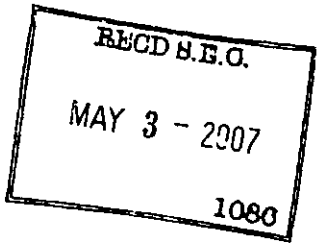

AR/S

P.E. 12-30-06




SUCCESS

OUR CUSTOMERS'




PRESSTEK INC

A SMARTER WAY TO PRINT

**Presstek, Inc.** is dedicated to delivering effective solutions that facilitate the transition of our customers from conventional analog processes of document production to the streamlined digital workflows required in today's graphic arts marketplace. We provide customers with advanced digital imaging solutions for commercial printing applications. Our solutions include digital offset printing presses that employ our innovative on-press imaging technology (DI®), digital equipment for off-press imaging (CTP), and chemistry-free high performance digital printing plates. We also provide the support to help our customers maintain the optimum performance of their Presstek products.

Today, Presstek counts more than half of North American printing establishments in its customer base, as well as a growing share in other parts of the world. To support the current business of our customers and to help them migrate to an increasingly digital model, Presstek offers a robust portfolio of products and services that includes everything from consumables to the most advanced printing press ever introduced in its format size, the Presstek 52DI.

Our multichannel distribution model is built on a blend of a strong and talented direct sales and service force in the U.S., Canada and the United Kingdom, mutually beneficial OEM partnerships, and a strong dealer network in continental Europe, South America, Latin America, and other parts of the world.

Our business model positions us as a strong, dependable business partner that is ready, willing and able to lead our customers to a digital and sustainable future for their businesses—*A Smarter Way to Print.*

For more information on Presstek, visit www.presstek.com

PRESSTEK
A SMARTER WAY TO PRINT

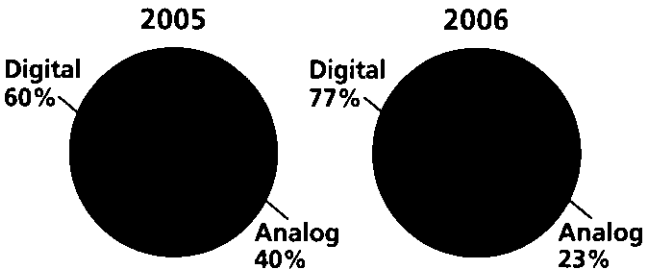
## To Our Shareholders, Customers, Partners and Employees:

During 2006, Presstek continued its progression from a technology-oriented company to a customer-focused, market-driven organization with industry leading, technology-based solutions for the commercial print market. We made significant business and organizational changes in 2006, and at the same time, focused on shifting the analog businesses we acquired with ABDick and Precision Lithograph to a digital model, consistent with leading the digital transformation among our customers.

As the strategy we embarked upon in 2003 has unfolded, many of the changes we foresaw in the commercial printing market have come to pass, resulting in a convergence of our strategy with the changing model in the commercial printing world—as well as in a validation of our own strategic direction. As a result, Presstek is more committed than ever before to executing the strategy we have been articulating over the past few years. The adjustments we made during 2006 and continued into early 2007 are in line with that strategy and have resulted in a stronger, more agile organization that is well positioned to deliver growth in 2007 and beyond.

Most significantly, our flagship product family of Direct Imaging (DI®) presses has grown into a mainstream product that has been embraced by an ever-increasing number of commercial print providers around the globe, delivering a high level of customer satisfaction and placement numbers that far exceeded the expectations of industry analysts. Our investments in chemistry-free computer-to-plate (CTP) systems, a category Presstek invented more than a decade ago, have transformed the industry—all of the key players now offer some level of chemistry-free platemaking, while a few short years ago we were alone in this space.

**Presstek Digital/Analog Mix**
(as percentage of total revenue)

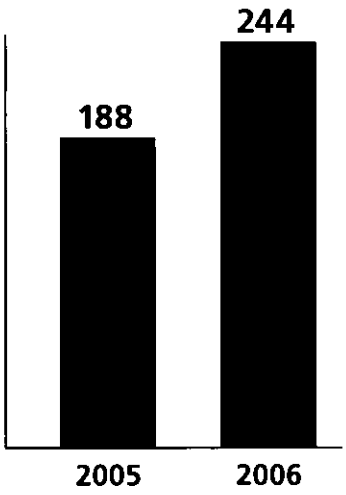



We see clear evidence that the decisions we have made about our organization, our product line and our business model have created a solid foundation for our future success, with digital products comprising 81% of our product revenues in the fourth quarter of 2006. And our direct and dealer sales—contrasted to our OEM sales model—accounted for 91% of our fourth quarter consolidated revenues. We expect both of these will be key drivers for our revenue growth in 2007.

### The Dynamics of Print are Changing

As buyers of print continue to look for more targeted and effective printed materials to better support their business objectives, providers of printing services have increasingly turned their attention to finding ways to competitively—and profitably—produce shorter print runs with tighter deadlines while still maintaining the high levels of quality their customers expect. Many of these printers have turned to Presstek solutions to meet this need, and independent industry research indicates that many more plan to do so over the next several years.

**DI Press Installations**



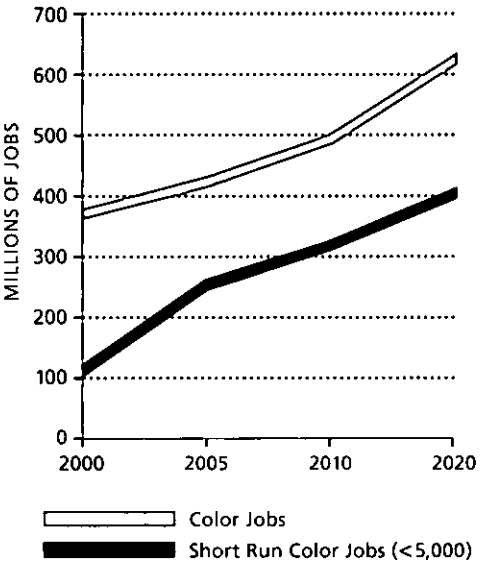

For Presstek and our customers, DI presses were a bright spot in 2006. A record 244 Presstek DI presses were shipped in 2006, a 25% increase over the previous year. DI equipment revenue was up 72% year over year, due to a combination of higher unit sales, increased sales through our direct and dealer channels (rather than through the OEM model we previously employed) and the higher revenue generated by the new 52DI presses—eight of which were shipped in the fourth quarter alone.

Even more encouraging, according to research conducted by Print Industries Market Information and Research Organization (PRIMIR), nearly a third of small commercial and quick print survey respondents in the United States and Canada identified a DI press as a targeted investment by 2011. That extrapolates to more than 7,000 printing establishments in North America alone that have identified the DI press as an important element that will enable their businesses to meet these changing market demands.

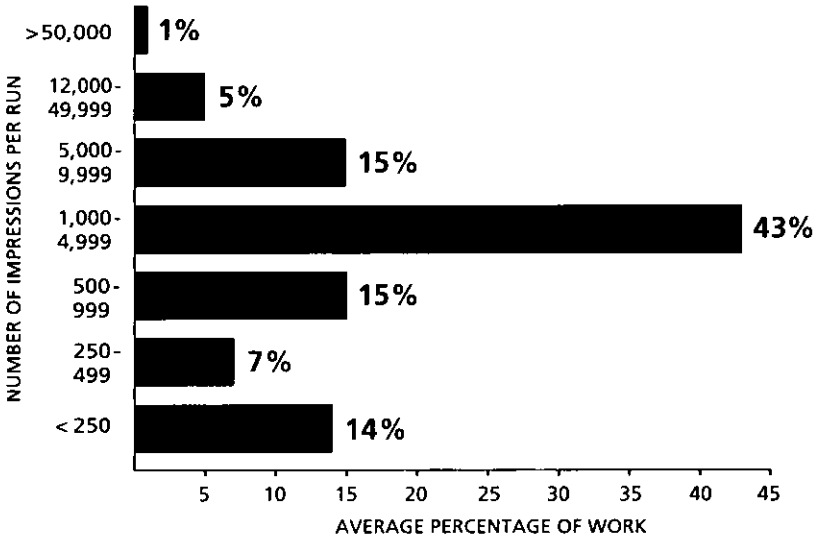
This same research also reflected that 80% of offset print runs produced by small commercial and quick printers today are in quantities ranging from 250 to 10,000, an ideal amount for a DI press. Consequently, the DI press is well-positioned to efficiently and profitably produce up to 80% of commercial print jobs. And it fits well in a mixed production environment that includes toner-based digital equipment and/or conventional offset presses, filling a critical production gap left by those technologies.

According to research firm InfoTrends' *U.S. Print On Demand Market Forecast: 2005-2010*, the average cost for a typical job on a direct-to-press (or DI) device, such as a Presstek 52DI, is about half as much per page as that of a comparable job run on a high-volume cut-sheet color electrophotographic printer (which we call a toner-based digital press). So it is no wonder that printers are recognizing the value of including a DI press in their production portfolios and are turning to Presstek in record numbers to take advantage of the quality, productivity and profitability a Presstek DI press delivers. In many cases, the DI press has become the centerpiece of the production portfolio. These are some of the changing dynamics validating our strategy.

**U.S. Short-Run Color Growth**




**Run Lengths for Color Offset Jobs U.S. and Canada—2006**




SOURCE: PRIMIR

## Serving Mainstream Markets

Migrating from a niche player to a mainstream company is not without its challenges, and Presstek saw its share of those in 2006, which prevented us from performing to the high expectations we—and you—hold for the company. But we tackled those challenges head-on, and we believe that as a result Presstek is a stronger company today and is well positioned for success in 2007 and beyond.

**"Migrating from a niche player to a mainstream company is not without its challenges... we tackled those challenges head-on, and we believe that as a result Presstek is a stronger company today and is well positioned for success in 2007 and beyond."**

We clearly understood the need to have a robust infrastructure in place to support effective business processes with a focus on quality throughout the organization. But our work to augment the infrastructure was not moving at a fast enough pace. This resulted in issues that impacted overall quality, the capabilities of our information systems backbone and our ability to effectively manage the business—especially as it related to the service business, and the sale and distribution of the consumables lines acquired from The A.B. Dick Company.

Based on this recognition, we stepped up our efforts to address both the business processes and the underlying systems architecture to allow us to accelerate business process improvements at a rate faster than the company was evolving. That work is now well underway. As an example, in the second half of 2006, we generated significant improvements in cost recovery and efficiency due to more efficient business practices in the consumables line acquired from ABDick. We also turned our attention to building a stronger management team—bringing on board key executives that have the right skills to lead us through these challenges and to ensure our future success.

## A Strong Management Team

Additions to the management team in 2006 and early 2007 include executives who bring with them a wealth of experience and a level of enthusiasm that are already having a positive impact on our business:

• Jeffrey A. Cook joined the company as Chief Financial Officer in the first quarter of 2007 and also has responsibility for the company's information technology infrastructure. He has 29 years of financial leadership experience in multinational corporations—working in a variety of industries, including graphic arts. Prior to joining Presstek, he served as Chief Financial Officer and Chief Information Officer at Kodak Polychrome Graphics.

• Todd H. Chambers, formerly Chief Marketing Officer at Onyx Software, was appointed the company's first-ever Chief Marketing Officer in early 2007. He is responsible for worldwide marketing and product management, and his appointment validates the importance Presstek places on being a market-driven organization.

• Joseph J. Demers joined Presstek in October of 2006 as Vice President of Supply Chain Management. Prior to joining Presstek he was Director of Manufacturing Operations at Brooks Automation and has 15 years of related experience. He is responsible for Presstek's equipment manufacturing, supply chain, distribution and customer support organizations.

• Hakan Elmali, Ph.D., joined Presstek as Vice President of Engineering and Research in March of 2007. Previously he was Vice President of Engineering at ADE Corporation. He has over 20 years of research and product development

experience and brings to Presstek a proven track record of managing engineering projects from concept to production.

• Geoff Loftus was appointed Vice President of North American Service in November 2006, bringing over 15 years of experience in the graphic arts industry. Prior to working at Presstek, he served as Senior Vice President, System Service and Director of Engineering at Heidelberg and was on the development team for the original QuickMaster DI printing press.

We have also made significant changes throughout the rest of the organization as we continue to shift our corporate culture to meet the needs of the 21st Century by adding new talent at all levels in the company and building a higher level of digital competency throughout the organization.

## Building Momentum

The significant investments we made in 2006, designed to ensure that we are operating from a strong foundation as we move into 2007 and beyond, are delivering results. Some of the changes made in 2006 include:

- Expanded products and services that meet the needs of the mainstream market
- Improved operational efficiency and quality
- Introduced more digital competency across the organization and directed more resources toward digital solutions
- Developed a marketing engine that broadens and strengthens our channels to market
- Built a more effective, focused and talented management team

We now have the right products and services, the right team, a strengthening infrastructure and a sound business model in place to take the company to a new level. And while the work is not complete, our fourth quarter results demonstrate that we are on the right path with the momentum we need to be successful.

**"We now have the right products and services, the right team, a strengthening infrastructure and a sound business model in place to take the company to a new level."**

## Our Customers

But none of this would be possible without our customers, and once again, we dedicate this annual report to them. The companies from around the world that are featured in this annual report are just a few examples of print service providers who are turning to Presstek solutions to build their own foundation for a successful future. Their stories paint a vision of the future for the printing industry, and we are proud of our role in helping them be more successful with their businesses.

Edward J. Marino
President and Chief Executive Officer

# SUCCESS

## OUR CUSTOMERS'

Unlike other mediums, printed communications offer readers and communicators, alike, the extra dimensions of size, shape, weight, and texture—elements that create a unique interface with the reader. In addition, printed materials are completely portable. The information and images they carry can be accessed anywhere, at anytime, without technological boundaries.

For these reasons, printed communications are vital components in the marketing, public information and communication strategies of most organizations, large and small, around the globe.

The vast majority of the world's printed communications are manufactured with the offset printing method, recognized for its quality and ability to print on a wide range of substrates. Varnishes, coatings and special inks add value that cannot be matched in other reproduction methods. By combining the efficiency and speed of digital communications with the widely recognized quality and versatility of offset printing, Presstek solutions succeed in offering the best of two worlds.

Digital communications have changed the communications industry profoundly, and present new challenges to the printing sector of that industry. Production cycles that were once measured in weeks are now a matter of hours, or even minutes to completion. Print budgets compete with those for Internet and broadcast communications. High definition screen images drive the printing industry to higher levels of quality and color reproduction. And, to keep print communications timely in a rapidly changing world, run lengths are diminishing dramatically and "on-demand" production is becoming the norm.

Furthermore, environmental awareness and regulations have all but eliminated the tolerance of antiquated, chemical-based imaging processes.

By enhancing the offset printing process with digital technology, automation, high resolution imaging and lower cost operation with minimal waste, Presstek technology is helping businesses around the globe succeed by capitalizing on these changes with *A Smarter Way to Print*.

DIGITAL PRINTING COMPANY | BOSTON, MASSACHUSETTS

# DIGITIZING A BUSINESS AND ITS BRAND

Customers at Digital Printing Company's eight retail stores in Boston find a trendy, upscale, interactive environment that is unlike most printing establishments. The company's Newbury Street storefront features a wide screen LCD above a fireplace, workstations and free Internet access for customers' use, and high-key graphics advertising the company's capabilities. The environment matches the fashionable retailers, art galleries and restaurants for which Newbury Street is known.

Under the new direction of industry leader Grover Daniels, the redesigned look of the retail stores is part of a much larger repositioning of the company that was founded in the 1960's.

Fourth-generation printer Daniels took time off after he sold Boston-based Daniels Printing in 1999, but he couldn't stay away from the industry. Having pioneered digital prepress and workflow at Daniels Printing, Daniels was convinced that the future lay in taking digital production to the next level. With that in mind, he acquired well-known Boston retail printing chain Copy Cop in 2004 and set about reinventing the business to fully capitalize on the market for fast turnaround, short-run digital printing of everything from photo prints to corporate literature.

"One of the challenges we face," Daniels

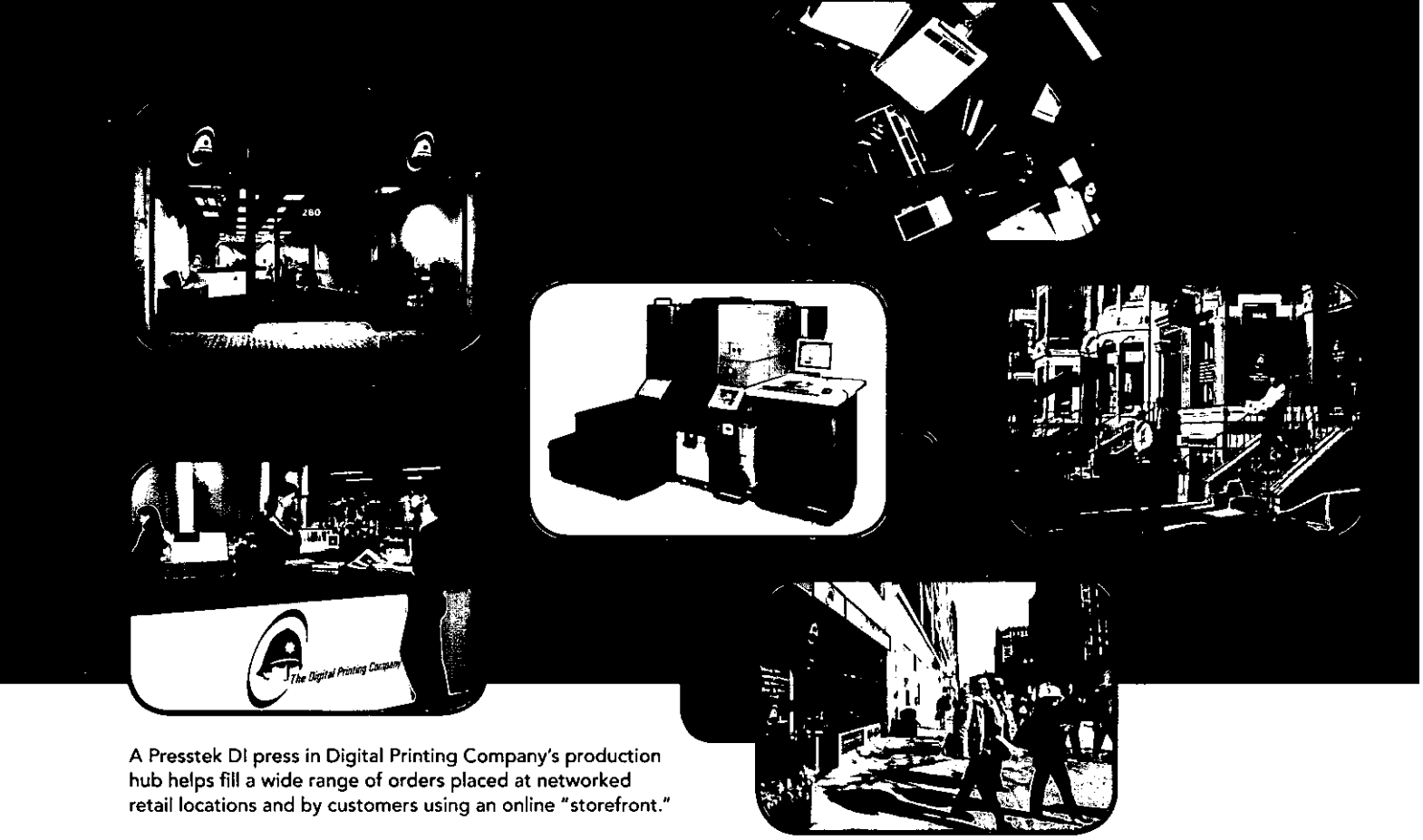
points out, "is that, now, the Copy Cop brand isn't really descriptive of what we do. We don't copy much anymore; we print. I found that the name 'Digital Printing Company' was available, and that is what we are calling our redesigned company. Everything we do is digital. It's not your grandfather's Copy Cop."

## A Hub and Spoke Model

In remodeling the company for growth, Daniels experimented with the right blend of equipment, people and footprint for the retail stores, which he calls "retail studios," supported by a production hub. A Presstek DI press is now a central component of Daniels' strategy.


***Printed by Digital Printing Company***

*Printed with a Presstek 34DI (DirectPress DI). Printed 200 line screen, using four process colors plus matte varnish on 10 pt. Kromekote cover stock.*




A Presstek DI press in Digital Printing Company's production hub helps fill a wide range of orders placed at networked retail locations and by customers using an online "storefront."

"Although I come from a long heritage of conventional offset," says Daniels, "my initial concept was to build up the company exclusively with toner-based digital printing and an all-digital workflow. Before long, though, I saw a growing need in our customer base for high quality short-run offset printing and began to look for a way to integrate that into my all-digital model. That's when I learned about Presstek DI digital offset presses. A Presstek DI press is now our only offset press."

In the production hub, located in Boston's southside commercial area, the company is using a blend of toner-based digital printing equipment along with its Presstek DI press to meet the demand for higher quality printing and longer runs than the retail stores are outfitted for. Carlos Mendez, manager of the Newbury Street Store, says, "We can produce some short-runs in the store, but when we need to run more or run higher quality, we send the files electronically to the DI press, which is a great machine." Printed products are then sent back to the retail stores for delivery or pick-up by the customers. "Customer service accepts a file, checks it, queues it, and it can be on press fast," adds Daniels. "We can be up and running great sheets in less than a half-hour after receiving the file. The DI press and Presstek have been great for us."

According to Daniels, "We came to the decision that the business model of leases and monthly click charges for high-end digital toner-based presses were simply too expensive. It was clear to us that by investing in a DI press, we could have a real offset press that images at 7,000 impressions an hour. That puts us in a whole different category without all of the issues surrounding the way the toner-based companies have structured their financial models. Give me a 10-minute makeready and 200 line screen printing at 7,000 sheets per hour, and I'll show you the money."

Tying it all together is an integrated network and the PrintOne online storefront from Printable Technologies. This job submission tool is used by all of the retail studios, as well as by customers who take advantage of the PrintOne storefront to better manage their printing needs. "Online allows us to compete outside Boston," Daniels explains. "We are doing business with corporate clients as far away as Atlanta, and we have online customers in New York and throughout New England."

## Leveraging the Digital Future

In talking about the future, Daniels says, "I think we are the prototype of what digital printers are going to be in the foreseeable future. Our unique advantage of having the retail locations along with our online presence and our high-quality DI press allows us to grow the printing business quicker than traditional printers. And that is what we plan to do." ■

# Absolute Success With A Presstek 52DI

**Business is booming** at Absolute Digital Print, a digital printing company in Kendal, Cumbria, UK. With a new Presstek 52DI press, Absolute is attracting new customers, including large retailers who require high quality printing with shorter and shorter turnaround times.

