybank, which expires on April 30, 2002.

On October 30, 2000 the Company renewed its credit facilities with Citizens Bank New Hampshire ("Citizens"). These credit facilities, which expire in September 2002, included renewal of a ten-year mortgage term loan in the amount of $6.9 million, securing an additional ten-year mortgage term loan in the amount of $4.0 million, and securing a revolving line of credit loan in the amount of $16.0 million.

The ten-year mortgage term loan in the amount of $6.9 million bears a fixed rate of interest of 7.12% per year during the first five years, a variable rate of interest at the LIBOR rate plus 2%, (7.08% at March 31, 2001) for the remaining five years. Principal and interest payments during the first five years of the loan will be made in 60 monthly installments of $80,500. During the remaining five years, principal and interest payments will be made on a monthly basis in the amount of one-sixtieth of the outstanding principal amount as of the first day of the second five year period, plus accrued interest through the monthly payment date. All outstanding principal and accrued interest is due and payable on February 6, 2008.

The ten-year mortgage term loan in the amount of $4.0 million bears a fixed rate of interest equal to 7.95% per year during the first five years, a fixed rate of interest equal to United States Treasury Notes or Bills with a maturity date closest to the end of the second five years plus 225 basis points, for the remaining five years. During the first five years, principal and interest shall be paid in 60 monthly installments of $48,425. During the remaining five years, principal and interest payments will be made on a monthly basis in the amount of one-sixtieth of the outstanding principal amount as of the first day of the second five year period, plus accrued interest through the monthly payment date. All outstanding principal and accrued and unpaid interest is due and payable on October 30, 2010.

Both ten-year mortgage term loans are secured by land and buildings with a cost of approximately $22.0 million.

The revolving line of credit loan, under which the Company may borrow $16.0 million, is subject to certain restrictions based on applicable percentages of accounts receivable and inventory, as defined by the loan agreement, and reduced by the amount of all letters of credit outstanding. The revolving line of credit loan is secured by substantially all of the Company's assets, with interest payable at the LIBOR rate plus 1.50% (6.58% at March 31, 2001). As of March 31, 2001, the Company had $8.0 million outstanding under standby letters of credit, and $8.0 million available under the revolving line of credit loan.

Under the terms of the mortgage term loans, the lease line of credit and the revolving line of credit agreements, the Company is required to meet certain covenants on a quarterly and annual basis. At March 31, 2001 the Company was in compliance with all financial covenants.

The Company believes that existing funds, cash flows from operations, and cash available under its revolving line of credit and lease line of credit should be sufficient to satisfy working capital requirements and capital expenditures for the next twelve months.

The Company is currently exploring various financing alternatives with respect to LaserTel's capital requirements, however there can be no assurance that the Company will obtain additional financing.

EFFECT OF INFLATION

Inflation has not had, and is not expected to have, a material impact upon the Company's operations.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." ("SFAS No. 133"), which requires companies to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133 (as amended by SFAS No. 137) is effective for fiscal years beginning after June 15, 2000 and therefore became effective for the Company in the current fiscal quarter. The Company does not presently enter into any transactions involving derivative financial instruments and, accordingly, does not anticipate the new standard will have any effect on its financial statements for the foreseeable future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

The Company has limited exposure to foreign currency exchange rate risk, as substantially all of its transactions are denominated in U.S. dollars. Some of the Company's customers and strategic partners are not located in the United States, however. As a result, these customers and strategic partners are themselves subject to fluctuations in foreign exchange rates. If their home country currency were to decrease in value relative to the United States dollar, their ability to purchase and market the Company's products could be adversely affected and the Company's products may become less competitive to them. This may have an

adverse impact on the Company's business. Likewise, some of the Company's suppliers are not located in the United States and thus, such suppliers are subject to foreign exchange rate risks in transactions with the Company. 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 the Company's business.

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 30, 2000 filed with the Commission on March 30, 2001 and Note 9 of Notes to the Financial Statements of this Form 10Q for a description of certain legal proceedings pending against the Company and certain of its officers and directors. All of such information is hereby incorporated by reference in response to this item.

Item 2. Changes in Securities and Use of Proceeds

(a) None

(b) None

(c) Pursuant to the terms of the settlement agreement related to the consolidated class action settlement, and in consideration for the execution of such settlement, the Company agreed to issue an aggregate of 1,245,246 shares of its common stock to the various class action plaintiffs and their lawyers. The number of shares was determined by calculating the aggregate number of shares of common stock of the Company obtained by dividing $11.0 million by the volume weighted average price of the Company's common stock for all trading days in April 2000 and the aggregate number of shares of common stock of the Company obtained by dividing $11.0 million by the volume weighted average price of the Company's common stock for all trading days in October 2000. In addition, in connection with the settlement of the derivative lawsuit initiated against the Company, the Company agreed to issue 60,582 shares of common stock. Thus between both the class action settlement and the derivative suit settlement, the Company agreed to issue, in the aggregate, 1,305,828 shares of common stock. On August 2, 2000 the Company issued 60,582 shares of common stock. On November 15, 2000 the Company issued 437,196 of these shares of common stock. On March 30, 2001 the Company issued the remaining 808,050 shares of common stock. All such shares were issued pursuant to an exemption from registration provided by Section 3(a)(10) of the Securities Act of 1933, as the issuance of such shares was approved at a fairness hearing before the United States District Court of New Hampshire in June 2000.

(d) None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
NA

(b) Reports on Form 8-K
None

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: May 14, 2001

/s/ Robert W. Hallman

By: Robert W. Hallman
President and
Chief Executive Officer
(Principal Executive and
Duly Authorized Officer)

Date: May 14, 2001

/s/ Neil Rossen

By: Neil Rossen
Vice President,
Chief Financial Officer
(Principal Financial and
Accounting Officer)