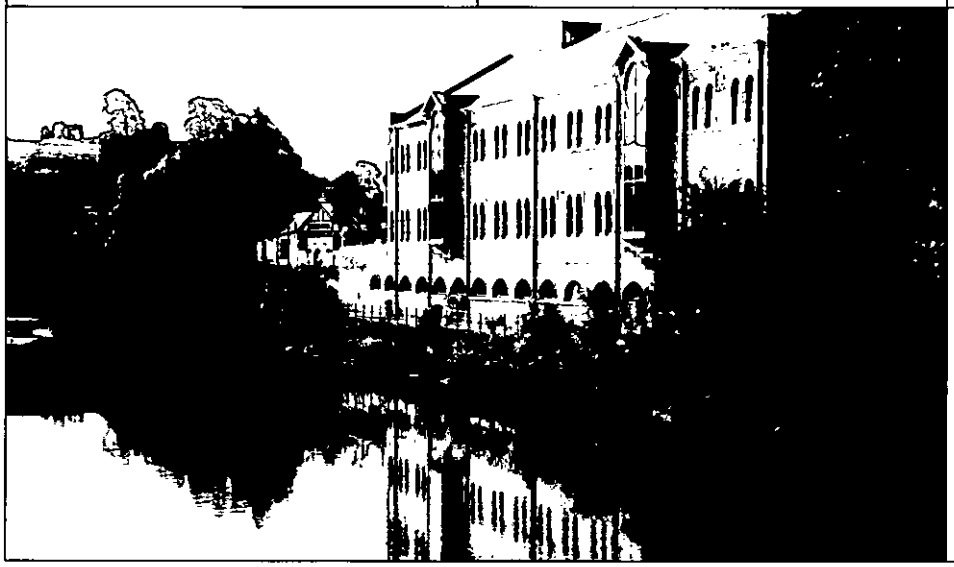
The powerful capabilities of the Presstek 52DI digital offset press have already earned Absolute Digital a growing word-of-mouth reputation as the digital printing company that delivers on challenging jobs that most other commercial printers will not even attempt.

"It was a natural progression for us to recently upgrade from a 34cm portrait format DI press to a Presstek 52DI press," says Jon Wallbank, Director of Absolute Digital Print. "Although the larger landscape format of the 52DI is more versatile, it is the increased speed and quality of the new press that are the most exciting developments for us."

A Presstek 52DI is a central feature of Absolute Digital's state-of-the-art digital printing facility.

Wallbank emphasizes the value of DI for his company, "We are totally committed to DI technology because it has opened up new markets for us over the last two years, which now account for over a third of our business," Wallbank enthuses.

"We saw the market changing and the demands that short-run color jobs and fast turnaround schedules place on conventional printing. They just are not profitable enough without the right equipment. That is why we spent a year researching alternatives," Wallbank explains.



**Absolute Digital Print** was formed in 2003 by Jon Wallbank, Malcolm Oates, and Alan Fawcett, all former managers at a major nearby color printer. All three partners retain the quality and service culture instilled in them by their former employer. "Our clients call on us to produce work in very aggressive timescale but realize that if we can't meet their production schedule, then probably nobody else can," they maintain.

The company operates from a location overlooking the River Kent, with stunning views like the one pictured at left.

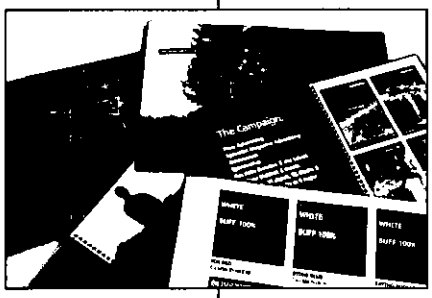
*Printed by Absolute Digital Print*

*Printed with a Presstek 52DI. Printed with stochastic screening using four process colors on 200 gsm Character Express smooth uncoated board.*

"We initially set-up for short-run color with a toner-based digital press," Wallbank says. "However, it quickly became clear that our customers needed the quality and versatility of offset printing in run lengths up to tens of thousands of copies. We were missing out on some very lucrative business, simply because we could not compete in that market with the equipment we had. Click charges on the toner-based digital press don't make it viable to produce more than 200 to 250 catalogs." He continues, "Our customers were keen to give us longer run work."

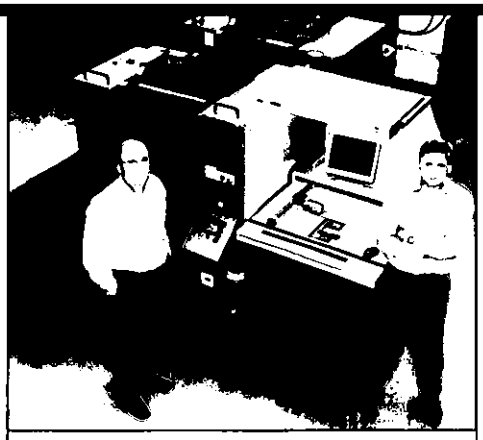
## Responding With Presstek DI

In response, Absolute installed its first Presstek DI press. In addition to all the automation features, Absolute liked printing with DI because it uses a waterless process, the quality and depth of color are excellent, and the speed of makeready and turnaround with the IR dryer are very fast. Printing waterless results in a thinner film of ink than on a press with an ink/water process, allowing Absolute to produce a cleaner image and one where most reference colors can be easily achieved using four process color inks.



Absolute also liked Presstek's style. "They are very responsive and they instill confidence in us that they will always support us," Wallbank says.

One month after installing their first DI press, Absolute won a contract to print Reebok UK's flagship footwear and apparel catalog. Since then, they have won a lot more work from Reebok, including the company's "Race for Life" campaign material.



Jon Wallbank (left) and Malcolm Oates with Absolute Digital Print's Presstek 52DI.

## Stepping Up to the Presstek 52DI

"When we heard that Presstek was launching the 52DI landscape press, we had to see it," Wallbank says. "It wasn't a difficult decision to trade in our original DI because the 52DI is an industrially built press which has enabled us to increase our production speeds from 7,000 sheets-per-hour to 10,000. Now, we can be very competitive on much longer runs up to 60,000+ where high quality is required. It also offers a larger sheet size, enabling us to produce more formats. Most importantly, it increases the quality of our print because we are now able to use stochastic screening as standard. We've read in trade magazines that it is not possible to use stochastic as a default screen ruling for all types of work, but we have proved them wrong. As a consequence, it has brought us a lot more work, entirely through customers' referrals."

## Enviable Profit Margins

"Although we are still a small company, our equipment profile allows us to produce work that other printers wouldn't attempt, while realizing profit margins of which they would certainly be envious," Wallbank stresses. "We've taken DI printing to another level by utilizing it to its full potential. When customers come here and see what we can achieve with it, they understand its versatility. Once we produce the first job for a customer they are hooked by the quality and service we are able to offer, which then becomes their standard—but they only realize it at Absolute."

Absolute's client list is testament to the quality it produces. Alongside the work it prints for Reebok, it works for local design agencies, a local fine art gallery, Craghoppers adventure wear, and many other high profile, high quality companies. Absolute is also working with plastic ink sets for a client that specializes in holographic laminated material.

## Continuing Growth

"The level of work we are producing on our 52DI is growing at such a rate that we envisage reaching capacity in 2007. At that point, we would certainly look to Presstek for additional solutions due to our excellent relationship with the company," Wallbank says. "Part of our business ethic is to develop relationships with suppliers like Presstek—companies who understand our goals and needs now and in the future." ■

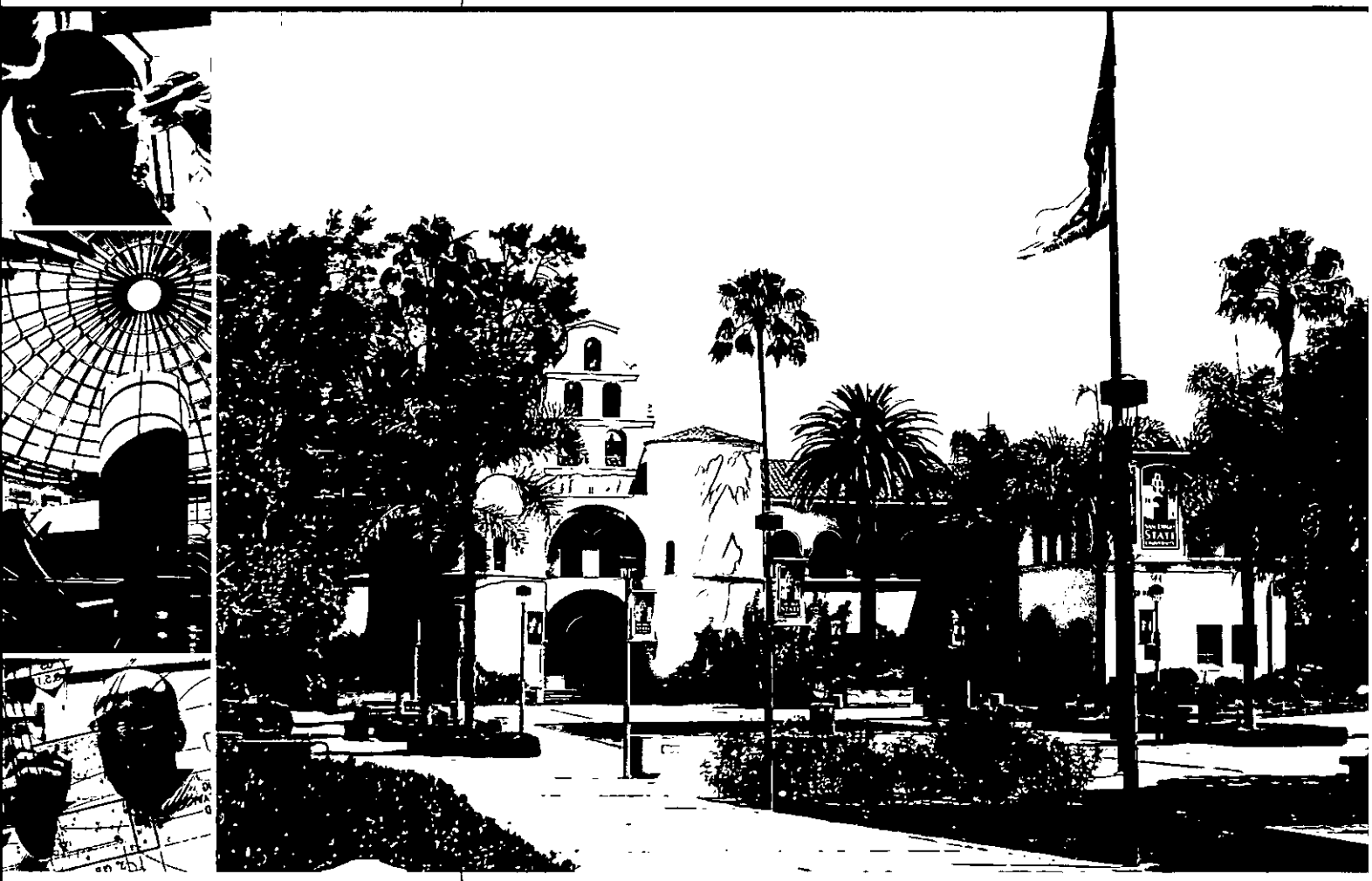
absolute°

**Jon Wallbank**
*Director*

**Absolute Digital Print**
4 Riverside Business Park
Natland Road
Cumbria
LA9 7LR
t: 01539 738441
f: 01539 738442
e: info@absolutedigitalprint.com
www.absolutedigitalprint.com

**PRESSTEK CUSTOMER PROFILE**

SAN DIEGO STATE UNIVERSITY | SAN DIEGO, CALIFORNIA



# SAN DIEGO STATE UNIVERSITY

San Diego State University is an academically rich, urban university. With almost 34,000 students, award winning professors, top-notch research facilities and a location that serves as the gateway to Latin America and the Pacific Rim, SDSU offers students the tools to expand their knowledge and their horizons.

## AT THE TOP OF ITS CLASS

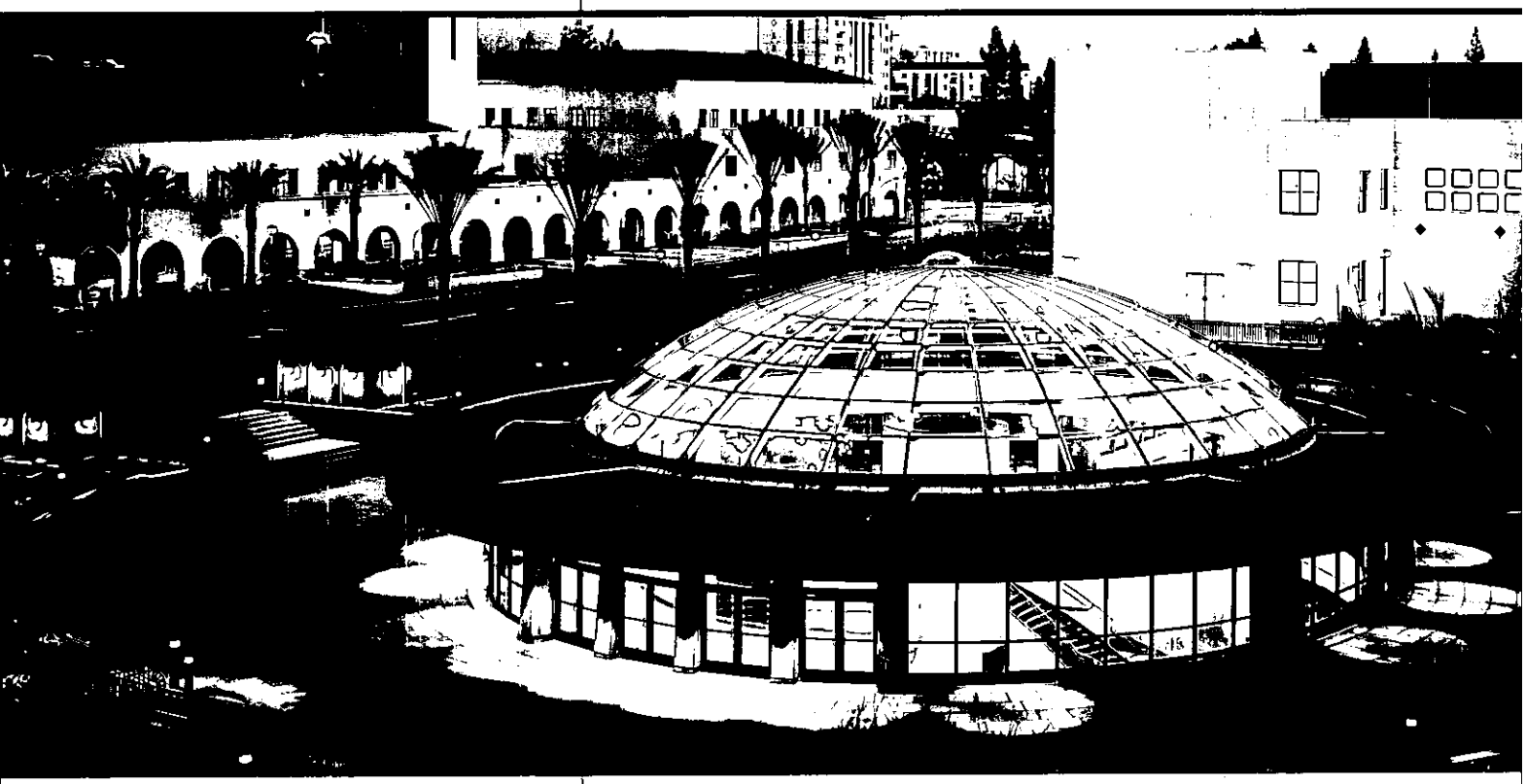
San Diego State University has no policy mandating that departments have to use the university's on-campus printing service, SDSU ReproGraphics. Nevertheless, the in-plant shop found itself buried in a workload that exceeded its capabilities. Now, after the department completed a major transformation of its printing services, a Presstek DI press is part of a better equation. By significantly improving productivity, turnaround and quality, the highly automated DI press is helping to ensure that the in-plant shop is the university community's first choice for meeting its printing needs.

To bring about the transformation, the University hired industry expert Leslie Rutledge in April 2005. Rutledge and her team began the long process of analyzing the current state of the shop and coming up with recommendations for reshaping it. Key among those recommendations was replacing the shop's out-dated computer-to-plate (CTP) system and its two-color presses with a solution to better meet the increasing demand for high quality four-color printing. Over the next 12 months, SDSU replaced the two-color presses and their CTP system with a Presstek DI digital offset press. A toner-based press supplements the DI for ultra short runs and lower-end jobs.

"I had been reading about DI presses in the trade magazines," comments Rutledge, "and I was intrigued by that

***Printed by SDSU ReproGraphic Services***

*Printed with a Presstek 34DI (DirectPress DI). Printed 300 line screen, using four process colors on 100 lb. Utopia Two recycled dull coated cover stock. Utopia Two printing stock is certified by the Forest Stewardship Council.*



SDSU is a large, multi-faceted university. Since initiating a number of advancements, including the installation of a Presstek DI press, SDSU's on-campus printing service is the university community's first choice for its printing needs.

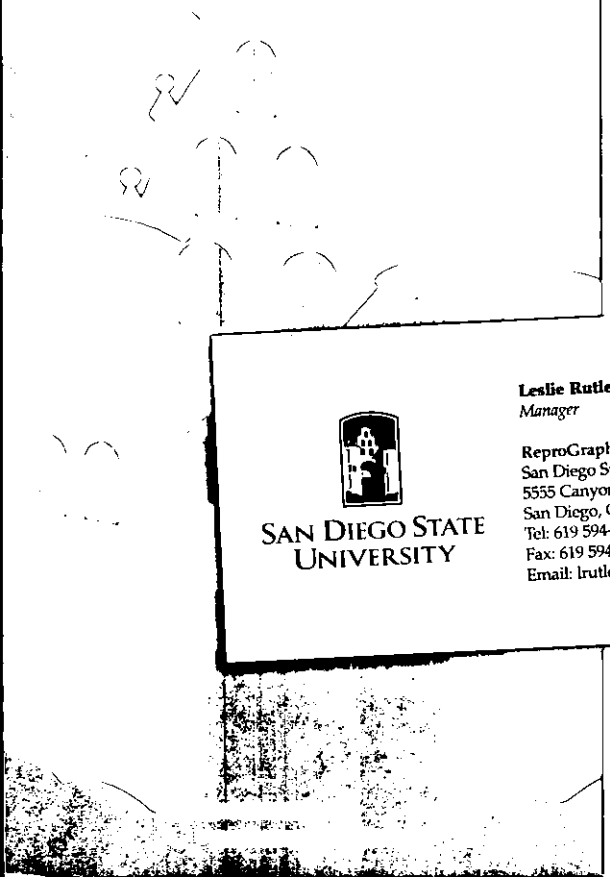
technology. We were working toward being a completely digital shop, and a DI press would fit the model better than updating our CTP and acquiring a conventional four-color offset press." In addition to creating an all-digital workflow, the team was impressed with the quality produced by the DI press, especially its ability to produce high resolution line screens and print on the customary wide range of offset printing stock, and with the speed of the press.

Getting approval to invest in the DI was not difficult, according to Rutledge. Her Director, Lawrence Peralez, worked with university administrators to explain the value of this leading-edge technology. With the on-press imaging feature of DI, the department could replace both its platemaking equipment and presses with a single unit. Rutledge's proposal also highlighted the value of DI's chemistry-free imaging technology, in terms of lower ongoing costs and in reducing the university's environmental impact. Like most universities, especially in California, SDSU constantly works to reduce its impact on the environment.

With the DI press in place, the in-plant shop is producing timely, high quality four-color printing, including brochures, flyers, four-color invitations, newsletters, perfect bound books, media guides for athletics, calendars, and much more. ReproGraphics is also producing longer run work on the DI more cost-effectively and in less time than ever before. Rutledge cites a 40,000 run of fact sheets for Enrollment Services and a 70,000 run of letterhead as recent examples of long-run jobs efficiently produced on the DI press.

To promote the shop's new capabilities to the campus, the ReproGraphics team ran a campaign called "Blast Off Into the Digital Age" and hosted a series of open houses. Rutledge reports, "The turnout has been great, and because clients see first-hand what we have to offer, the events have generated a lot more volume for the shop."

With all of the changes in the shop, including the addition of the DI press, SDSU ReproGraphics' on-time performance is now at 95 percent and the department is looking at a goal of 97 percent in the near future. Rutledge concludes, "We're a small department, but we have implemented leading edge technology. Our team takes a lot of pride in our digital transformation. It has injected new energy and excitement into the department." ■



**PRESSTEK CUSTOMER PROFILE**

LEAHY PRESS | MONTPELIER, VERMONT

# *Presstek CTP Helps This Vermont Printer Continue a Tradition of Quality and Service*

THE Leahy Press INCORPORATED
The professional touch in printing

***Montpelier, Vermont, is home to five competing printers, all with multi-color printing capabilities. Leahy Press succeeds in this market, in part, because of efficiencies that allow for competitive pricing, fast turnaround and higher volume. Presstek chemistry-free CTP is part of their solution.***

The drive that leads uphill to Leahy Press has more turns and switchbacks than a black diamond trail in nearby Stowe Mountain Ski Resort. Such is life in Montpelier, Vermont, where "the nation's smallest state capital" spreads steeply up the sides of the narrow valley of the Winooski River.

In character with the location, the platemaking process at Leahy Press once seemed as laborious and convoluted as a long uphill trek in the surrounding Green Mountains. "There were way too many steps involved. It was time-consuming, and it required too much equipment and produced too much waste material to be effective," says co-owner, Steve Smead.

"Today, our Presstek Dimension system and chemistry-free Anthem Pro plates give us a fast, direct route from digital files to high quality press-ready plates, with the minimum number of steps and without any waste," says Smead. He adds that the high efficiency of the Dimension system and suitability of Anthem Pro plates for high quality presswork enable Leahy to continue its long tradition of providing both service and craftsmanship while meeting the demands of today's competitive marketplace for short run lengths, faster turnaround and lower costs.

***Printed by Leahy Press***

*Printed using Anthem Pro chemistry-free plates imaged on a Dimension platesetter. Printed 175 line screen, using four process colors plus one Pantone® color on 100 lb. linen finish cover stock.*

## *A History of Growth*

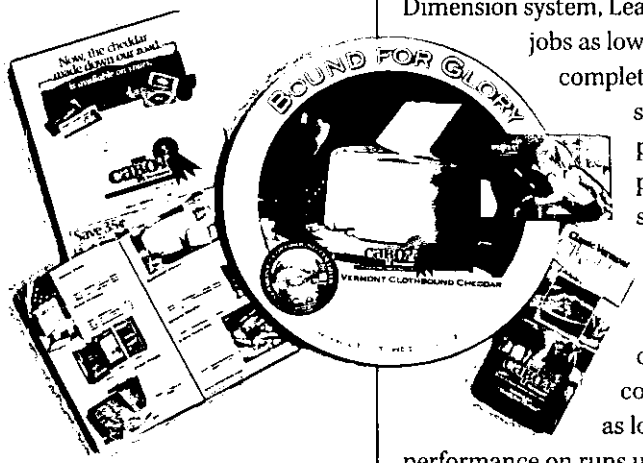
Leahy Press has been a fixture in Central Vermont since its start-up in the 1930s by the parents of Vermont's current U.S. Senator Patrick Leahy. While growth has changed the character of the business, Leahy Press remains family-owned.

Deena Smead remembers helping her parents, who purchased the business from the Leahy's, cut paper ballots that the company printed for the State during the 1970s. Today, Deena and her husband, Steve, own and operate the business, which now includes a modern pressroom, bindery, digital prepress department, and customer support areas.

While visitors are welcomed in a friendly Vermont manner, it is immediately apparent that, with 18 employees and over 350 clients, Leahy Press is a busy and vital regional provider of printing services.


## *Higher Efficiency Without Sacrificing Quality*

The vast majority of work that Leahy receives is for multi-color printing that the company produces on its five-color, four-page format press. Several two-color presses supplement their press capacity. All three presses run exclusively with Anthem Pro chemistry-free plates.




Leahy's customer base includes regional design firms and advertising agencies, colleges and universities, and a number of corporate customers. "We deliver a wide range of jobs to our clients," Steve explains.

While there has not been a downturn in medium- to long-run printing for Leahy's customers, the Smeads see the same demands experienced throughout the industry for frequent short-run color, increasingly faster turnaround, and more competitive pricing. With 65 to 75 percent of their monthly revenue from "putting ink on paper," the Smeads continuously focus on making their printing operations more efficient and profitable. That prompted a decision to move to a computer-to-plate system (CTP).

## *Choosing Chemistry-free CTP*

The Smeads chose a Presstek Dimension CTP system because of its chemistry-free imaging and the speed of producing a press-ready plate. "When we saw that other options required a special safelight room and chemistry, we knew that we would purchase the Dimension," Steve says. Presstek chemistry-free CTP requires a minimum number of steps and eliminates the trouble of handling and disposing of hazardous chemistry. In addition to improving productivity and lowering costs in their prepress area, Steve points out that the ease of making plates on the Dimension contributes to a faster, more responsive and competitive workflow overall. "Because we never have to wait for a plate, it really improves productivity in both prepress and the pressroom," Steve happily notes.

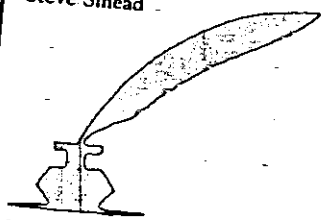
"Our five-color press has features that facilitate fast and efficient printing," Steve says. Combining these printing features with the ease and speed of platemaking using the Dimension system, Leahy is able to offer competitive pricing on jobs as low as 500 to 1,000 impressions, sometimes completing 10 or more jobs on the press in a single day. Leahy's ability to efficiently print short-run color on their five-color press is especially advantageous in serving customers like Cabot Creamery, a national retail brand that needs printed products in a wide variety of sizes and run lengths, all with consistent color and quality. While Anthem Pro is a cost-effective solution for Leahy on runs as low as 500, it still provides high-quality performance on runs up to 100,000 impressions.

## *Higher Levels of Service*

Expressing Yankee frugality, Steve says, "Being able to do more with what we already have helps us help our customers without adding cost." Now the people at Leahy Press can focus on what they do best—deliver high-quality offset printing with a high level of personal service. "By improving our productivity from digital files all the way to the press, Presstek CTP helps us do that faster, with more flexibility, and more competitively," Steve adds. ■

THE Leahy Press INCORPORATED
*The professional touch in printing.*

Steve Smead



79 River Street, P.O. Box 428
Montpelier, Vermont 05601
802-223-2100 FAX: 229-5149
Cell: 802-793-6521
leahy@leahypress.com

PRINTING FOR THE TRADE

# Turning It On and Turning It Out

## Printing for the Trade with Two Presstek 52DI Presses

City Colors Digital Printing Center

The Infante family started their general commercial printing business in the Miami, Florida, area in 1988 under the name Metropolitan Printing. Ten years later, owners Roberto Infante and son Miguel changed their business plan and opened City Colors, a full color printing operation serving the trade. Their strategy is paying big returns — the business has grown at a rate of 25 percent year-over-year for the past four years. Today, two Presstek 52DI presses are adding to that growth.

City Colors offers printers and other trade customers the ability to order business cards and postcards at extremely competitive pricing with fast turnaround, generally with next-day shipping. This leaves its large printer customers free to focus on producing the larger projects to which their operations are best suited, and it allows graphic designers and small print shops to deliver these color products at very competitive prices. City Colors is able to provide prices that are exceptionally competitive in any market because its operation is specifically optimized to produce these cards. Its customers, according to Infante, are able to re-sell these items with as much as a 300 percent margin.

When City Colors was launched in 1998, the Infantes already recognized the benefits of DI and based a large part of their operation on two Presstek-enabled Quickmaster DI presses. The company purchased a third QMDI in 2005. While the company also produces other commercial printing, including brochures, menus and flyers, all three QMDI presses were kept busy turning out gang-run business cards and postcards.

### Raising the Bar With the Presstek 52DI

While Quickmaster DI presses served the company well as it grew, the Infantes were looking for a way to take the business to a higher level. That is when they learned about the new larger format and more automated Presstek 52DI press.

***Printed by City Colors***

*Printed with a Presstek 52DI. Printed 300 line screen, using four process colors on 80 lb. coated card stock*

The Presstek 52DI provides a 52cm-wide landscape-oriented format for higher versatility and efficiency. Features include 4.5-minute on-press imaging time for all four plates at high resolution, highly automated printing features, and printing speed up to 10,000 sheets per hour. Complete makeready takes ten minutes, including plate changes, imaging, automated cleaning, and ink presetting. Presstek's ProFire Excel Imaging and ProFire Digital Media produce high resolution imaging up to 300 lpi and stochastic screening.

Seeing the advantages of the Presstek 52DI over their older model DI presses, City Colors traded in one of its QMDIs for a Presstek 52DI in December, 2006. They were so pleased with the results that they traded in another QMDI one month later for a second Presstek 52DI.

According to Miguel Infante, "95 percent of our business card orders are for quantities of 1,000. With our QMDI presses, we were able to run 24 different customers' business cards on a sheet. Our advanced cutting operation processed all 24,000 individual business cards in one shot. We have a very efficient operation, turning out tens of thousands of business cards and postcards every day." But Infante believed City Colors could do even better, and that was why the company acquired its first Presstek 52DI press.

"While we averaged 30 minutes per ganged run on the Quickmaster DI," says Infante, "we were only able to produce 150 lpi resolution printing, and we had to deal with a fair amount of manual intervention to maintain quality and consistent color."

With the 52DI, City Colors is able to produce a ganged run of 34 business cards with bleeds on all edges in about 20 minutes, with virtually no manual intervention and with significantly higher quality at 300 lpi resolution. Infante adds, "consider that we are running 15 to 20 of these ganged-runs per day, per press, and the time saved adds up to the ability to print at least six to eight more runs per week on each of the 52DI presses without adding shifts or personnel." Similarly, 4" x 6" postcards are run nine per sheet and also benefit from the automated features and shorter production times of the 52DI.

**"Our pressmen love the new Presstek 52DI presses and, like our customers, they are extremely pleased with the quality and consistency the presses generate."**

"The 52DI presses," says Infante, "allow us to reduce our price to the trade since we are printing ten additional unique business cards on every sheet."

About the company's decision to purchase a second 52DI, Infante says, "We believe we are the first company in the world to have two of these amazing presses. We will dedicate one press to business cards and one to postcards. Plus, we have redundancy, which is important in a fast-paced environment like ours." The company's press operators were up and running on the new presses quickly. "Our pressmen love the new Presstek 52DI presses and, like our customers, they are extremely pleased with the quality and consistency the presses generate." ■

**PRESSTEK CUSTOMER PROFILE**

ACCELAGRAPHICS OF NEW ENGLAND | WESTBOROUGH, MASSACHUSETTS

## With Presstek DI, AccelaGraphics Rates

# A+ for Added Value

**When AccelaGraphics of New England** recognized the need to upgrade their offset printing equipment, it was only natural that they would involve their customers in the choice of new equipment. "Customers drive everything about us," says Mitchell Freundlich, CEO of the company based in Westborough, Massachusetts. As a result, the company has evolved from a quick printer of yesterday to a contemporary marketing communications company, delivering a variety of graphic products, marketing solutions and services that clients need to succeed.

AccelaGraphics' success, Freundlich is quick to point out, "is all about quality: quality products, quality service, and quality people." It was a combination of all three factors that led the company to choose a Presstek DI press when it recognized the need to advance its offset printing capabilities.

"It was a collective decision to install a Presstek DI press," Freundlich explains. "We printed real jobs on our choices of equipment and put those results in front of customers and, without hesitation, those customers chose the output from the DI for its quality." While customers can easily recognize the quality output of DI printing, many of the other benefits are equally important to AccelaGraphics' customers, although transparent. "The speed of processing and completing a job and keeping costs competitive is the high quality service aspect of DI," Freundlich says. "Those features appealed to us because we knew they would add value for our customers."

Freundlich delivers value to his customers on three levels: creative and marketing strategies, project planning, and products. "We develop solutions to grow businesses," Freundlich says. "As printers, we used to deliver a commodity. But now everything has evolved through technology. Every business has these boxes," he says, pointing to computers on a nearby desktop. "Technology has created a new set of values in business, and we have to combine those values with our core business. Printing is a part of a package."

*Printed by AccelaGraphics of New England*

*Printed with a Presstek 34DI (DirectPress DI). Printed 300 line screen, using four process colors plus matte varnish on 80 lb. gloss coated cover stock.*

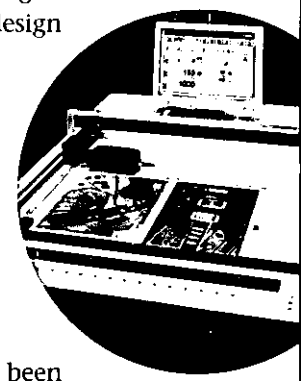

**The benefits of DI printing extend all the way to the end users, who compete for attention in a world of colorful media.**

**AccelaGraphics is helping drive Concord Academy Summer Camp's successful 2007 marketing campaign. The company produced a package of colorful items printed on the DI press and a coordinated Web site design. "With the new pieces, registrations are up 35 percent over last year at this point in our recruitment cycle," reports Greg Jutkiewicz, marketing director of the summer camp program. "AccelaGraphics introduced me to DI printing. It has changed what I can do marketing-wise. Now, I can fully utilize AccelaGraphic's design talents and incorporate great looking full color printing without changing my budget."**

"We are using technology to the greatest advantage in everything we do," Freundlich says. "Optimization is the key, whether it is providing customers with an online portal to our services, using Google analytics and keywords to optimize a client's Web site, or using DI technology to print faster and better."

In addition to supporting client's with a dedicated and talented team, Freundlich has installed a mix of printing equipment that he believes produces the range of products his clients need to meet their marketing goals. In addition to high quality DI printing, AccelaGraphics provides large format digital printing for tradeshow and point-of-purchase graphics; variable data printing on a toner-based digital press; list generation and mailing services; graphic design; and Web site design, hosting and maintenance.

"The Presstek DI is certainly where we are doing the vast majority of our business," Freundlich says. "We are able to cost-effectively produce the short-run color printing for which demand is always growing." The DI press also helps AccelaGraphics sell its design services to more clients, packaging graphic design and printing as a one-stop solution. "More than half of the design files we print on the DI are generated in-house," Freundlich says. The DI has also won a number of larger printing projects for the company. Freundlich cites a 60-page art reproduction book recently printed for the Museum of Fine Arts, Boston. That project, Freundlich points out, would have been impossible for AccelaGraphics to undertake without the high quality 300 line screen printing of the DI press. "You can imagine how critical color and registration were," he says. "The Museum had to sign off on every page as it was printed."



An active member of the National Association of Quick Printers for many years, Freundlich was recently elected to its Board of Governors for 2007–2010.

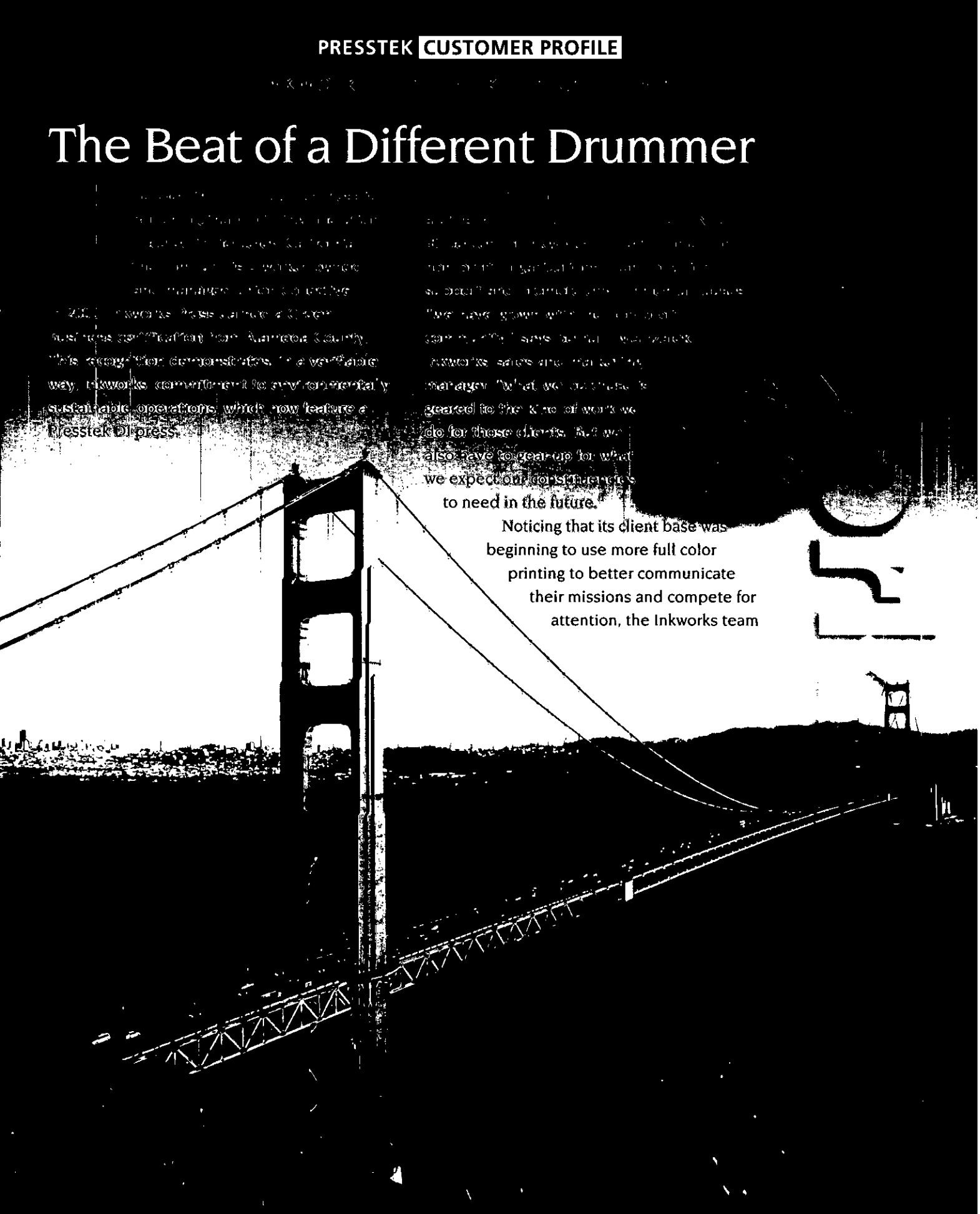
Freundlich is enthusiastic about Presstek. "It is in my interest to promote technology like Presstek DI. Better technology strengthens our industry and helps it respond to changes in the market. In my networking, I have said many good things about DI and what it does for businesses like ours." ■

# The Beat of a Different Drummer

[redacted] Presstek DI press.

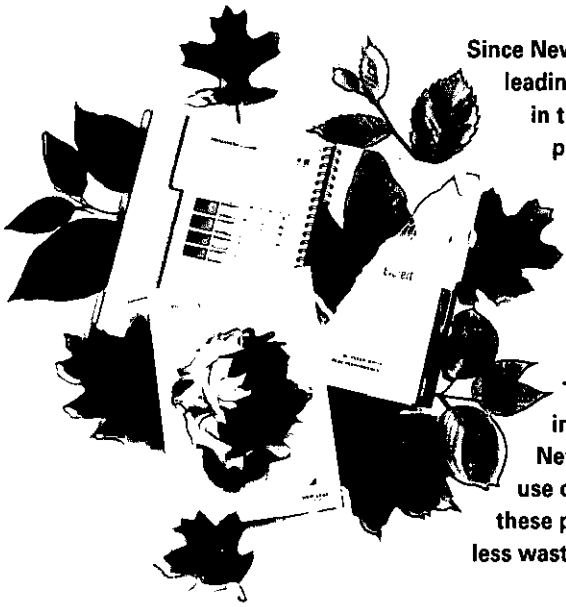
to need in the future.

Noticing that its client base was beginning to use more full color printing to better communicate their missions and compete for attention, the Inkworks team



*Printed by Inkworks Press*

*Printed with a Presstek 34DI (DirectPress DI). Printed 200 line screen, using four process colors on 105lb. New Leaf Reincarnation Matte text recycled stock.*



**Since New Leaf Paper began in 1997, the company has offered the most leading environmental printing and office paper products available in the marketplace. New Leaf Paper uses the highest amount possible of post consumer waste recycled fiber in their products. State of the art cleaning and de-inking techniques allow New Leaf Paper's inventory sheets to average 95 percent recycled materials while still maintaining high quality.**

**New Leaf Paper maintains its leadership position by supporting practices and new technologies that are making positive contributions to the paper and printing industries. Technologies such as Presstek's Direct Imaging (DI) go hand in hand with New Leaf's environmental values. That's why New Leaf Paper offers environmental papers that are ready to use on DI and digital presses. Complimenting a parallel feature of these presses, New Leaf Paper products are designed to generate less waste on press.** More information is available at www.newleaf.com

set out to find a color printing technology that could produce cost-effective short runs yet operates in an environmentally sustainable manner. A Presstek DI press met their criteria.

"We wanted to ensure a chemistry-free printing operation with fast makeready to minimize paper waste," Marszalek explains. DI's on-press imaging and waterless printing eliminate chemicals other than ink from the offset printing process. Inkworks extends the benefits of DI by printing with vegetable-based inks on recycled paper stocks supplied by New Leaf Paper. In addition, the highly automated printing features of DI produce higher quality and productivity, delivering sellable sheets within minutes, thereby minimizing makeready waste paper.

In the two-plus years since Inkworks installed their DI press, the print supplier has been able to offer a wide range of innovative and affordable color printing applications to support its customer base. "In our client base, a publication serves multiple purposes," Marszalek notes. "It informs, it motivates, and it helps to raise funds for a non-profit organization." Inkworks takes pride in the fact that they can deliver the added value and impact of color on these publications with virtually no added cost due to the process efficiency and decreased cost of DI operation. In addition to brochures, newsletters and a variety of fundraising communications, Inkworks has helped a number of clients by printing large, multi-page publications on the DI press—publications that otherwise would have been cost-prohibitive to print in color.

Inkworks will soon begin their most ambitious DI printing venture to-date. The team is publishing a book of poster art that their collective has printed over the past two decades for socially responsible and politically active organizations, including many involved in the peace and social justice movements, environmental awareness, women's issues, and union activism. The publication is planned to be 150 pages featuring 500 poster reproductions, with an initial print run of 3,000.

As the collective works to further reduce its environmental footprint, it will also explore every way possible to maximize the value of its DI press and entire operation for its customers. "We will put high-impact communications within easy, affordable reach of even more non-profit organizations," Marszalek says with confidence. ■

Bernard Marszalek
*Manager of Sales/Marketing*

INKWORKS PRESS

A WORKER-OWNED GREEN COMPANY

2827 Seventh Street • Berkeley, CA 94710
(510) 845-7111 • FAX (510) 845-6753
www.inkworkspress.org

**PRESSTEK CUSTOMER PROFILE**

GUILDFORD BOROUGH COUNCIL | GUILDFORD, SURREY, UK

# Presstek CTP Elected to Upgrade In-house Printing Service

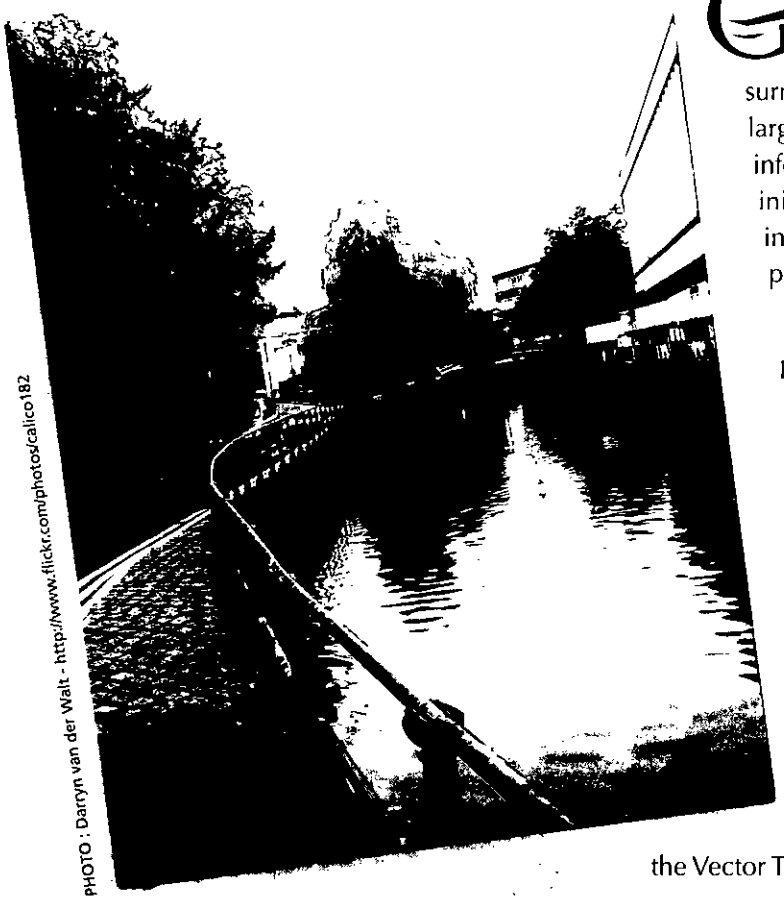


PHOTO : Darryn van der Walt - http://www.flickr.com/photos/calico182

*Thirty minutes by train from London, Guildford is home to a major university and has a vibrant business and professional community.*

Guildford Borough Council in the county of Surrey, UK, governs Guildford Borough and a number of surrounding villages in the Southeast of England. With a large volume of printing requirements to meet its community information and electoral responsibilities, the Council initiated improvements in its in-house printing service that included installation of a Presstek Vector TX52 computer-to-plate (CTP) system.

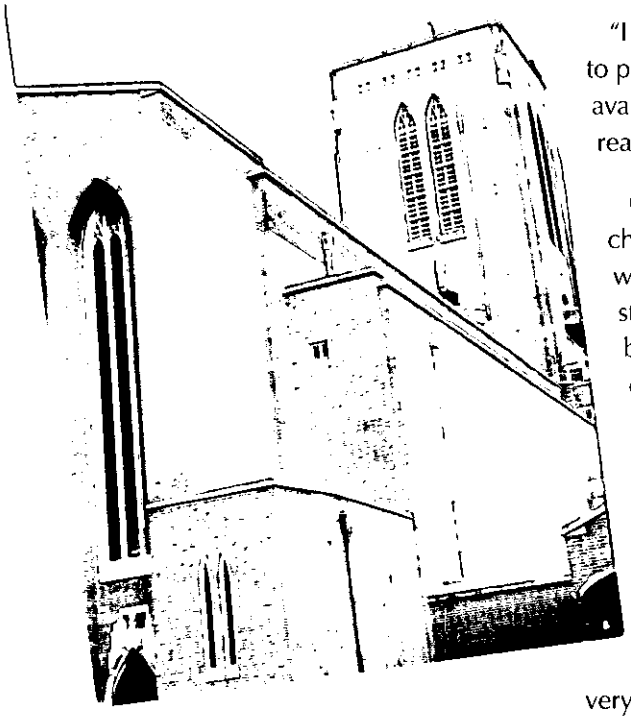
With an easy to use platemaking process and high quality Presstek Freedom CTP aluminum plates, the Vector TX52 enables Guildford Borough Council's printing service to improve its printing quality and increase its capabilities without investing in new press equipment.

"We have been fortunate because, unlike many other local authorities that have outsourced their printing requirements, Guildford Borough Council has done the opposite," says Mike Cheshire, Printing Services Manager. "Over the last five years the Council has made investments in CTP, digital copying and bindery capabilities for our department. Four years ago, Presstek installed an ABDick brand DPM 2508 polyester platesetter, which we recently upgraded to the Vector TX52 as a natural progression in our improvements."

"While we were more than happy with the performance of the DPM 2508, we wanted to improve our full color printing capabilities and our printing accuracy on press. We were outsourcing four-color process printing, as well as items like ballot papers and pre-printed electoral forms, where space and measurements are extremely critical. "We weren't prepared to take the risk of printing these items, which require precise registration," he pointed out. Reproducing good color images requires a set of four precisely matched printing plates that will not stretch or distort during the rigors of printing. As for a critical need for alignment during printing of the electoral forms, Cheshire says, "There is no margin for error if the fit is not exact because the completed forms are scanned."

***Freedom plates imaged by Guildford Borough Council Printing Service***

*Printed 175 line screen using black and one Pantone® color on 65 lb. opaque cover stock.*



*Surrounded by beautiful countryside, the historic market town of Guildford has medieval buildings, a cobbled High Street, and picturesque retail centers. Guildford Museum has items of local history and many relating to author Lewis Carroll, who is buried in Guildford. High atop a hill, Guildford Cathedral is a prominent landmark in the small city. The cathedral was used as a location in filming* **The Omen 1.**

"I knew that we needed to produce better quality plates if we were going to print these items in-house. Consequently, I went to IPEX to see what was available. The Presstek Vector TX52 came out on top for environmental reasons and for its quality, improved productivity and small footprint."

One of the major factors that influenced Cheshire's decision was Presstek's chemistry-free imaging process. "We have been asked to be as "green" as we possibly can. That's one of the great benefits of the Vector TX52. At a stroke, it removes the cost and the environmental issues associated with the buying and disposing of chemicals and polyester plates, which don't break down in landfill sites. It's a cleaner and healthier process for our staff to work with. Furthermore, we can recycle the used aluminum plates and recover some of the outlay by selling them to scrap metal dealers."

The transition to the Vector TX52 was easy for Cheshire's team. Presstek's chemistry-free imaging technology requires no special skills or materials handling. Operator involvement is minimal. Chemistry-free imaging also provides a much smaller footprint than other systems, so the Vector TX52 easily fits into the smallest of operations. "It takes up very little space because it is front loading and has an internal water wash," Cheshire adds.

"I am exceedingly proud of the quality of the four color jobs we can now print, particularly bearing in mind that currently we only have a 16-year-old single color press, although the Council plans to add a two-color press in the very near future," Cheshire says. "The improved performance on press is entirely due to the superb quality of the Freedom plates with their dot-for-dot registration. I would even go as far as saying that they are sensational. We find that the Freedom plates are more ink receptive than polyester plates and the makeready on press is very quick. We achieve quality production on press much faster. Therefore press makeready time is reduced and production quality sheets are obtained more quickly. This results in less paper waste used for press run-up sheets."

"We are now confident enough to bring the electoral forms in-house, which will save us approximately £6000 per annum," Cheshire reports. "Jobs like a six-page color leaflet, which is currently on press, would have worried us in the past without the Vector TX52 and Freedom plates. Now the clarity and the quality of the image are so good that we feel able to compete with commercial printers. Quality, value and service are our business ethos and that's where the Vector TX52 is really helping us to succeed and move Printing Services forward." ■

GUILDFORD
BOROUGH

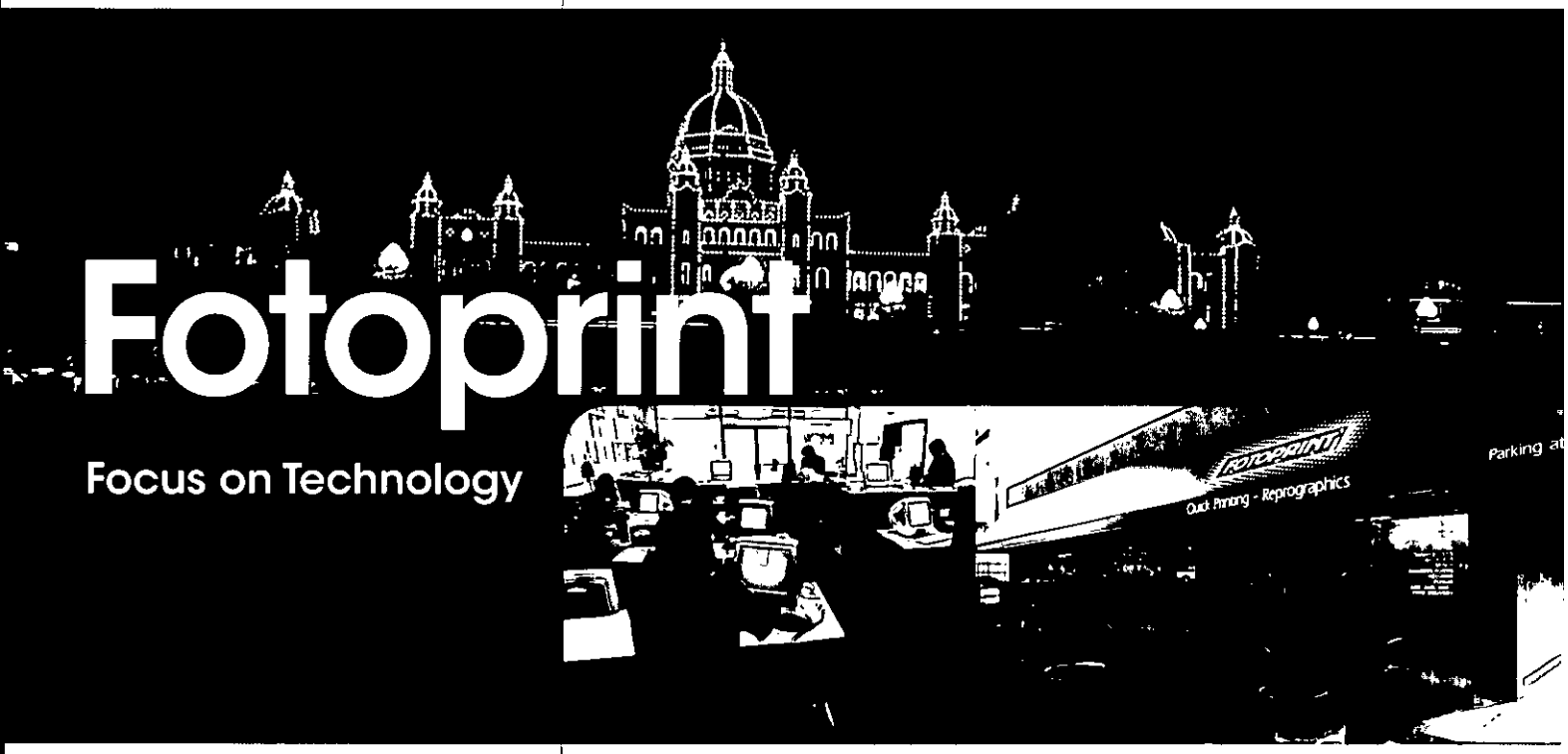
**Mike Cheshire**
*Printing Services Manager*
**Guildford Borough Council**
Millmead House, Millmead, Guildford, Surrey GU2 4BB
Phone: 01483 444131 Fax: 01483 444802
E-mail: mike.cheshire@guildford.gov.uk
**Website: www.guildford.gov.uk**

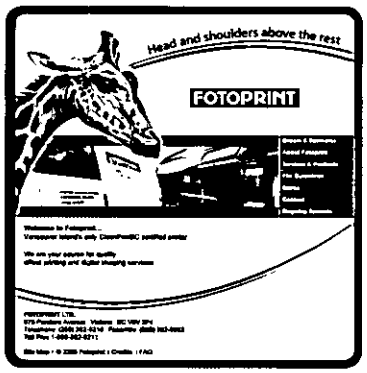
**PRESSTEK CUSTOMER PROFILE**

FOTOPRINT, LTD. | VICTORIA, BRITISH COLUMBIA

# Fotoprint

## Focus on Technology




**Fotoprint's Web site provides customers with easy-to-use tools for pricing, planning and submitting files for printing. Online business, PDF (Portable Document Format) workflow, and electronic proofing enable graphic designers, print buyers and print suppliers to all work faster, smarter and more productively. Presstek DI provides real offset-quality printing within this all digital work environment.**

"We are a short-run, small-format printer," says Derek Allan, President of Fotoprint in Victoria, British Columbia. "The name goes back to when we used photographic methods to print. While the name doesn't fit us today, it is a well-known brand."

Fotoprint has served businesses and organizations of all sizes on Vancouver Island since 1975. Today, with a staff of more than 27 employees and a digital workflow that includes a Presstek DI press for four-color offset printing, the company is reinforcing its reputation for dependability. Allan describes the character of his business: "We charge what we estimate; we complete printing on time; and we deliver promptly."

In a world where instant information on the Internet, overnight shipping, and online business is the norm, Fotoprint is riding the curve by adopting the digital technologies that now drive the industry. With nearly 100 percent of jobs coming to the company electronically, most via the Internet, Fotoprint needed as much automation as possible so that it could accept any job and meet its parameters.

***Printed by Fotoprint***

*Printed with a Presstek 34DI (DirectPress DI). Printed 200 line screen, using four process colors on 80 lb. matte coated cover stock.*

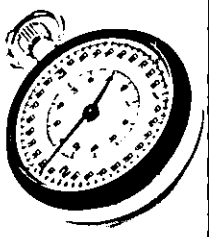
Fotoprint prides itself on being a CleanPrint BC certified printer. CleanPrint BC is a non-profit partnership comprising members of the printing industry, including printers and suppliers, as well as representatives from municipal, provincial, and federal governments. The ultimate goal of CleanPrint BC is to support improved environmental management practices in BC's flexography, screen and offset printing operations, resulting in improved protection of the environment and human health while maintaining economic competitiveness.

Fotoprint President Derek Allan says, "Fotoprint's CleanPrint certification was a logical step in the company's ongoing adoption of 'green' printing practices. For years, we've been careful about choosing equipment and processes that are good for our customers and our business. Often that includes the environmentally-friendly options. When I heard about CleanPrint BC certification, I knew it would be right for us, our customers, and the environment."

**"At any one time, we have 350 to 400 jobs in the queue...The Presstek DI press is critical to our ability to maintain this demanding pace."**

Fotoprint is committed to its business standards. When Allan and his team learned about Presstek DI, they knew it would help the company meet those commitments. Additionally, the Presstek DI press helps Fotoprint meet its commitment to operate in an environmentally-sensible manner. Underscoring this commitment, Fotoprint is a CleanPrint BC certified printer.

Fotoprint runs 50 to 75 jobs every day using a mix of toner-based and offset printing equipment in which the DI press plays a central role. "At any one time, we have 350 to 400 jobs in the queue, yet we have less than a one-half of one percent error factor. The Presstek DI press is critical to our ability to maintain this demanding pace," Allan says. "In fact, the DI press has enabled us to say 'yes, no problem' to any job that comes in."

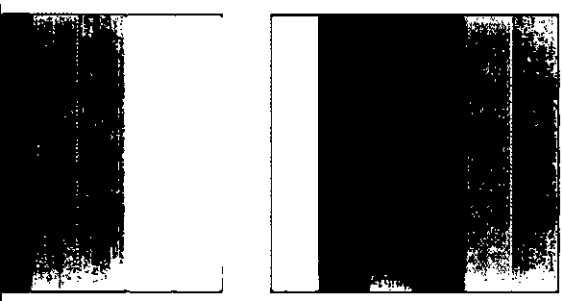


This is important in a highly competitive environment such as Vancouver Island. Allan points out that with over 10,000 businesses on the island, it is a an attractive market for printers of all sizes, including large local and mainland print suppliers. "Our strategy," he explains, "is to grow our business one customer at a time by delivering a combination of the highest quality and best service. Our DI press enables us to execute that strategy." Fast turnaround high quality color printing on the DI is now the fastest growing segment of Fotoprint's business.

While Fotoprint doesn't want to compete with the large printers who have targeted Vancouver Island, the company has attracted their attention nevertheless. "Since we acquired the DI," he reports, "I am finding that we get more referrals from printers with large format presses when they get requests for small jobs that they can't produce economically. We are even looking at expanding our reach to the mainland, in both British Columbia and Alberta. By leveraging our Internet-based job submission tools, digital workflow and DI press, we believe that larger geographic market is our next growth opportunity." ■

PRESSTEK CUSTOMER PROFILE

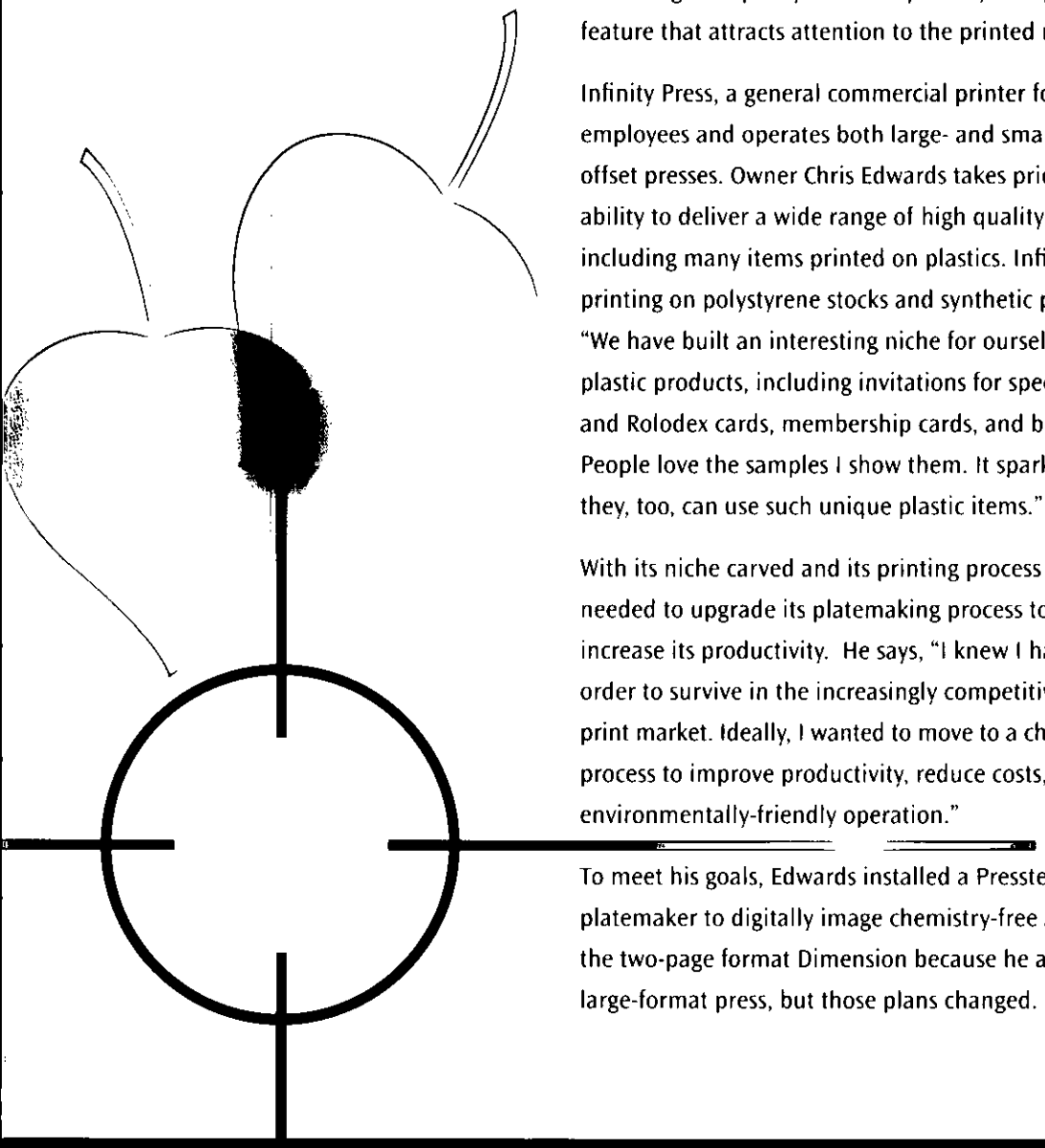
INFINITY PRESS | SAN CARLOS, CALIFORNIA



## Carving a Niche and Gaining an Advantage

**"Plastics."** That simple advice given to young Benjamin Braddock in "The Graduate" applies to commercial printers looking to differentiate their business in a changing marketplace.

Plastics can be used for a wide range of printed products that are unsuitable for or inferior on paper. Plastic substrates also provide a wide range of opacity and transparency that paper cannot match, a feature that attracts attention to the printed messages they carry.



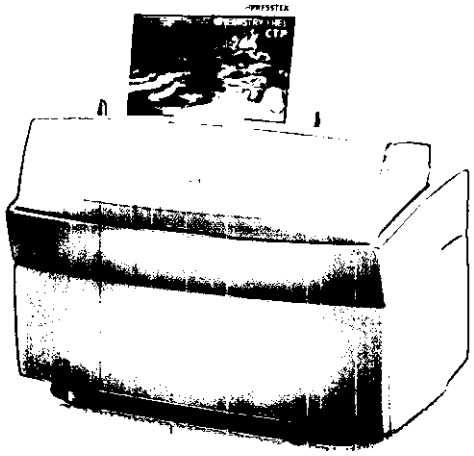
Infinity Press, a general commercial printer founded in 1992, has eight employees and operates both large- and small-format conventional offset presses. Owner Chris Edwards takes pride in the company's ability to deliver a wide range of high quality printed products, including many items printed on plastics. Infinity Press specializes in printing on polystyrene stocks and synthetic paper. Edwards says, "We have built an interesting niche for ourselves by printing unique plastic products, including invitations for special events, business and Rolodex cards, membership cards, and books with plastic covers. People love the samples I show them. It sparks new ideas about how they, too, can use such unique plastic items."

With its niche carved and its printing process perfected, Infinity then needed to upgrade its platemaking process to remain competitive and increase its productivity. He says, "I knew I had to switch to CTP in order to survive in the increasingly competitive Northern California print market. Ideally, I wanted to move to a chemistry-free platemaking process to improve productivity, reduce costs, and run a more environmentally-friendly operation."

To meet his goals, Edwards installed a Presstek Dimension200 CTP platemaker to digitally image chemistry-free Anthem plates. He chose the two-page format Dimension because he anticipated selling his large-format press, but those plans changed.

***Printed by Infinity Press***

*Printed using Anthem Pro chemistry-free plates imaged on a Dimension800 platesetter.*
*Printed 175 line screen, using four process colors on 165 lb. Polyart synthetic paper.*



*A Presstek Dimension CTP system and Anthem Pro plates provide Infinity Press with a compact, easy-to-use solution for producing high-quality printing plates for their conventional offset presses. Printers like Infinity gain an advantage with Presstek CTP by eliminating the trouble of handling and disposing of chemicals used in other imaging products.*

With a Presstek Dimension CTP system in place, Edwards realized a number of advantages that improved his overall business operation. He points out that he was able to reduce the size of his prepress department from three employees to one because making plates is much easier. "Our prepress worker is unbelievably productive now," Edwards says. "He prep's files, generates internal proofs, and makes digital proofs for clients. While all that is happening, he is also sending files to the Dimension. I can't believe how much work we are running through the department now with only one operator. He keeps up with two presses without any difficulty at all."

Presstek chemistry-free CTP has also increased productivity in the pressroom. "With Anthem Pro plates, we are as happy as we have ever been. It is the best plate Presstek has ever made, and it meets our needs perfectly," Edwards declares.

Edwards was very pleased with his decision to acquire a Dimension, so when he decided to keep his 40-inch press, he upgraded to the 8-page format Dimension800. "I decided to stay with my friends at Presstek," he says.

Edwards is delighted to be running a chemistry-free operation. "We have a simplified waste stream here. The only chemistry I have in the prepress area is ink for the proofer," he explains. This is a huge change from our previous system, which involved a significant amount of chemistry and all of the costs and hassles associated with storing and disposing of it. And, when we produce a plate, it takes minutes now rather than hours."

In looking back over the decision process, Edwards states, "I was committed to running a chemistry-free operation and it has made a big difference for my company. Had I not moved to Presstek's chemistry-free Dimension800 CTP with Anthem Pro thermal plates, I don't believe I would still be in business today."

Infinity Press

**CHRISTOPHER EDWARDS**
*President*

www.infinitypress.net

871-G Industrial Road
San Carlos, CA 94070
650.595.2200 Phone
650.595.2823 Fax

MHA OUTSOURCING | HUMPOLEC, CZECH REPUBLIC

# Supply and Demand

## Managing Clients' Print Needs and Delivering "On Demand"

Founded in 1992 as an advertising agency, MHA Outsourcing is today a multi-service company supporting businesses and financial organizations throughout the Czech Republic and in other countries. MHA caters to the procurement needs of these companies, supplying a wide range of products, including printed materials, to keep their businesses running day in and day out.

MHA's operations are based in its 16,000+ square-foot Humpolec headquarters, centrally located in the Czech Republic within easy reach of nearby Prague and other major cities. The company's service assets include a large portfolio of office products, a workforce of over 70 employees, a satellite office in Slovakia, a fleet of over 30 delivery vehicles, and state-of-the-art digital printing facilities that now include a Presstek DI press.

### JUST-IN-TIME PRINTING

MHA's product portfolio includes a wide range of printed material that businesses need produced and stocked on a regular basis. Such printed products include stationery, forms, brochures, and other graphic communications. Because a key aspect of MHA's service is managing inventories of these products for approximately 500 clients, the ability to update, reprint and re-supply these products in a just-in-time manner is critical.

Printing work was initially outsourced to offset printing houses. As the number of clients grew and the company expanded, MHA realized that it must

*Businesses in Prague and other European cities rely on MHA Outsourcing to keep their offices supplied with a wide range of products.*

***Printed by MHA Outsourcing***

*Printed with a Presstek 34DI (46Karat DI). Printed 300 line screen, using four process colors on 150gr coated cover stock.*

MHA needs to print digitally and in low volume. The Presstek DI has expanded MHA's capabilities to be a full digital offset printing facility.

bring the work in-house to effectively respond to the fast turnaround and short-run nature of its printing business. The company first acquired a toner-based digital printing system, but MHA was still not able to effectively produce the quality, variety, and range of run lengths that its clients required on short notice. Petr Hendrych, one of the co-founders of MHA, comments: "Before purchasing a Presstek DI press, we did not have a true in-house printing press. 99 percent of orders were still being outsourced. All of MHA's activities are dictated by our clients' demands and the need for quality and speed is always increasing. At the same time, cost efficiency is a must."

## A BUSINESS SOLUTION

The Presstek DI press was installed in June, 2006, and it provided the solution MHA was looking for. "The time when customers purchased a large volume of their printed materials in advance is long gone," Hendrych explains. "Today, MHA needs to print digitally and in low volume. The Presstek DI has expanded MHA's capabilities to be a full digital offset printing facility. In 24 hours, an order is processed and transported to its destination."

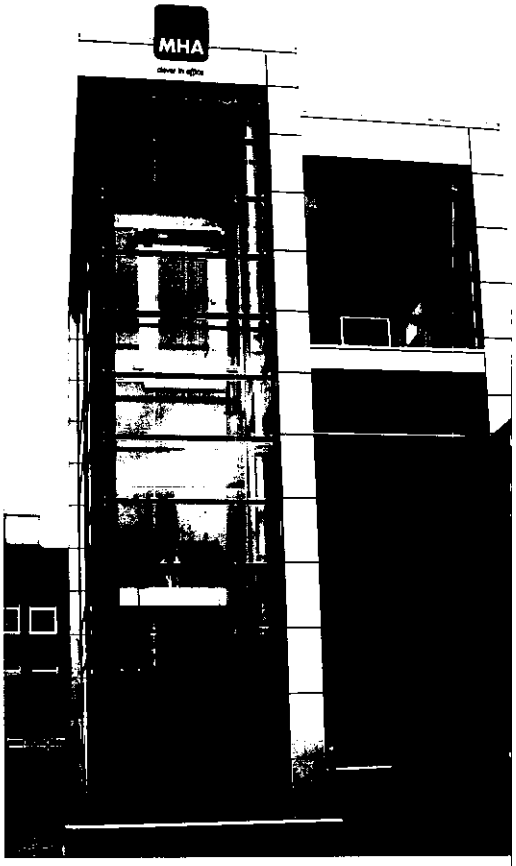
MHA customers are enjoying benefits of DI printing technology beyond its speed. "Clients often require many versions of a publication in various quantities, as the product is distributed to a variety of offices and locations," Hendrych says. While other offset printing methods would require a significant amount of additional pre-press work, materials and press makeready for each version, DI's on-press digital imaging and printing efficiency enables companies like MHA to create these versioned publications cost effectively and without adding significant time to turnaround the entire order. "Additionally, the quality of printing is outstanding," Hendrych reports. "The press features a number of automatic functions that make it very precise. It has screening up to 300 lpi and an option for stochastic screening, which are not normally achieved by a regular offset press."

Another advantage of DI for MHA is the ability to respond to its clients' demands for "greener" products and processes. "DI technology is very environmentally-friendly. Its laser imaging technology does not employ chemicals used in other offset printing methods," Hendrych points out. "An increasing number of our customers take an active interest in the environmental impact of technologies, and some customers even make environmentally-safe production one of the required specifications in their job order." Hendrych continues, "Presstek DI's chemistry-free technology is a real advantage for MHA. It was a factor in deciding to install the DI press."

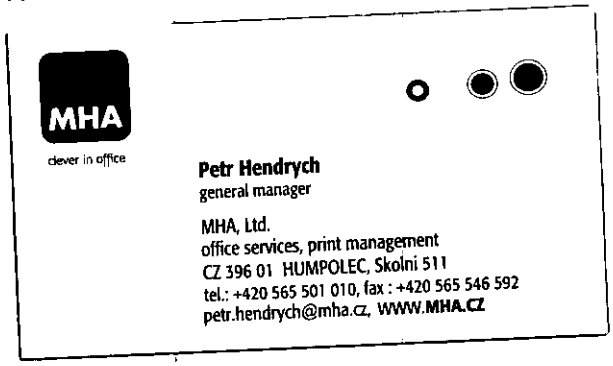
## PARTNERS IN SUCCESS

MHA's growth strategy is based on perceiving and then acting on new business demands as they arrive. The company works in partnership with its clients to create effective responses to these demands. "As new outsourcing opportunities arise, we develop our capabilities in close cooperation with our clients," says Hendrych. "Prices of materials are discussed with the client, as well as the added value paid for by the client in the final price of the product. The ultimate goal is to bring economic benefit to both sides."

Presstek DI has greatly increased MHA's ability to partner with its clients and deliver a variety of quality print communications whenever and wherever they are needed. "Presstek is a top supplier of modern technologies and they have proven to be an excellent partner in our goal to deliver the highest quality of services and products to our customers," Hendrych concludes. ■




*MHA Outsourcing recently moved its corporate headquarters to a remodeled warehouse in centrally-located Humpolec.*



PRESSTEK CUSTOMER PROFILE

# Family Values

*Printed by Murray Print Shop*

*Printed with a Presstek 52DI. Printed 300 line screen, using four process colors on 16 pt. gloss coated card stock.*

## Presstek DI: An Environmentally-friendly Printing Process

Murray Print Shop places a major emphasis on making its printing operation as environmentally-friendly as possible. According to Alton, "We have been using soy-based inks and recycled papers since before it was fashionable to do so. 75 percent of our customers demand recycled-content paper. And when we found an increasing demand for four-color printing among our client base, we chose to implement an environmentally-friendly printing process to address that need by installing our first DI press in 2004." In addition to eliminating the hazardous imaging chemicals and dampening solutions of conventional offset processes, the company has seen a significant decrease in the volume of paper waste due to the fast makeready and accuracy of DI printing.

## The Presstek 52DI Advantage

It did not take long for Alton to see the additional advantages his company would enjoy with the Presstek 52DI. "There is no question that DI is now a permanent part of our business," says Alton. "Once I was introduced to the Presstek 52DI and its larger format, enhanced automation and stream feeder, I knew it was the right choice as we continue to grow our business." With the Presstek 52DI, Alton points out, he can now produce larger jobs on his DI press and run more work multiple-up in a single run. For instance, the company now runs frequently-ordered 6" x 9" postcards four-up on a sheet and completes a run of 2,500—front and back—from files to finished sheets in an hour or less.

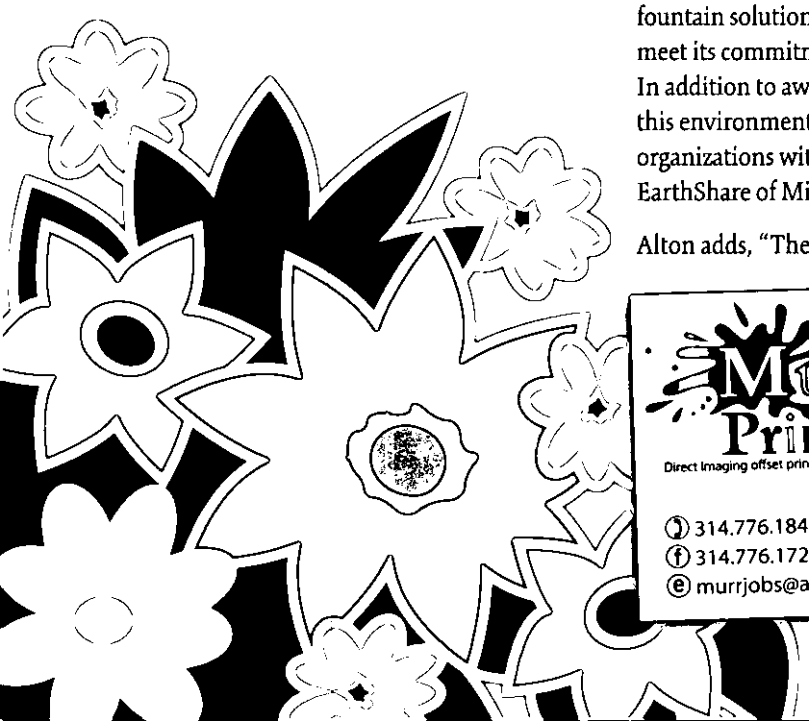
**"The Presstek 52DI is the ideal complement for our two-color and digital toner-based presses, and it makes us even more earth-friendly with increased productivity, reduced waste and chemistry-free operation."**

Alton is delighted with the ways in which the 52DI further increases the high productivity that he already enjoyed with DI. He says, "Our transition was seamless. The Presstek team did an exceptional job of installing the press and conducting training to ensure that we were able to take advantage of all of the new features and functionality the press offers."

## Rewarding the Family's Values

Besides improving profits and meeting the demands of its customers, DI has another high value for Murray Print Shop. "All of us, including many of our customers, place a significant focus on minimizing the impact of our business on the environment." With chemistry-free imaging and waterless printing without fountain solutions, and by reducing makeready waste, DI helps Murray Print Shop meet its commitment to print in an environmentally responsible manner.
In addition to awards for its practices and support of environmental organizations, this environmental responsibility wins the company business from a wide range of organizations with similar values, including the Missouri Botanical Garden, EarthShare of Missouri, Gateway Greening, and the Missouri Recycling Association.

Alton adds, "The Presstek 52DI is the ideal complement for our two-color and digital toner-based presses, and it makes us even more earth-friendly with increased productivity, reduced waste and chemistry-free operation." ■



## PRESSTEK, INC.

### BOARD OF DIRECTORS

John W. Dreyer—Chairman
*President and Chief Executive Officer, Retired*
*Pitman Company*

Daniel S. Ebenstein, Esq.
*Member*
*Amster, Rothstein & Ebenstein*

Dr. Lawrence Howard
*Partner*
*Hudson Ventures, L.P.*

Edward J. Marino*
*President and Chief Executive Officer*
*Presstek, Inc.*

Michael D. Moffitt
*President*
*InFocus Solutions*

Brian F. Mullaney
*Co-Founder and President*
*The Smile Train*

Steven N. Rappaport
*Partner*
*RZ Capital, LLC*

Donald C. Waite, III
*Director, Executives-in-Residence*
*Columbia Graduate School of Business*

### EXECUTIVES

Edward J. Marino*
*President and Chief Executive Officer*

Jeffrey A. Cook*
*Senior Vice President and Chief Financial Officer*

Todd H. Chambers*
*Senior Vice President and Chief Marketing Officer*

James F. Scafide*
*General Counsel*

Peter A. Bouchard
*Vice President, International Business and Development*

Cathleen V. Cavanna
*Vice President, Human Resources*

Joseph J. Demers
*Vice President, Supply Chain Management*

Haken Elmali, Ph.D.
*Vice President, Engineering and Research*

Gerald N. Herman
*Vice President, Finance and Corporate Controller*

Geoffrey M. Loftus
*Vice President, North American Service*

Emile Tabassi
*Vice President, North American Sales*

Quen Baum
*Managing Director, Presstek Europe*

Mark McElhinney
*President, Lasertel, Inc.*

*Corporate Officer

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Certain statements contained in this brochure constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe," "designed," "may," and similar expressions among others identify 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. Additional information concerning factors that could cause actual results to differ materially from those in such forward-looking statements is contained in the Company's Form 10-K for the year 2006, including those identified therein under the heading "Risk Factors". Readers are cautioned to review the Company's Form 10-K completely and to not place undue reliance on any such forward-looking statements in this brochure, which speak only as of the date the statements were made. Presstek undertakes no obligation to update any forward-looking statements contained in this brochure.

**"Better technology strengthens our industry and helps it respond to changes in the market. In my networking, I have said many good things about DI and what it does for businesses like ours."**

— Mitchell Freundlich, AccelaGraphics of New England, Westborough, MA

**"The DI press has enabled us to say 'yes, no problem' to any job that comes in."**

— Derek Allan, Fotoprint, Victoria, BC

**"The level of work we are producing on our Presstek 52DI is growing at such a rate that we envisage reaching capacity in 2007. At that point, we would certainly look to Presstek for additional solutions."**

— Jon Wallbank, Director, Absolute Digital Print, Kendal, Cambria, UK

**"We can be up and running great sheets in less than a half-hour after receiving the file. The DI press and Presstek have been great for us."**

— Grover Daniels, Digital Printing Company, Boston, MA

**"Presstek DI has expanded MHA's capabilities to be a full digital offset printing facility. In 24 hours, an order is processed and transported to its destination."**

— Petr Hendrych, MHA Outsourcing, Humpolec, Czech Republic

**"DI is now a permanent part of our business. Once I was introduced to the Presstek 52DI and its larger format, enhanced automation and stream feeder, I knew it was the right choice as we continue to grow our business."**

— Tim Alton, Murray Print Shop, St. Louis, MO

PRESSTEK
A SMARTER WAY TO PRINT

55 Executive Drive
Hudson, NH 03051-4903 USA
603-595-7000

**www.presstek.com**


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

# FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 30, 2006**

**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**

Securities registered pursuant to Section 12(b) of the Act:

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| Common stock, par value $0.01 per share | The NASDAQ Global Market |

Securities registered pursuant to Section 12(g) of the Act:
**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act).
Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐

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

The aggregate market value of common stock held by non-affiliates of the registrant as of July 1, 2006 was $321,426,856.

The number of shares outstanding of the registrant's common stock as of April 2, 2007 was 35,678,781.

**Documents Incorporated by Reference**
Portions of the definitive Proxy Statement (which is expected to be filed within 120 days after the Company's fiscal year end) for the registrant's Annual Meeting of Stockholders to be held on June 7, 2007 are incorporated by reference into Part III of this Form 10-K.

**PRESSTEK, INC.**
**ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 30, 2006**



---

See Part I – Item 1A of this Annual Report for cautionary statements regarding forward-looking statements included in this report.

## PART I

### Item 1. *Business Overview*

#### General

Presstek is a market-focused company primarily engaged in the design, manufacture, sales and service of high-technology digital imaging solutions to the worldwide graphic arts industry. We are helping to lead the industry's transformation from analog to digital print production methods. We are a leader in the development of advanced offset printing systems using digital imaging technology and consumables-based solutions designed to economically benefit the user through a more streamlined workflow and environmentally responsible operation. We are also a leading sales and service channel in the commercial, quick and in-plant printing markets offering a wide range of solutions to customers worldwide.

Presstek's business model is a capital equipment and consumables (razor and blade) model. In this model, almost 63% of our revenue is recurring revenue. Our model is designed so that each placement of either a Direct Imaging (DI®) Press or a Computer-to-Plate (CTP) system results in recurring aftermarket revenue for consumables and service.

Through our various operations, we:

- provide advanced digital offset printing solutions through the development and manufacture of digital laser imaging equipment and advanced technology chemistry-free printing plates, which we call consumables, targeting the growing market for high quality, fast turnaround color printing;
- are a leading sales and services company delivering Presstek digital solutions and solutions from other manufacturing partners through our direct sales and service force and through distribution partners worldwide;
- manufacture semiconductor solid state laser diodes for Presstek imaging applications and for use by external applications; and
- distribute printing plates for conventional print applications through original equipment manufacturing (OEM) and private-labeling relationships.

#### Background

**We are Innovators**

We are innovators in imaging technology solutions. Our primary market focus is on the commercial print segment within the graphic arts industry. We have served that market by pioneering the advancement of digital offset printing solutions for commercial printing applications. We:

- invented on-press Direct Imaging technology;
- invented chemistry-free imaging of printing plates;
- through our many innovations, have significantly streamlined the print production workflow;
- have implemented workflows that transition printing from a skilled craft to a manufacturing process;
- continue to innovate with our recent announcement of the Presstek 52DI, a highly-automated landscape format DI press that offers a larger sheet size for higher production environments.

**Primary Market and Its Changing Requirements**
Presstek pioneered these digital offset solutions because we recognized that the commercial printing market was shifting to increasingly faster production of smaller order quantities (shorter runs) with a higher use of color. Print providers were not well equipped to meet this changing model. To meet this market change, printers are now adapting digital workflows, which are designed to provide a faster process to finished press sheets with less production steps and manual intervention. Presstek is capitalizing on this transformation and have developed digital offset printing solutions to address the growing demand for high quality, fast turnaround, color printing in commercial applications.

**Providing Solutions for New Market Requirements**
We have incorporated our digital imaging technology into two types of applications for offset printing: Direct Imaging on-press applications, which we refer to as DI, and computer-to-plate off-press applications, which we refer to as CTP.

Using DI technology, electronic computer files are sent to a specially designed digital offset printing press that incorporates our laser imaging system, unique press design, and high performance printing plates. Our laser imaging systems then image our printing plates directly on the press. This unique approach results in a highly streamlined digital workflow and is designed to allow the user the fastest way to finished press sheets. We have incorporated this same digital imaging technology into CTP applications. Using our CTP technology, electronic computer files are sent to plate-imaging devices, the plates are imaged by our laser imaging systems again using our high performance printing plates and then mounted on a conventional offset printing press.

**Solutions that Benefit the Target Market**
Presstek's digital offset printing solutions are designed to make the printer more profitable and productive by removing steps and cost from the printing process. These systems enable customers to produce high quality, full color offset printing more quickly and safely than chemistry-based conventional methods. Presstek's digital offset solutions eliminate the chemistry, reduces the time it takes to print, and lowers the total cost of production for commercial printers. Presstek's digital offset solutions are engineered to help printers address the requirements of today's market.

**Providing Migration Path for Adopting Digital Solutions**
As the graphic arts industry joins other industries, such as the photographic and music industries, in converting from analog to digital, we recognize that not everyone is ready to convert all at once to an all-digital workflow. To better serve those who need to migrate to an all-digital model in stages, we expanded our product offerings beyond our own designed and manufactured digital products.

In addition to our digital products, we also market conventional offset printing presses and related products, which were added through the ABDick acquisition that occurred in 2004. And we complement our portfolio of Presstek manufactured products with consumables and equipment that we source from several strategic partnerships: including companies such as Mitsubishi, Agfa, Kodak and Ryobi. As the industry continues to transition to digital, our goal is to be the supplier of choice helping facilitate the journey for commercial printers with high-quality digital solutions.

**Manufacturing**
We manufacture the laser-based digital imaging assemblies, complete with software, along with our advanced technology printing plates, for incorporation into our DI presses. Similar digital imaging and plate technologies are used in our CTP systems.

At our Presstek facility in Hudson, New Hampshire, we manufacture several models of our advanced printing plates, such as ProFire Digital Media®, PearlDry Plus®, PearlDry® and Applause®, along with the imaging kits that are incorporated into DI presses, as well as the ABDick-branded Digital PlateMaster® system and complete CTP systems, such as the Dimension Excel® series or Vector TX52® platesetters. At our South Hadley, Massachusetts manufacturing facility, we manufacture our aluminum-based printing plates, which are comprised of our chemistry-free plates, such as Anthem Pro® and Freedom® plates.

**Service and Support**
Presstek also has an extensive service organization throughout the United States, Canada and Western Europe. In addition to servicing equipment that is manufactured by or for Presstek, our service organization also provides service for equipment manufactured by other companies, including our strategic partners.

**Go-to-Market Strategy**
We deliver our solutions through multiple channels to market:

- in the United States., Canada we use a mix of direct sales and service as well as a network of graphic arts dealers;
- in the United Kingdom we use our direct sales and service operation;
- in continental Europe and worldwide; we have developed a network of graphic art dealers and;
- we use OEMs to deliver our products to markets worldwide.

**ABDick**

On November 5, 2004, the Company, through its wholly-owned subsidiary, ABD International, Inc., which we refer to as ABDick, completed the acquisition of certain assets and assumed certain liabilities of The A.B. Dick Company, which were acquired through a Section 363 sale in the United States Bankruptcy Court. The business we acquired manufactures, markets and services offset printing and CTP systems as well as related supplies for the graphic arts and printing industries. We refer to the acquired business as the ABDick business.

Following the acquisition we began integrating the ABDick business into Presstek's operations. In the third quarter of fiscal 2005, we implemented a new internal management reporting structure in connection with organizational changes related to the integration of the acquired ABDick business into our Presstek business segment. As of December 30, 2006, we have completed the integration. Accordingly, the results of operations and balance sheet information for the former ABDick segment have been combined with those of the former Presstek segment and, commencing with this report on Form 10-K, are now reported together as the Presstek business segment. Any future changes to this organizational structure may result in changes to the business segments currently disclosed.

As a result of this acquisition and integration, Presstek is a stronger, more market-driven, customer-focused organization. We acquired a direct sales and service capability in the United States, Canada and the United Kingdom through which we are building more efficient and effective channels to market.

**Precision**

On July 30, 2004, we acquired the stock of Precision Lithograining Corp., which we refer to as Precision. With this acquisition, we substantially increased our manufacturing capabilities and obtained the ability to manufacture analog and digital printing plates. On December 28, 2006, the Audit Committee of the Company's Board of Directors ratified a plan submitted by management to terminate production in South Hadley, Massachusetts of Precision-branded analog plates used in newspaper printing applications (the "analog newspaper business") effective immediately. Manufacturing operations of analog plates used in newspaper applications had been suspended due to an incident that occurred on Monday, October 30, 2006, at the South Hadley facility that involved a chemical release and the resulting closure of the facility. This decision did not affect the Company's production of chemistry-free digital printing plates, which occurs at another facility at the South Hadley complex that was not affected by the incident. Accordingly, the results of operations for the years ended December 31, 2005 and January 1, 2005 of the analog newspaper business are classified as discontinued operations.

The facility in South Hadley, Massachusetts continues to manufacture Anthem Pro, Freedom and Aurora® chemistry-free digital printing plates. The products manufactured in South Hadley are distributed through Presstek's distribution network. Through the third quarter of 2006, we reported the financial performance of Precision as a separate reporting segment. We now report the financial performance of Precision as part of the Presstek operations.

Presstek, Inc. was incorporated in Delaware in 1987. Our headquarters are located at 55 Executive Drive, Hudson, New Hampshire, 03051. Our general telephone number is 603-595-7000, and our Web site can be found at *www.presstek.com*.

**Business Overview**

Prior to 2005, Presstek had primarily distributed its technology through other graphic arts companies who would then integrate, sell and support it through their market channels. Since 2005, Presstek has been strategically transforming its business, with the goal of providing commercial printers with "end-to-end" solutions; including the development, manufacture, distribution and service of its core products. The achievement of this goal means that Presstek will be able to better provide a more comprehensive digital migration path to address the full range of customer needs. In 2006, Presstek began to realize the benefits of this transformation by introducing its first Presstek-branded DI presses to market. This single minded focus on our customers and core products has resulted in the achievement of record DI press revenue and unit shipments in 2006.

**Strategic Transformation Activity**

***Acquisition of Customer Base***
The acquisition of the ABDick business in late 2004 brought with it a sizable ABDick customer base in North America and the UK. This customer base is composed of commercial, quick and in-plant printers; which are Presstek's primary target market. This is a base that requires conventional equipment, consumables and supplies; and contains ideal prospects to transition to a digital production process. This gives us the opportunity to leverage our Presstek manufactured digital products as well as provide the ABDick-branded products to a longstanding, loyal customer base.

***Increased Control Over Delivery***
As a company, in 2005 we took a much greater role in the commercialization and delivery of our solutions to customers. Previously, we had been heavily reliant upon strategic partners for their sales, distribution and service.

*North America and UK*
Through our acquisition of the ABDick business, we gained access to an established direct sales and service channel in North America and the UK. Beginning in 2005, we began to offer Presstek manufactured solutions through this channel. For the first time, we were able to sell Direct Imaging presses, along with our CTP equipment and related consumables directly to end-user customers.

*Europe*
Prior to the 2004 ABDick acquisition, we had a limited European distribution operation managed out of the U.S., which relied on strategic relationships with independent dealers and sales agents. In 2006, we realigned and expanded our European distribution channel and we established a European base of operations in the London area to support that expansion. In the first quarter of 2006, we announced the opening of Presstek's new European business center west of London. The new facility serves as the central base of European operations and was established to support the anticipated growth and meet the needs of Presstek's expanding customer base across the region. From this facility, we offer customer support and training, as well as a demonstration facility for products.

Further progress was made in our pan-European expansion with the opening of a network of Presstek-authorized DI centers to provide sales, service and support for Presstek DI presses. To date, Presstek and select distribution partners have established DI centers in the Czech Republic, Denmark, Germany, Hungary, Italy, Russia and the United Kingdom. In addition, sales and service support are provided in Scandinavia, Benelux, Turkey, Greece, France, Spain, Portugal and Switzerland through Presstek's network of factory trained sales and service professionals.

*Rest of World*
Presstek reaches into Asia Pacific, Africa and Middle Eastern markets through a network of distributors. In 2006, we realigned and expanded our Latin American distribution channel in Mexico, and entered the Brazilian market with one of its premier distributors. According to the industry research organization, Pira International, Brazil is one of the top ten global printing markets.

***Expanded Product Line***
Our goal is to support printers in transitioning to a digital workflow by offering quality digital offset solutions for both on- and off-press imaging. In addition, we also market conventional offset printing presses and related products, which were added to our product portfolio through the ABDick acquisition in 2004. We also complement our catalog of Presstek and ABDick branded products with consumables and equipment that we source from several strategic partnerships; including those with Mitsubishi, Kodak, Agfa and Ryobi.

In 2004, we also greatly expanded our digital product offering to include new generation DI press and CTP systems. The acquisition of Precision in the third quarter of 2004 enabled us to offer a Presstek-designed and manufactured plate that was intended to run on CTP devices from other manufacturers. This first open-platform chemistry-free printing plate, branded Aurora, was announced in September 2005.

July of 2005 marked the commercial release of an entry-level CTP solution, the Vector TX52, specifically designed to meet market demands for lower-cost CTP solutions.

In 2006 we brought two Presstek-branded DI presses to market; the Presstek 52DI and Presstek 34DI. This extends Presstek brand awareness and increases the strength of the brand as well as offers us more control over the sales and service process. We delivered these products through our direct sales and service channels in North American and the UK. In addition, we also realigned and expanded our distribution channels in Continental Europe, Mexico and Brazil to deliver the sales and service of the Presstek-branded presses and CTP line of products. The new generation chemistry-free plate for the Dimension Excel series of platesetters, called Anthem Pro, was also made commercially available through this multi-channel distribution strategy.

**Lasertel**
Founded in April 2000, our Lasertel subsidiary is a world-class developer and manufacturer of high-quality, high-powered laser diodes for Presstek-branded imaging systems as well as third-party systems. The Lasertel segment provides Presstek with state-of-the-art laser imaging capabilities that differentiate us by bringing innovation to the rapidly evolving graphic arts marketplace.

The 2005 purchase of a high capacity molecular beam epitaxy ("MBE") reactor has enabled Lasertel to improve yields and increase revenue substantially during 2006. Growth in the defense sector has been particularly strong, and the supply agreement signed with Selex Sensors and Airborne Systems in 2005 has continued to be a major source of revenue. During 2006 the performance and reliability of Lasertel products was demonstrated by the use of a Lasertel diode laser on the space shuttle. The laser manufactured by Lasertel is used in a system enabling the crew of the space shuttle and engineers on the ground to determine the health of Discovery's heat shield. The success of the system led to its use on shuttle missions.

The development of products for highly demanding applications such as the space shuttle enables Lasertel to continue to improve on existing products and develop new products designed for use in the laser imaging market.

## Our Business Segments

We operate in two reportable segments: the Presstek segment, and the Lasertel segment. The Presstek segment is primarily engaged in the development, manufacture, sale and servicing of digital imaging systems and printing plate technologies for direct-to-press, or on-press applications, and CTP, or off-press applications for the graphic arts industries, primarily serving the segment of the market that requires high quality, fast turnaround color printing. The Lasertel segment is primarily engaged in the manufacture and development of high-powered laser diodes for sale to the Presstek segment and to external customers.

**The Presstek Segment**

The Presstek segment is the core of our operations, serving as the central engine of innovation for research, new product development and manufacturing as well as the center for marketing, sales and service for our digital offset printing solutions. In addition, the Presstek segment serves as the central organization under which our subsidiary functions and the Presstek segment sets the strategic and research direction and priorities for the entire company.

The Presstek segment manufactures the imaging systems and related assemblies that are incorporated into DI presses and CTP systems. The imaging systems that are designated for DI presses are shipped to our DI press manufacturing partner with whom we have OEM and exclusive manufacturing agreements. The Presstek 52DI is currently distributed exclusively by Presstek, while the Presstek 34DI is distributed directly and under an OEM agreement by Ryobi. The imaging systems that are designated for CTP units are incorporated into our CTP units, which are manufactured at our Hudson, New Hampshire facility.

We manufacture the printing plates that are used on DI presses and chemistry-free CTP units at our Hudson, New Hampshire and South Hadley, Massachusetts facilities. Mitsubishi and Agfa manufacture plates that are imaged on our ABDick Digital PlateMaster, or DPM, series CTP devices.

Our products are sold into the market to end-user customers through either our direct sales force or through OEM partners, strategic partners or our dealer channel. By employing this combination of internal and external sales organizations, we are able to deliver higher sales potential for our products worldwide. Presstek's direct sales force also offers other offset printing solutions provided by marketing partners.

We also have an established catalog of supplies and consumables, many of which complement the Presstek segment equipment offerings. The Presstek segment has an equipment line of CTP devices; workflow modules; conventional duplicators and printing presses; post-press bindery and finishing equipment; and other ancillary devices manufactured by third parties. Thus, the Presstek segment products provide the foundation for a comprehensive digital migration path to address the full range of customer needs.

Presstek branded equipment is serviced by either our direct service organization or by our dealer channel. Our direct service organization is trained to service Presstek-branded digital products as well as conventional analog equipment manufactured by third parties. Our direct service organization primarily serves customers consisting of commercial printing shops in the graphic arts industry located in North America and the UK.

**The Lasertel Segment**

Our Lasertel segment is a world-class developer and manufacturer of high-quality, high-powered laser diodes for Presstek-branded imaging systems as well as third-party systems. The Lasertel segment provides Presstek with state-of-the-art laser imaging capabilities that differentiate us by bringing innovation to the rapidly evolving graphic arts marketplace. In addition, the Lasertel segment provides external customers with a wide range of laser diodes for defense and industrial applications. In December of 2005, Lasertel received ISO 9001:2000 certification. An ISO 9001:2000 certification recognizes the quality of a company's management system. ISO is a non-governmental federation of the national standard boards of countries from all regions of the world that set the standards and requirements for state-of-the-art products, services, processes, materials and systems, as well as for good conformity assessment, managerial and organizational practice.

Information about our business segments and geographic areas is included in Note 17 and information about our major customers is included in Note 18 in the footnotes to our consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K and is incorporated herein by reference.

**Strategy**

Our business strategy revolves around employing innovative digital imaging technology to address specific and well-understood opportunities primarily in the graphic arts marketplace, while at the same time supplying the

commercial, quick and in-plant printer with a full range of printing solutions. In this way, we can capitalize on the needs of customers who have not yet fully transitioned to a digital model.
This strategy reflects several strategic imperatives:

1. *Our primary focus is on the growth of our consumables product.*

   Presstek provides digital offset solutions that aid the printer in transitioning from an analog to digital workflow. Our DI press, (on-press) imaging and CTP (off-press) imaging products use our chemistry-free printing plates. We refer to these systems as consumable burning engines, which we call CBEs. With our direct sales force and network of distribution partners we feel we are well positioned to expand our installation base of CBEs. Another step in growing our consumable business is to develop consumables that can be imaged on non-Presstek manufactured devices. The first step in executing this strategy was the launch of Aurora, our open-platform, chemistry-free printing plate, which is designed to be used on specific CTP systems (CBEs) marketed by major third-party manufacturers.

2. *We focus on select market segments.*

   Large print providers have been the vanguard in adopting digital technology and have driven the industry's digital transformation of the commercial printing segment of the graphic arts industry. The commercial and quick print providers and in-plant print operations are currently converting to digital systems and processes. With our innovative digital offset printing solutions and the strength of our direct sales and service force, we believe that we can leverage the depth and breadth of our products, services, supplies, internal skills and strategic partnerships to address these new and emerging market demands among commercial print providers.

   Three unique types of businesses have demonstrated success with Presstek digital solutions, including:

   a. Commercial printers that need to adjust their production capacity, level of productivity and output quality while improving profitability have demonstrated success with our digital products. These printers are often acquiring their first four-color press. 2005 research from InfoTrends indicates that there are approximately 24,000 print establishments in the United States that fall within this category.

   b. Digital printers and copy shops, facilities that operate toner-based digital copier equipment, are acquiring DI presses as complementary devices. They are using DI presses for applications that require run lengths greater than 250 copies. The DI press offers a lower production cost with a higher level of quality and the ability to print on a wider range of substrates. 2005 research from InfoTrends indicates that there are approximately 6,500 print establishments in the United States that fall within this category.

   c. In-plant print shops that operate within corporations, colleges and universities and government agencies are attracted to the ease-of-use, compact footprint and environmentally responsible nature of our solutions. 2005 research from InfoTrends indicates that there are approximately 10,000 in-plant establishments in the United States.

3. *Because we compete on the basis of technology and innovation, we deliver differentiated solutions.*

   We have been technology innovators since our inception, providing digital laser technology that is directly responsible for what is estimated to be over 90% of worldwide DI installations. As we expand and refine our product offerings, we will strive to lead the market with high performance solutions. We also introduced a range of Presstek-branded DI products in the spring 2006 – the Presstek 52DI press and the Presstek 34DI press. This extends Presstek brand awareness and increases the strength of the brand, as well as offers us more control over the sales and service process.

*Vector TX52*

The Vector TX52 platesetter is a CTP imaging system that is engineered to image our chemistry-free Freedom thermal plates. The Vector TX52 is a two-page (52 cm and under) metal CTP system that utilizes our SureFire laser imaging technology. The Vector TX52 can produce completely imaged printing plates, ready to be mounted on a printing press, within four minutes. It is an easy to use metal based system that is designed to offer the advantages of metal CTP plate manufacturing to small-sized and inplant printers.

*The Digital PlateMaster*

Digital PlateMaster (DPM) is an easy-to-use platesetter that is equipped with an integrated Harlequin RIP that uses conventional polyester-based plates. The DPM is designed for use with small-format portrait presses. The internal plate processor and daylight-loading materials cassette help facilitate plate production. The DPM also supports paper-based printing plates.

**Printing Plates**

*General Background*

Offset printing is the most widely used method of producing printed materials for commercial applications. The majority of quality, full color printing materials with which the average consumer comes into daily contact (such as magazines, brochures, catalogs and direct mail pieces) are produced using the offset printing process. Our products are designed for offset printing.

We manufacture digital printing plates for both on-press Direct Imaging, or DI, and off-press Computer-to-Plate, or CTP, printing applications. DI plates include ProFire Digital Media, PearlDry Plus and PearlDry; these plates are manufactured in our Hudson, New Hampshire facility. Our CTP plate portfolio consists of PearlDry, Anthem Pro, Aurora and Freedom. PearlDry is manufactured in Hudson, while the other CTP plates are manufactured at our facility in South Hadley, Massachusetts.

Our plates are based on our patented chemistry-free thermal imaging technology. Our printing plates respond to heat generated by high-powered lasers (thermal imaging) using a process known as ablation to enable chemistry-free plate production. Presstek has a rich portfolio of intellectual property and considerable know-how focused on the application of chemistry free plate imaging. We pioneered chemistry free imaging in commercial printing applications and we have more than 15 years of experience marketing of our technology to end users. We are on our fifth generation of chemistry-free and process-free plate imaging systems for commercial printing applications, which we believe provides Presstek a significant competitive advantage in the marketplace.

***DI***

*ProFire Digital Media*

ProFire Digital Media is designed to work as a system with the laser imaging and press components of ProFire Excel enabled DI presses (such as the Presstek 34 and 52DI). In conjunction with ProFire Excel imaging ProFire Digital Media allows new DI presses to produce a very high resolution, 16 micron spot and supports the highest level of print quality, up to 300-line screen and stochastic (FM) screening

ProFire Digital Media for DI presses is rated for 20,000 impressions. ProFire Digital Media is manufactured with an ink-accepting polyester base layer, a middle layer of titanium, and a top layer of silicone. During imaging, the heat from lasers removes the top two layers of the plate, exposing the ink receptive polyester layer. Areas that remain covered with the top layer of silicone will repel the ink. The imaging process is a highly consistent, heat sensitive, physical reaction without the variables of exposure and chemistry. The result is sharper and better-defined details and halftone dots.

commercial, quick and in-plant printer with a full range of printing solutions. In this way, we can capitalize on the needs of customers who have not yet fully transitioned to a digital model.
This strategy reflects several strategic imperatives:

1. *Our primary focus is on the growth of our consumables product.*

   Presstek provides digital offset solutions that aid the printer in transitioning from an analog to digital workflow. Our DI press, (on-press) imaging and CTP (off-press) imaging products use our chemistry-free printing plates. We refer to these systems as consumable burning engines, which we call CBEs. With our direct sales force and network of distribution partners we feel we are well positioned to expand our installation base of CBEs. Another step in growing our consumable business is to develop consumables that can be imaged on non-Presstek manufactured devices. The first step in executing this strategy was the launch of Aurora, our open-platform, chemistry-free printing plate, which is designed to be used on specific CTP systems (CBEs) marketed by major third-party manufacturers.

2. *We focus on select market segments.*

   Large print providers have been the vanguard in adopting digital technology and have driven the industry's digital transformation of the commercial printing segment of the graphic arts industry. The commercial and quick print providers and in-plant print operations are currently converting to digital systems and processes. With our innovative digital offset printing solutions and the strength of our direct sales and service force, we believe that we can leverage the depth and breadth of our products, services, supplies, internal skills and strategic partnerships to address these new and emerging market demands among commercial print providers.

   Three unique types of businesses have demonstrated success with Presstek digital solutions, including:

   a. Commercial printers that need to adjust their production capacity, level of productivity and output quality while improving profitability have demonstrated success with our digital products. These printers are often acquiring their first four-color press. 2005 research from InfoTrends indicates that there are approximately 24,000 print establishments in the United States that fall within this category.

   b. Digital printers and copy shops, facilities that operate toner-based digital copier equipment, are acquiring DI presses as complementary devices. They are using DI presses for applications that require run lengths greater than 250 copies. The DI press offers a lower production cost with a higher level of quality and the ability to print on a wider range of substrates. 2005 research from InfoTrends indicates that there are approximately 6,500 print establishments in the United States that fall within this category.

   c. In-plant print shops that operate within corporations, colleges and universities and government agencies are attracted to the ease-of-use, compact footprint and environmentally responsible nature of our solutions. 2005 research from InfoTrends indicates that there are approximately 10,000 in-plant establishments in the United States.

3. *Because we compete on the basis of technology and innovation, we deliver differentiated solutions.*

   We have been technology innovators since our inception, providing digital laser technology that is directly responsible for what is estimated to be over 90% of worldwide DI installations. As we expand and refine our product offerings, we will strive to lead the market with high performance solutions. We also introduced a range of Presstek-branded DI products in the spring 2006 – the Presstek 52DI press and the Presstek 34DI press. This extends Presstek brand awareness and increases the strength of the brand, as well as offers us more control over the sales and service process.

The Presstek 52DI is a landscape format 52cm direct imaging press with a maximum sheet size of 20.47" x 14.76". The 52DI has a maximum image area of 20.07" x 14.17" one of the largest in its class. This press is highly automated and designed to deliver superior economics, faster turnaround times for printed jobs, require lower skilled operators and reduced paper waste. The Presstek 52DI images all four printing plates on press in 4.5 minutes. The press' design using Zero Transfer Printing technology, results in consistent quality, an exceptionally fast makeready time and reliable handling across a wide range of printed substrates; capabilities that are important to our primary target market. The 52DI has a maximum operating speed of 10,000 full size sheets per hour.

The Presstek 34DI, based on the same technology platform as the 52DI, offers a two-page, four-color, 34 cm portrait format digital offset press – which produces 7,000 sheets per hour. The 34DI has a maximum sheet size of 13.39" x 18.11". Maximum image area on the 34DI is 12.99" x 17.72".

4. *We provide solutions that meet the growth demand for short-run, fast turnaround high-quality color printing.*

According to market research commissioned by Presstek and conducted by industry consultant Dr. Joseph Webb of Strategies for Management, "Much of the print industry's decline in shipments volume has been in long-run printed documents. Short-run is actually mainstream. Short-run printing weighs on the capital base that was purchased to produce long-run printing, and until that installed base is replaced, profits are negatively affected." Dr. Webb concludes, "Presstek has a unique opportunity and position in the reshaping of the printing industry's workflow and production methods. Presstek as a company, and print as a medium, are at a fascinating crossroads of technology, market opportunities, and competition. The company's products allow printers to compress their workflow to eliminate costly steps, leveraging the modern content creator's capabilities to make better, richer, and more predictable printable files."

5. *We provide environmentally responsible solutions through our application of technology.*

Our thermally imaged chemistry-free plate technologies are designed to provide both a streamlined workflow and environmentally responsible solution. Besides contributing to a cleaner and safer printing operation, environmental responsibility is sound business practice in that our DI and CTP solutions reduce labor needs, reduces space requirements, eliminates plate-oriented waste disposal, and results in fewer manufacturing process errors.

## Technology and Products

### Direct Imaging Technology

Beginning in the late 1980s, we set out with the mission to find a smarter way to print. The vision was to make the printing press as easy to use as a computer peripheral, like a desktop printer. Presstek developed the world's first Direct Imaging, which we refer to as DI®, printing technology and no-process digital printing plate. The result is an offset printing process that is more productive, easier, faster and environmentally friendly.

Before Direct Imaging, all platemaking and pre-press activities had occurred as a separate and specialized activity in the printing operation primarily using analog film-based technology, chemical processing and manual skill-based processes. Conventional or analog printing plates are produced using labor and chemical-intensive, multi-step processes. By consolidating or eliminating process steps required to prepare a digital file for printing, DI delivers efficiencies that allow increased print productivity at lower cost and with better quality than conventional offset print methods. At the same time, by imaging chemistry-free plates directly on a printing press, Presstek products eliminate the reliance on the chemical processing that is generally associated with imaging traditional printing plates. In addition to being overall more efficient to operate, our DI presses are also more environmentally responsible than traditional methods of printing. The result is a higher quality, faster turnaround print work with a lower cost of operation that is also environmentally safe.

The laser diodes that we use for our imaging system are manufactured at Lasertel. Lasertel manufactures epitaxial wafers, which are subsequently processed into chips or bars. Lasertel then assembles these devices into fiber-

coupled modules called multiple emitter packages ("MEPs"), which contain four lasers per module. These MEPs are then sent to our manufacturing facility in Hudson, New Hampshire.

We assemble Lasertel-manufactured laser imaging modules into imaging kits that are designed for DI press or CTP units. These kits are then incorporated into DI printing presses, by our manufacturing partner, or in CTP systems in our Hudson, NH facility.

Our most recent advance in DI technology, which we refer to as the ProFire Excel system, has significantly improved the resolution and print quality of our digital offset printing presses. The ProFire Excel integrated imaging system, introduced in May 2004, integrates lasers, laser drivers, digital electronics, and motion control into one modular package design for direct imaging presses. The ProFire Excel system has three major components: the *FirePower laser diode system*, made up of unique four-beam laser diodes and laser drivers, the *integrated motion system* that controls the placement of the laser diodes, and the *FireStation digital controller and data server*. The image data board of the ProFire Excel controls 16-micron diodes with patented Image Plus technology. Among the advantages of Image Plus is a writing mode that increases image quality while significantly reducing moiré patterns in standard screen sets, allowing for a range of FM (stochastic) screening options.

***Presstek 34DI and 52DI***

These technologies have been incorporated in the Presstek 34DI and Presstek 52DI – the first Presstek-branded DI products.

**CTP Products**

We also implement our imaging technology in computer-to-plate systems, which we refer to as CTP. Unlike the DI press, where the plate is imaged on the press, CTP systems allow printers to employ Presstek's digital technology in conjunction with conventional printing presses. Presstek's line of CTP systems incorporate our advanced imaging technology to transfer a digital image onto our high performance printing plates, which, once imaged, can be mounted on a conventional offset printing press, avoiding the multiple steps and chemical processes traditionally associated with analog plates. Currently, we manufacture three series of CTP products: Dimension/Dimension Excel; Vector TX52; and Digital PlateMaster or DPM. The Dimension Series and Vector TX2 CTP systems use chemistry free printing plates and laser imaging modules that are manufactured by Presstek. The DPM uses chemistry-based plates which we purchase through an OEM relationship.

***Dimension Excel***

The Dimension Excel series of platesetters are CTP imaging devices that engineered to image our chemistry-free Anthem Pro thermal plates in an A3 (2-page), or A2 (4-page) format size. The Dimension Excel utilizes our ProFire Excel laser imaging technology, and can produce completely imaged printing plates, ready to be mounted on a printing press, within four to six minutes depending on the system configuration. The Dimension Excel is available in both standard and high-productivity models.

***Dimension800***

The Dimension800 is a CTP platesetter that images our Anthem Pro thermal plates in an A1 (8-page) or smaller format size. Utilizing Presstek's ProFire® imaging technology for chemistry-free operation, this is one of the most compact and efficient eight-page platesetters available.

*Vector TX52*

The Vector TX52 platesetter is a CTP imaging system that is engineered to image our chemistry-free Freedom thermal plates. The Vector TX52 is a two-page (52 cm and under) metal CTP system that utilizes our SureFire laser imaging technology. The Vector TX52 can produce completely imaged printing plates, ready to be mounted on a printing press, within four minutes. It is an easy to use metal based system that is designed to offer the advantages of metal CTP plate manufacturing to small-sized and inplant printers.

*The Digital PlateMaster*

Digital PlateMaster (DPM) is an easy-to-use platesetter that is equipped with an integrated Harlequin RIP that uses conventional polyester-based plates. The DPM is designed for use with small-format portrait presses. The internal plate processor and daylight-loading materials cassette help facilitate plate production. The DPM also supports paper-based printing plates.

**Printing Plates**

*General Background*

Offset printing is the most widely used method of producing printed materials for commercial applications. The majority of quality, full color printing materials with which the average consumer comes into daily contact (such as magazines, brochures, catalogs and direct mail pieces) are produced using the offset printing process. Our products are designed for offset printing.

We manufacture digital printing plates for both on-press Direct Imaging, or DI, and off-press Computer-to-Plate, or CTP, printing applications. DI plates include ProFire Digital Media, PearlDry Plus and PearlDry; these plates are manufactured in our Hudson, New Hampshire facility. Our CTP plate portfolio consists of PearlDry, Anthem Pro, Aurora and Freedom. PearlDry is manufactured in Hudson, while the other CTP plates are manufactured at our facility in South Hadley, Massachusetts.

Our plates are based on our patented chemistry-free thermal imaging technology. Our printing plates respond to heat generated by high-powered lasers (thermal imaging) using a process known as ablation to enable chemistry-free plate production. Presstek has a rich portfolio of intellectual property and considerable know-how focused on the application of chemistry free plate imaging. We pioneered chemistry free imaging in commercial printing applications and we have more than 15 years of experience marketing of our technology to end users. We are on our fifth generation of chemistry-free and process-free plate imaging systems for commercial printing applications, which we believe provides Presstek a significant competitive advantage in the marketplace.

***DI***

*ProFire Digital Media*

ProFire Digital Media is designed to work as a system with the laser imaging and press components of ProFire Excel enabled DI presses (such as the Presstek 34 and 52DI). In conjunction with ProFire Excel imaging ProFire Digital Media allows new DI presses to produce a very high resolution, 16 micron spot and supports the highest level of print quality, up to 300-line screen and stochastic (FM) screening

ProFire Digital Media for DI presses is rated for 20,000 impressions. ProFire Digital Media is manufactured with an ink-accepting polyester base layer, a middle layer of titanium, and a top layer of silicone. During imaging, the heat from lasers removes the top two layers of the plate, exposing the ink receptive polyester layer. Areas that remain covered with the top layer of silicone will repel the ink. The imaging process is a highly consistent, heat sensitive, physical reaction without the variables of exposure and chemistry. The result is sharper and better-defined details and halftone dots.

***PearlDry Plus***
Formulated in a similar fashion as ProFire Digital media, PearlDry Plus is designed to work in conjunction with previous generation DI presses. In conjunction with Presstek DI imaging PearlDry Plus allows presses to produce a high resolution, 21 micron spot and supports print quality up to 200-line screen. For DI applications PearlDry Plus is delivered in polyester-based spools.

***PearlDry***
PearlDry is used for DI press applications that require an aluminum-backed plate such as the 74Karat DI press manufactured by Koenig and Bauer ("KBA") of Germany. The plate uses a specially formulated silicone material that is coated over the metalized infrared absorbing layer that is then bonded to an aluminum base. Environmentally friendly, thin-film vacuum deposition processes produce the ultra-thin film coatings that facilitate ablative imaging without excessive residue and are the foundation of PearlDry plates for waterless printing.

***CTP***

***Anthem Pro***
In April 2006, we introduced the Presstek Anthem Pro, a new generation chemistry-free thermally imaged digital plate. The Anthem Pro delivers improved print performance with the addition of Presstek's exclusive PRO graining technology. Anthem Pro plates for CTP systems feature our patented polymer-ceramic technology and combine ablative imaging and chemistry-free cleaning (a simple water wash) with run lengths of up to 100,000 impressions. The Anthem Pro plate runs with a wide range of fountain chemistry and inks. Anthem Pro's market includes a broad base of installed conventional wet offset presses, currently the largest segment of the printing industry.

***Freedom***
The Freedom plate operates in conjunction with Presstek's Vector TX52 line of CTP solutions. Like our Anthem Pro plate, Freedom requires only a simple wash with water before printing. The unique surface structure of the plate results in a fast makeready and greater ink/water latitude. In addition, Freedom plates accommodate a wide range of industry standard inks and fountain solutions. Freedom plates deliver the performance characteristics and stability of conventional aluminum plates.

***Applause***
Applause is our first completely process-free plate product. We believe Applause is unique in that it is truly the world's first commercially available no-process plate. Unlike other digital plate products, Applause is designed to require no intermediate steps between imaging and printing. Other benefits of Applause include excellent ink/water latitude, high resolution, and compatibility with existing press chemistries.

***Aurora***
In 2005, we introduced Aurora, our first chemistry-free CTP thermal plate designed to operate with CTP systems from market leaders in CTP plate imaging systems. This further extends the opportunity for printers to leverage innovative Presstek chemistry-free technology with their existing installed base of CTP systems eliminating the need to purchase, store and dispose of toxic chemicals.

**Lasertel Diode Products**

The graphic arts industry continues to demand a high degree of speed, imaging resolution and accuracy without increasing costs. Our high-powered laser diodes are designed to achieve greater imaging power, uniformity and reliability at a low unit cost for the diode array. Writing speed and accuracy are increased, without increasing space and costs, by combining four fiber channels into a single optical module. These diodes, manufactured at our Lasertel subsidiary, also incorporate a number of packaging innovations that reduce the size of the device and facilitate incorporation into the ProFire Excel imaging module. In addition to manufacturing Presstek products, Lasertel also manufactures products for third-party customers in the industrial, medical and defense sectors.

## Manufacturing

We operate manufacturing sites in Hudson, New Hampshire; Tucson, Arizona; DesPlaines, Illinois; and South Hadley, Massachusetts. In general, we strive to employ the latest manufacturing techniques in our equipment assembly and plate manufacturing operations. Strategic procurement initiatives are in place to qualify and consolidate vendors, and establish active vendor report card programs to improve incoming quality and reduce product costs. Having completed the integration of the capabilities we acquired as a result of the 2004 Precision and ABDick acquisitions, we are continually evaluating similar operations in different plants to leverage our capabilities and achieve economies of scale. We also continually assess outside manufacturing capacity and review our existing manufacturing technologies when deciding whether to manufacture or to buy a product or component.

We use a number of outside vendors who supply components and sub-assemblies which are integrated into completed systems. These systems use semiconductor laser diode devices built to our specifications and supplied by Lasertel. We believe other sources would be available to manufacture the laser diodes to specification, in the future, if required.

Our DI imaging kits, CTP systems, and our ProFire Digital Media, PearlDry Plus, PearlDry, and Applause printing plate products are manufactured at our 165,000-square-foot state-of-the-art facility located in Hudson, New Hampshire. Our equipment manufacturing employs the latest techniques in the assembly process, including point-of-use issue of parts, single flow process, and multiple operations done by each assembler.

Plate manufacturing at our Hudson facility uses vacuum deposition technology to create ultra-thin imaging layers. We have a state-of-the-art solution coater capable of handling aqueous or solvent based fluids with best available environmental controls throughout the process. PET substrates are laminated to aluminum webs (spools) using electron beam curing technology. This eliminates the need for environmental emissions from a drying process. We utilize full converting capability, which provides high-speed slitting, spooling, formatting and final packaging.

The Hudson facility also manufactures three series of CTP products: Dimension/Dimension Excel; Vector TX52; and Digital PlateMaster or DPM. To manufacture the ABDick-branded DPM, we use a number of outside vendors who supply components and sub-assemblies that are integrated into completed systems.

Lasertel operates a 75,000-square-foot facility located in Tucson, Arizona. The facility includes 10,000 square feet of clean room space, and complete process equipment for semiconductor laser manufacturing. Lasertel's manufacturing process begins with molecular beam epitaxy reactors to grow semiconductor laser wafers, and extends through the final polishing techniques for the optical fiber.

The facility located in South Hadley, Massachusetts consists of 50,000 square feet in a single building, and performs aluminum plate manufacturing including in-line graining, anodizing, silicating, and multiple layer coatings. Raw aluminum is processed into lithographic printing plates for the digital markets.

## Marketing, Distribution and Customer Support

Our sales strategy through 2006 was designed to emphasize the distribution of Presstek DI and CTP products and the related consumables, as well as a full catalog of conventional products, to customers through our direct sales force, independent graphic arts dealers and strategic OEM partnerships. The addition of our direct sales force in 2005 has greatly enhanced our marketing, distribution and service capabilities and given us direct access to end-user customers of our solutions and services.

We offer multiple solutions to solve customer needs and requirements. We are developing many of these technologies ourselves, and others we acquire through partnerships. We intend to deliver these solutions through multiple channels, including a high performing value-added dealer network, our direct sales and service force, and our strategic OEM partners. We have an established worldwide distribution network through which we market and sell DI presses, CTP equipment, thermal plate products, and a full catalog of conventional printing products. In addition, we have a service organization through which we provide service to products manufactured by Presstek and third-party vendors. This integrated service strategy provides dedicated service for the products delivered

through our distribution network. We have positioned ourselves to capture revenue from the sales and service of digital and conventional printing products as the industry continues its migration to digital processes.

Our direct sales force represents our primary access to lead the analog-to-digital migration of our large installed customer base of smaller print establishments. In addition to our direct sales force, our distribution network is supplemented with over 38 independent graphic arts dealers in 23 countries. We also market and sell our full catalog of products through our shop.presstek.com web site for the printing industry.

Concurrently, we have a business strategy that is based in part on strategic alliances and relationships with leading companies in the printing and graphic arts industry. This strategy includes licensing intellectual property; specialized product development based on our proprietary technologies; the manufacturing of imaging systems for inclusion in other manufacturers' products; the sale, distribution and marketing of our own consumables as well as consumables manufactured by others; and the manufacturing of our patented thermal plate materials for use in Presstek's and other manufacturers' imaging hardware and printing presses.

In conjunction with Ryobi, an international supplier of printing presses headquartered in Japan, we developed the Presstek 52DI and 34DI presses. Both presses incorporate our dual plate cylinder concept, and feature our internal automated plate cylinder design, ProFire Excel imaging technology, and our ProFire Digital Media. The small format and high level of automation of this press is designed to appeal to our target markets.

The Presstek 52DI is currently distributed exclusively by Presstek. The Presstek 34DI is currently distributed by us and by Ryobi as the Ryobi 3404DI. Ryobi also provides Presstek a range of duplicators and 2- and 4-tower presses sold under the ABDick brand.

The maturation of Presstek through its organic growth and acquisitions has enabled us to effectively move forward with our direct distribution model. The establishment of a direct distribution model has allowed us to precisely control the sales and service of our company's flagship products. Not only has Presstek benefited from this shift, our customers receive the benefit of dealing directly with the manufacturer, thereby increasing customer satisfaction.

For parts and consumables, we have OEM relationships with KBA, Heidelberg and Kodak.

We also have the following strategic relationships:

- for the sourcing of our raw materials, including aluminum and rolled polyester, which serve as the base of our plates
- for the purpose of purchasing certain plate material that are imaged in some of our CTP solutions and in conventional printing applications. The companies are Kodak, Mitsubishi Imaging (MPM), Inc., which we call Mitsubishi, and Agfa-Gevaert N.V., who we call Agfa
- for the distribution of our proprietary plates and equipment with other entities within the graphic arts industry

Market acceptance for any products incorporating our various technologies and proprietary know-how will require substantial marketing efforts and the expenditure of significant sums, either by us, and/or our strategic and OEM partners. There can be no assurance that any existing or new products will achieve market acceptance or become commercially viable.

We are pursuing other business relationships that we believe may result in broader use of our digital imaging and printing plate technologies in existing as well as new applications. There can be no assurance, however, that any of our products, or any products incorporating our technology, will be able to compete successfully in these markets.

**Competition**

We believe that our patented technologies, other intellectual property, thermal plate manufacturing facilities, strategic alliances, worldwide distribution network and knowledge of the marketplace provide us with a competitive

advantage. However, several other companies address markets in which our products are used and have products that are competitive to our patented direct imaging thermal plate technologies and related capabilities.

In the area of direct imaging and the short-run, on-demand market, potentially competitive companies use electrophotographic technology, sometimes referred to as xerography, as the basis of their product lines. These companies include, among others, Canon Inc., Hewlett Packard Company, Kodak, and Xerox. These electrophotographic imaging systems use either wet or dry toners to create one to four (or more) color images on paper and typically offer resolutions of between 400 and 1200 dots per inch. These technologies are best suited for ultra-short runs of less than 250 copies.

In 2005, DaiNippon Screen Mfg., Ltd., known as Screen, introduced the TruePress 344 press. This press images photographic printing plates from a cassette and then develops them on press prior to printing. The maximum resolution is 2400 dpi with a maximum screen ruling of 175 lpi. This is Screen's second attempt at bringing a direct imaging press to market, while the Presstek DI technology is a field-proven technology with approximately 3,000 placements in market. The current Presstek DI press also produces a higher quality press sheet with the maximum resolution being 2540 dpi with a maximum screen ruling of 300 lpi and FM screening.

Most of the major companies in the graphic arts industry have developed or are developing off-press CTP imaging systems. Potential competitors in this area include, among others, Agfa, Kodak, DaiNippon Screen Mfg., Ltd., Fuji, and Heidelberg, combinations of these companies, and other smaller or lesser-known companies. Many of these devices utilize printing plates that require a post-imaging photochemical developing step and/or other post processing steps such as heat treatment.

We are beginning to see competition from printing plate companies that manufacture, or have the potential to manufacture, digital thermal plates. Such companies include, among others, Agfa, Kodak, and Fuji Photo Film Co., Ltd., who we call Fuji.

Kodak is marketing a competitive plate product as an alternative to Presstek's PearlDry and PearlDry Plus for both the Ryobi and Quickmaster DI platforms. These competitive plates could have an impact on the revenue generated by Presstek under its agreements with Heidelberg and Ryobi. They could also lead to downward pricing pressure on our full line of spooled consumable products, which could have a material adverse effect on our business, results of operations and financial condition. Presstek has initiated patent infringement action against Fuji and Creo (subsequently acquired by Kodak) products in the Federal Republic of Germany and the United States, respectively.

Some of the graphic arts companies, including Agfa, Kodak and Fuji, have announced or released plates that reportedly eliminate the need for post image chemical processing. We cannot currently estimate the impact these competitive plates will have on our financial condition and results of operations.

Products incorporating our technologies can also be expected to face competition from products using conventional methods of creating and printing plates and producing printed product. While these methods are considered to be more costly, less efficient and not as environmentally conscious as those we implement, they do offer their users the ability to continue to employ their existing means of print and plate production. Companies offering these more traditional means and methods are also refining these technologies to make them more acceptable to the market.

The broad portfolio of equipment, supplies, and service added to our portfolio through the acquisition of the ABDick business has several competitors. In addition to those mentioned above, competitors include for Prepress: ECRM and RIPit; for Press: Ryobi, Hamada, Xerox, Canon, Ricoh and HP; for Service: GBC, Kodak, Service On Demand and some independent providers; for Dealers: xpedx, Pitman and Enovation.

Lasertel's products can also be expected to face competition from a number of companies marketing competitive high-powered laser diode products such as Coherent Inc. and JDS Uniphase Corporation.

Most of the companies marketing competitive products, or with the potential to do so, are well established have substantially greater financial, marketing and distribution resources than Presstek and its subsidiaries, and have established records in the development, sale and service of products. There can be no assurance that Presstek,

Lasertel, or any of our products or any products incorporating our technology, will be able to compete successfully in the future.

While we believe we have strong intellectual property protection covering many of our technologies, there is no assurance that the breadth or degree of such protection will be sufficient to prohibit or otherwise delay the introduction of competitive products or technologies. The introduction of competitive products and technologies may have a material adverse effect on our business, results of operations and financial condition.

**Patents, Trademarks and Proprietary Rights**

Our general policy has been to seek patent protection for those inventions and improvements likely to be incorporated into our products and services or where proprietary rights will improve our competitive position. As of December 30, 2006, our worldwide patent portfolio included over 500 patents. We believe these patents, which expire from 2008 through 2027, are material in the aggregate to our business. We have applied for and are pursuing applications for 9 additional U.S. patents and 31 foreign patents. We have registered, or applied to register, certain trademarks in the U.S. and other countries, including Presstek, DI, Dimension, ProFire, Anthem, Applause and PearlDry. We anticipate that we will apply for additional patents, trademarks, and copyrights, as deemed appropriate.

In addition to the Presstek patents indicated, there is currently one U.S. patent assigned to Precision, which will expire in 2017 and one active patent assigned to Lasertel, which will expire in 2012.

In September 2003, we filed an action against Fuji Photo Film Corporation, Ltd., in the District Court of Mannheim, Germany for patent infringement. In this action, we allege that Fuji has manufactured and distributed a product that violates a Presstek European Patent. We are seeking an order from the court that Fuji refrain from offering the infringing product for sale, from using the infringing material or introducing it for the named purposes, and from possessing such infringing material. A trial on the matter was held in November 2004 and March 2005, and we are currently awaiting a final determination from the court.

In March 2005, we filed an action against Creo, Inc. (subsequently acquired by Kodak) in the U.S. District for the District of New Hampshire for patent infringement. In this action, we allege that Creo has manufactured and distributed a product that violates a Presstek U.S. Patent. We are seeking an order from the court holding that Creo has infringed the patent, permanently enjoining Kodak from infringing, inducing others to infringe or contributing to the infringement of the Patent, and seeking damages from Creo for the infringement.

We intend to rely on proprietary know-how and to employ various methods to protect our source code, concepts, trade secrets, ideas and documentation of our proprietary software and laser diode technology. However, such methods may not afford complete protection and there can be no assurance that others will not independently develop such know-how or obtain access to our know-how, software codes, concepts, trade secrets, ideas, and documentation.

**Research and Development**

Research and development expenses related to our continued development of products incorporating DI and CTP technologies, including our semiconductor laser diodes, were $6.4 million, $7.3 million and $6.5 million in fiscal 2006, fiscal 2005 and fiscal 2004, respectively. These research and development expenditures are primarily related to the Presstek segment.

**Backlog**

At February 25, 2007, we had a backlog of products under contract aggregating approximately $10.3 million, of which the Company expects to ship substantially all in 2007. This amount compares to a consolidated backlog of approximately $12.1 million at February 25, 2006.

## Employees

At December 31, 2006, we had 891 employees worldwide. Of these, 39 are engaged primarily in engineering, research and development; 212 are engaged in sales and marketing, 344 are engaged in service and customer support, 207 are engaged primarily in manufacturing, manufacturing engineering and quality control; and 89 are engaged primarily in corporate management, administration and finance. None of our employees is represented by a labor union. We consider the relationship with our employees to be good.

## Investor Information

Financial and other information about us is available on our website, *www.presstek.com*. We make available, free of charge on our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

## Glossary

Set forth below is a glossary of certain terms used in this report:

| | |
|---|---|
| A1 (8-page) | a printing term referring to a standard paper size capable of printing eight 8.5" x 11" pages on a sheet of paper |
| A2 (4-page) | a printing term referring to a standard paper size capable of printing four 8.5" x 11" pages on a sheet of paper |
| A3/B3 (2-page) | a printing term referring to a standard paper size capable of printing two 8.5" x 11" pages on a sheet of paper |
| Ablation | a controlled detachment/vaporization caused by a thermal event, this process is used during the imaging of Presstek's PEARL and Anthem Pro consumables |
| Anthem Pro | Presstek's line of wet offset digital plates with a unique polymer-ceramic construction |
| Computer-to-plate (CTP) | a general term referring to the exposure of lithographic plate material from a digital database, off-press |
| Creo, Inc. | A company acquired by Kodak |
| Direct Imaging (DI) | Presstek's registered trademark for digital imaging systems that allow image carriers (film and plates) to be imaged from a digital database, on and off-press |
| Dots per inch (dpi) | a measurement of the resolving power or the addressability of an imaging device |
| Heidelberg | Heidelberger Druckmaschinen AG, one of the world's largest printing press manufacturers, headquartered in Heidelberg, Germany |
| Infrared | light lying outside of the visible spectrum beyond its red-end, characterized by longer wavelengths; used in our thermal imaging process |
| KBA | Koenig & Bauer, AG, one of the world's largest printing press manufacturers, headquartered in Wurzburg, Germany |
| Kodak | Eastman Kodak Company, a leading supplier of digital, conventional and business solutions for the graphic arts industry, headquartered in Rochester, New York |

| | |
|---|---|
| Lithography | printing from a single plane surface under the principle that the image area carries ink and the non-image area does not, and that ink and water do not mix |
| Off-press | making a printing plate from either an analog or digital source independent of the press on which it will be used |
| On-press | the use of Presstek's direct imaging technologies to make a plate directly from a digital file on the press |
| PEARL | the name associated with Presstek's first generation laser imaging technologies and related products and consumables |
| ProFire and ProFire Excel imaging systems | the Presstek components required to convert a conventional printing press into a direct imaging press, including laser diode arrays, computers, electronics |
| Dimension | Presstek's product line of CTP off-press platemaking equipment |
| Platemaking | the process of applying a printable image to a printing plate |
| Prepress | graphic arts operations and methodologies that occur prior to the printing process; typically these include photography, scanning, image assembly, color correction, exposure of image carriers (film and/or plate), proofing and processing |
| Quickmaster DI | the second generation of direct imaging, waterless presses, highly automated with roll-fed PearlDry Plus plate material, a joint development effort between Heidelberg and Presstek |
| Ryobi | Ryobi Limited of Japan, a printing press manufacturer headquartered in Japan |
| Ryobi 3404DI | an A3 format size four-color sheetfed press, incorporating Presstek's dual plate cylinder concept and PearlDry Plus spooled plates, a joint development effort between Ryobi and Presstek |
| Semiconductor laser diode | a high-powered, infrared imaging technology employed in the DI imaging systems |
| Short-run markets/printing | a graphic arts classification used to denote an emerging growth market for lower print quantities. InfoTrends, Inc. has examined the market to better understand which run lengths are increasing and which are decreasing. The findings: run lengths above 10,000 sheets are clearly in decline. Run lengths between 5,000 and 9,999 are essentially stable with a slight increase. Run lengths below 5,000 show significant increases, especially in the range of 500 – 999 sheets. |
| Thermal | a method of digitally exposing a material via the heat generated from a laser beam |
| Vacuum deposition process | a technology to accurately, uniformly coat substrates in a controlled environment |
| Waterless | a lithographic printing method that uses dry offset printing plates and inks and does not require a dampening system |

**Item 1A.** ***Risk Factors***

Certain statements contained in this Annual Report on Form 10-K constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the following:

- our expectations for our financial and operating performance in 2007 and beyond;

- the adequacy of internal cash and working capital for our operations;
- our ability to supply sufficient product for anticipated demand and production delays associated with such demand;
- availability of component materials;
- management's plans and goals with regard to our shipping and production capabilities, including the adequacy of our facilities for present and expected future operations;
- the availability of alternative suppliers and manufacturers;
- manufacturing constraints or difficulties;
- the introduction of competitive products into the marketplace;
- management's plans and goals for our subsidiaries;
- the ability of our subsidiaries to generate positive cash flows in the near-term;
- our subsidiaries' ability to produce commercially competitive products;
- the strength of our various strategic partnerships both on manufacturing and distribution;
- our ability to secure other strategic alliances and relationships;
- our expectations regarding our strategy for growth, including statements regarding our expectations for continued product mix improvement;
- our expectations regarding the balance, independence and control of our business;
- the resulting and expected effects and benefits from our transformation efforts;
- our expectations regarding the strength and improvement of our fundamentals, including management of our financial controls;
- our expectations and plans regarding market penetration, including the strength and scope of our distribution channels and our expectations regarding sales of DI presses or CTP devices;
- the expansion of our products and technology;
- the status of our technology leadership in our market/industry;
- the commercialization and marketing of our technology;
- our expectations regarding the sale of our products and use of our technology;
- our current plans for product development and the expected market acceptance of recently introduced products and the likely acceptance of planned future products;
- the expected growth in market share;

- the effects, market acceptance or pricing of competitive products, including the possibility of a competitive plate product being introduced by a strategic partner;
- the placement of orders for direct imaging kits;
- our expectations regarding reductions in warranty costs;
- statements regarding the profitability of process-free CTP;
- the adequacy of our intellectual property protections and our ability to protect and enforce our intellectual property rights; and
- the expected effect of adopting recently issued accounting standards, among others.

Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this report. The words "looking forward," "looking ahead," "believe(s)," "should," "plan," "expect(s)," "project(s)," "anticipate(s)," "may," "likely," "potential," "opportunity" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date, the statements were made and readers are advised to consider such forward-looking statements in light of the risks set forth below. Presstek undertakes no obligation to update any forward-looking statements contained in this Annual Report on Form 10-K.

Significant factors that could impact the Company's financial condition or results of operations include, without limitation, the following:

***We are substantially dependent on our strategic alliances, as well as our manufacturing and distribution relationships to develop and grow our business. The loss or failure of one or more of our strategic partners could significantly harm our business.***

Our business strategy to date has included entering into strategic alliances with major companies in the graphic arts industry and other markets. The implementation of this strategy has included, among other things, licensing our intellectual property, developing specialized products based on our proprietary technologies and manufacturing imaging systems for inclusion in other manufacturers' products. Our strategy has also involved identifying strategic manufacturing and distribution partners to aid in developing new market channels for our products. This strategy led to the development of our relationship with our strategic partners. We are dependent on many of these partners for future sales of both existing and planned products. This means that the timetable for finalizing development, commercialization and distribution of both existing and planned products is dependent upon the needs and circumstances of our strategic partners. We have experienced and will continue to experience technical difficulties from time to time, which may prevent us from meeting certain production and distribution targets. Any delay in meeting production and distribution targets with our strategic partners may harm our relationships with them and may cause them to terminate their relationship with us. Our strategic partners may not develop markets for our products at the pace or in the manner we expect, which may have an adverse effect on our business. They may also terminate their relationships with us for circumstances beyond our control, including factors unique to their businesses or their business decisions. In addition, we may mutually agree with one or more of our partners to terminate our relationship with them for a variety of reasons. We cannot assure you that the termination of any of our other relationships with our strategic partners will not have an adverse impact on our business in the future.

We are also unable to control factors related to the businesses of our strategic partners. There can be no assurance that similar events will not occur with our other strategic partners.

Though we take precautions designed to achieve success, given the uncertainties surrounding many of our strategic partners, there can be no assurance that our existing strategic relationships will prove successful. There can also be no assurance that our existing relationships with any of our other strategic, manufacturing or distribution partners will be successful. The loss of principal customers or strategic partners could have a materially adverse effect on our business, results of operations and financial condition.

While we continue to explore possibilities for additional strategic relationships and alliances, there can be no assurance we will be successful in this regard. Our failure to develop new relationships and alliances could have a significant adverse effect on our business.

***The move to a direct-sales and distribution business may affect our relationship with our third-party distribution and service partners, which may negatively impact our sales and distribution channels.***

Prior to the addition of the ABDick business, distribution and service of our CTP products was performed by our third-party partners, including Pitman and Xpedx and a series of independent dealers. Additionally, the distribution and service of our DI products were provided by OEM and other third party partners. With the addition of ABDick, we utilize our newly-acquired sales, distribution and service organization as a new channel through which to sell and service Presstek products, as a supplement to our existing distribution network. At this time, we are not aware of any conflicts between our existing channel and/or OEM partners associated with the initiation of this channel. However, there can be no guarantees that the establishment of this new distribution channel will not cause conflict with our existing distribution and OEM partners, which could have an adverse effect on our relationship with our distribution and/or OEM partners, which could result in our sales being negatively affected.

***If we are unable to manage acquisitions successfully it could harm our financial results, business and prospects.***

The operations of Presstek have substantially changed over the last thirty months as a result of the additions of Precision and the ABDick business. As part of our business strategy, over the next few years, we may further expand our business through the acquisition of complementary businesses worldwide. Though we would not undertake an acquisition that would knowingly be problematic, we cannot assure you that we will be able successfully to integrate any future acquisitions, which could adversely impact our long-term competitiveness and profitability.

Any future acquisitions will involve a number of risks that could harm our financial condition, results of operations and competitive position. In particular:

- The integration process could disrupt the activities of the businesses that are being combined. The combination of the businesses or plants may require, among other things, coordination of administrative and other functions and consolidation of production capacity. Plant consolidation may strain our ability to deliver products of acceptable quality in a timely manner from consolidated facilities. We may experience attrition among the skilled labor force at the companies acquired in reaction to being acquired and in reaction to our consolidation of plants.

- The execution of our integration plans may divert the attention of our management from operating our existing business.

- We may assume known and unanticipated liabilities and contingencies.

- Future acquisitions could cause a reduction of our reported earnings because of the use of capital, the issuance of additional securities or debt, increased interest expense, goodwill write-offs and an increased income tax rate.

With respect to our strategic plan to grow, in part, through acquisitions, we cannot assure you that we will be able to identify suitable acquisitions at acceptable prices or that we will have access to sufficient capital to take advantage of desirable acquisitions. We cannot assure you that our future acquisitions will have revenues, profits or

productivity comparable to those of our past acquisitions. Future acquisitions may require substantial capital. Although we expect to use borrowings under our senior credit facility to pursue these opportunities, we cannot assure you that such borrowings will be available in sufficient amounts or that other financing will be available in amounts and on terms that we deem acceptable. Our financial performance and the condition of the capital markets will affect the value of our common stock, which could make it a less attractive form of consideration for making acquisitions.

***Our lengthy and variable sales cycle makes it difficult for us to predict when or if sales will occur and therefore we may experience an unplanned shortfall in revenues.***

Many of our products have a lengthy and unpredictable sales cycle that contributes to the uncertainty of our operating results. Customers view the purchase of our products as a significant capital outlay and, therefore, a strategic decision. As a result, customers generally evaluate these products and determine their impact on existing infrastructure over a lengthy period of time. Our sales cycle has historically ranged from approximately one to six months based on the customer's need to rapidly implement a solution and whether the customer is new or is extending an existing implementation. The sale of our products may be subject to delays if the customer has lengthy internal budgeting, approval and evaluation processes. We may incur significant selling and marketing expenses during a customer's evaluation period. Larger customers may purchase our products as part of multiple simultaneous purchasing decisions, which may result in additional unplanned administrative processing and other delays in the recognition of our revenues. If revenues forecasted from a specific customer for a particular quarter are not realized or are delayed to another quarter, we may experience an unplanned shortfall in revenues, which could have a material adverse effect on our business, results of operation and financial condition.

***We may not be able to increase revenues if we do not expand our sales and distribution channels.***

We will need to expand our global sales operations in order to increase market awareness and acceptance of our line of products and generate increased revenues. We market and distribute our products indirectly through our global partner and distributor network and directly in Europe through our Presstek Europe subsidiary. We believe that our future success is dependent upon expansion of global distribution channels. We cannot be certain that we will be able to maintain our current relationships or establish new relationships with additional distribution partners on a timely basis, or at all. We plan to utilize our newly-acquired distribution and service organization as a new channel through which to sell and service our products, as a supplement to our existing distribution network. At this time, we are not aware of any conflicts between our existing channel and/or OEM partners associated with the initiation of this channel. However, there can be no guarantees that the establishment of this new distribution channel will not cause conflict with our existing distribution and OEM partners, which could have an adverse effect on our relationship with our distribution and/or OEM partners, which could result in our sales being negatively affected.

***Our growth strategy may include licenses or acquisitions of technologies or businesses, which entail a number of risks.***

As part of our strategy to grow our business, we may pursue licenses of technologies from third parties or acquisitions of complementary products lines or companies, and such transactions entail a number of risks. We may expend significant costs in investigating and pursuing such transactions, and such transactions may not be consummated. If such transactions are consummated, we may not be successful in integrating the acquired technology or business into our existing business to achieve the desired synergies. Integrating acquired technologies or businesses may also require a substantial commitment of our management's time and attention. We may expend significant funds to acquire such technologies or businesses, and we may incur unforeseen liabilities in connection with any acquisition of a technology or business. Any of the foregoing risks could result in a material adverse effect on our business, results of operations and financial conditions.

***We face risks associated with our efforts to expand into international market and such risks could result in diversion of our management's attention from our existing business and/or cause us to incur additional expected and unexpected costs associated with penetrating, operating in and servicing such markets, any of which could have a material adverse effect on our financial condition and results of operations.***

We intend to expand our global sales operations and enter additional international markets, which will require significant management attention and financial resources. International sales are subject to a variety of risks, including difficulties in establishing and managing international distribution channels, in serving and supporting products sold outside the United States and in translating products and related materials into foreign languages. International operations are also subject to difficulties in collecting accounts receivable, staffing and managing personnel and enforcing intellectual property rights. Other factors that can adversely affect international operations include fluctuations in the value of foreign currencies and currency exchange rates, changes in import/export duties and quotas, introduction of tariff or non-tariff barriers and economic or political changes in international markets. If our international sales increase, our revenues may also be affected to a greater extent by seasonal fluctuations resulting from lower levels of sales that typically occur during the summer months in Europe and other parts of the world. There can be no assurance that these factors will not have a material adverse effect on our future international sales and, consequently, on our business, results of operations and financial condition.

***We have experienced losses in the past, could incur substantial losses in the future, and may not be able to maintain profitability.***

We have incurred substantial net losses from continuing operations in one of the past five fiscal years. At December 30, 2006 we had retained earnings of $1.8 million. We may need to generate significant increases in revenues to maintain profitability, and we may not be able to do so. If our revenues grow more slowly than we anticipate, or if our operating expenses increase more than we expect or cannot be reduced in the event of lower revenues, our business will be materially adversely affected.. Even if we maintain profitability in the future on a quarterly or annual basis, we may not be able to sustain or increase such profitability year to year. Failure to sustain profitability may adversely affect the market price of our common stock and could have a materially adverse impact on the value of an investment in us.

***Our quarterly revenues and operating results are likely to fluctuate significantly.***

Our quarterly revenues and operating results are sometimes difficult to predict, have varied in the past, and are likely to fluctuate significantly in the future. We typically realize a significant percentage of our revenues for a fiscal quarter in the third month of the quarter. Accordingly, our quarterly results may be difficult to predict prior to the end of the quarter. Any inability to obtain sufficient orders or to fulfill shipments in the period immediately preceding the end of any particular quarter may cause the results for that quarter to fail to meet our revenue targets. In addition, we base our current and future expense levels in part on our estimates of future revenues. Our expenses are largely fixed in the short-term and we may not be able to adjust our spending quickly if our revenues fall short of our expectations. Accordingly, a revenue shortfall in a particular quarter would have an adverse effect on our operating results for that quarter. In addition, our quarterly operating results may fluctuate for many reasons, including, without limitation:

- a long and unpredictable sales cycle;
- changes in demand for our products and consumables, including seasonal differences; and
- changes in the mix of our products and consumables.

***We are dependent on third party suppliers for critical components and our inability to maintain an adequate supply of advanced laser diodes and other critical components could adversely affect us.***

We are dependent on third-party suppliers for critical components and our increased demand for these components may strain the ability of our third-party suppliers to deliver such critical components in a timely manner. For

example, our requirement for advanced technology laser diodes for use in products incorporating our DI technology has increased and is expected to further increase in the future. Although we have established our subsidiary, Lasertel, to help us meet our demand for laser diodes, we are still dependent on other third-party manufacturers to supply us with other necessary components. If we are unable for any reason to secure an uninterrupted source of other critical components at prices acceptable to us, our operations could be materially adversely affected. We cannot assure you that Lasertel will be able to manufacture advanced laser diodes in quantities that will fulfill our future needs, or with manufacturing volumes or yields that will make our operation cost effective. Likewise, we cannot assure you that we will be able to obtain alternative suppliers for our laser diodes or other critical components should our current supply channels prove inadequate.

***Our manufacturing capabilities may be insufficient to meet the demand for our products.***

If demand for our products grows beyond our expectations, our current manufacturing capabilities may be insufficient to meet this demand, resulting in production delays and a failure to deliver products in a timely fashion. We may be forced to seek alternative manufacturers for our products. There can be no assurance that we will successfully be able to do so. As we introduce new products, we may face production and manufacturing delays due to technical and other unforeseen problems. Any manufacturing delay could have an adverse effect on our business, the success of any product affected by the delay, and our revenue, and may harm our relationships with our strategic partners.

In addition, many of our manufacturing processes are extremely sophisticated and demand specific environmental conditions. Though we take precautions to avoid interruptions in manufacturing and to ensure that the products that are manufactured meet our exacting performance standards, our yields may be affected by difficulties in our manufacturing processes. If such an affect occurred, it could increase manufacturing costs, detrimentally affecting margins, or cause a delay in the finishing and shipping of products. Any manufacturing delay could have an adverse effect on our business, the success of any product affected by the delay, and our revenue, and may harm our relationships with our strategic partners.

***Recently introduced products that incorporate our technology may not be commercially successful and may not gain market acceptance.***

Achieving market acceptance for any products incorporating our technology requires substantial marketing and distribution efforts and expenditure of significant sums of money and allocation of significant resources, either by us, our strategic partners or both. We may not have sufficient resources to do so. Additionally, there can be no assurance that products introduced by our strategic partners, such as the 46 Karat DI presses, or our product offerings such as our Applause or Anthem plates, and Dimension 400, Dimension 800 and Vector TX 52 platesetters, will achieve widespread market acceptance or that any of our other current products or any future products that we may develop or any future products produced by others that incorporate our technologies will achieve market acceptance or become commercially successful. We recently announced the commercial release of our new DI 52 printing press. There can be no assurance that this press, or our other products, will achieve market acceptance. If our new product offerings do not achieve anticipated market acceptance, we may not achieve anticipated revenue.

***Recently introduced products that incorporate our technology may result in substantial support costs and warranty expenditures.***

Introducing new products carries substantial risk. While we do extensive testing on our new products before introducing them to our customers, no amount of testing can replace or approximate actual field conditions at our customer locations. As a result, when we introduce new products we can incur increased expenditures in ensuring that the new product meets and performs in accordance with its specifications. We cannot, however, always estimate precisely the expected costs that may arise out of new product installations. There can be no assurance that we will not incur increased warranty, support and other costs associated with new product introductions in the future. In addition, the occurrence of these expenditures may have a material adverse effect on our business, results of operations and financial condition.

***If the United States and global economies slow down, the demand for our products could decrease and our revenue may be materially adversely affected.***

The demand for our products is dependent upon various factors, many of which are beyond our control. For example, general economic conditions affect or delay the overall capital spending by businesses and consumers, particularly for capital equipment such as presses. An economic slowdown in the U.S. and abroad could result in a decrease in spending and spending projections on capital equipment that could impact the demand for our products. If, as a result of general economic uncertainty or otherwise, companies reduce their product spending levels, such a decrease in spending could substantially reduce demand for our products, substantially harm our business, and have a material adverse effect on our business, results of operations and financial condition.

***As of December 30, 2006, we identified a material weakness in internal control over financial reporting, and concluded that our disclosure controls were not effective. If we fail to maintain an effective system of internal and disclosure controls, we may not be able to accurately report our financial results or prevent fraud. As a result, investors may be misled and lose confidence in our financial reporting and disclosures, and the price of our common stock may be negatively affected.***

The Sarbanes-Oxley Act of 2002 requires that we report annually on the effectiveness of our internal control over financial reporting. Among other things, we must perform systems and process evaluation and testing. We must also conduct an assessment of our internal controls to allow management to report on, and our independent registered public accounting firm to attest to, our assessment of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. A "significant deficiency" means a deficiency in the design or operation of internal control that adversely affects our ability to initiate, authorize, record, process or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the annual or interim financial statements that is more than inconsequential will occur and not be detected. A "material weakness" is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will occur and not be detected by management before the financial statements are published.

In connection with the assessment of our internal control over financial reporting for this Annual Report on Form 10-K, as further described in Item 9A, management and our registered public accounting firm determined that as of December 30, 2006 our disclosure controls and procedures were ineffective because of the material weakness in our internal control over financial reporting. In addition, in the future, our continued assessment, or the subsequent assessment by our independent registered public accounting firm, may reveal additional deficiencies in our internal controls and disclosure controls, some of which may require disclosure in future reports.

Although we have made and are continuing to make improvements in our internal controls, if we are unsuccessful in remediating the material weakness impacting our internal control over financial reporting and disclosure controls, or if we discover other deficiencies, it may adversely impact our ability to report accurately and in a timely manner our financial condition and results of operations in the future , which may cause investors to lose confidence in our financial reporting and may negatively affect the price of our common stock. Moreover, effective internal and disclosure controls are necessary to produce accurate, reliable financial reports and to prevent fraud. If we continue to have deficiencies in our internal control over financial reporting and disclosure controls, they may negatively impact our business and operations.

***The expansion of Lasertel into areas other than the production of laser diodes for our printing business may be unsuccessful.***

Lasertel, which was formed for the purpose of supplying us with laser diodes, has also explored other markets for its laser technology. These efforts to develop other markets were scaled back, in part, in June 2001, as we announced a restructuring of Lasertel in order to reduce its costs and focus its efforts on supplying us with high quality laser diodes. While the plans to market its laser products to the telecommunications industry were delayed, Lasertel has developed laser products for the defense industry and has continued its plans to develop laser prototypes for

qualification in the defense and industrial industries. There can be no assurance that these products or prototypes will gain acceptance in these industries and likewise, there can be no assurance that these products will be commercially successful. Our executive team has limited experience in the telecommunications, defense and industrial industries and there can be no assurance that Lasertel will be able to successfully exploit any opportunities that may arise.

The failure of Lasertel to develop, commercialize or sell its products or future products to various other industries could distract its management's attention and/or have an adverse impact on its financial condition or results of operations, any of which could materially adversely affect our financial condition. Conversely, any success that Lasertel achieves in developing, commercializing or selling its products or future products to various other industries could cause delays in manufacturing of the laser diodes that it supplies to us, which could harm our business and could have an adverse effect on our financial condition or results of operations.

***Lasertel may require additional working capital infusions from us, which may have a material adverse effect on our business.***

Lasertel has required and will continue to require a significant amount of capital investment by Presstek in order to fund its operations. For the fiscal year ended December 30, 2006, Lasertel recorded a net loss from operations of $1.1 million. Lasertel has only had sales to a limited number of third parties to date, and any loss of such customers or significant reduction in their purchases from Lasertel could increase its reliance upon us for capital and resources. Lasertel's capital and working capital needs may exceed our ability to provide such funds, requiring us to borrow against our credit facilities or seek to obtain outside financing for Lasertel's operations. This could have a material adverse effect on our business, results of operations and financial condition.

***Our success is dependent on our ability to maintain and protect our proprietary rights.***

Our future success will depend, in large part, upon our intellectual property rights, including patents, trademarks, trade secrets, proprietary know-how, source codes and continuing technological innovation. We have been issued a number of U.S. and foreign patents and we intend to register for additional patents where we deem appropriate. We also hold seven registered trademarks and we may register additional trademarks where we deem appropriate. There can be no assurance, however, as to the issuance of any additional patents or trademarks or the breadth or degree of protection that our patents, trademarks or other intellectual property may afford us. The steps we have taken to protect our intellectual property may not adequately prevent misappropriation or ensure that others will not develop competitive technologies or products. Further, the laws of certain territories in which our products are or may be developed, manufactured or sold, may not protect our products and intellectual property rights to the same extent as the laws of the United States.

There is rapid technological development in the electronic image reproduction industry, resulting in extensive patent filings and a rapid rate of issuance of new patents. Although we believe that our technology has been independently developed and that the products we market do not infringe the patents or violate the proprietary rights of others, it is possible that such infringement of existing or future patents or violation of proprietary rights may occur. In this regard, third parties may in the future assert claims against us concerning our existing products or with respect to future products under development by us. In such event, we may be required to modify our product designs or obtain a license. No assurance can be given that we would be able to do so in a timely manner, upon acceptable terms and conditions or even at all. The failure to do any of the foregoing could have a material adverse effect on our business, results of operations and financial condition. Furthermore, we have agreements with several of our strategic partners which require us to indemnify the strategic partner from claims made by third parties against them concerning our intellectual property, and to defend the validity of the patents or otherwise ensure the technology's availability to the strategic partner. The costs of an indemnification claim under any such agreement could have a material adverse effect on our business.

In March 2005, we filed an action against Creo, Inc. (subsequently acquired by Kodak) in the U.S. District for the District of New Hampshire for patent infringement. In this action, we allege that Creo has manufactured and distributed a product that violates a Presstek U.S. Patent. We are seeking an order from the court holding that Creo

has infringed the patent, permanently enjoining Kodak from infringing, inducing others to infringe or contributing to the infringement of the Patent, and seeking damages from Creo for the infringement.

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

We may take legal action to determine the validity and scope of third party rights or to defend against any allegations of infringement. In the course of pursuing or defending any of these actions we could incur significant costs and diversion of our resources. Due to the competitive nature of our industry, it is unlikely that we could increase our product prices to cover such costs. There can be no assurance that we will have the financial or other resources necessary to successfully defend a patent infringement or proprietary rights violation action. Moreover, we may be unable, for financial or other reasons, to enforce our rights under any patents we may own. As an example of the cost and uncertainty of patent litigation, in August 1999 Creo filed an action in the United States District Court for the District of Delaware against us seeking a declaration that Creo's products do not and will not infringe any valid and enforceable claims of any of our patents in question. We counterclaimed against Creo for patent infringement of certain of our patents. The matter went to trial in June 2001, and in September 2001, the court affirmed the validity and enforceability of our on-press imaging patents, but held that the current Creo DOP System did not infringe on our patents. Creo appealed the court's decision that our patents were valid and enforceable, and we cross-appealed the finding of non-infringement by the current Creo DOP System. On September 17, 2002, the United States Court of Appeals for the Federal Circuit affirmed the lower court's decision that our patents are valid and enforceable, but that they are not infringed by the current Creo DOP System. We incurred higher than expected legal expenses in fiscal 2002 and 2001 due to this litigation. Any similar litigation in the future is expected to be costly, yield uncertain results and could have a material effect on our business, results of operations and financial condition.

We also rely on proprietary know-how and employ various methods to protect the source codes, concepts, trade secrets, ideas and documentation relating to our proprietary software and laser diode technology. However, such methods may not afford complete protection and there can be no assurance that others will not independently develop such know-how or obtain access to our know-how or software codes, concepts, trade secrets, ideas and documentation. Although we have and expect to have confidentiality agreements with our employees and appropriate vendors, there can be no assurance, however, that such arrangements will adequately protect our trade secrets and proprietary know-how.

***We use hazardous materials in the production of many of our products at our various manufacturing facilities.***

As a manufacturing company, we are subject to environmental, health and safety laws and regulations, including those governing the use of hazardous materials. The cost of compliance with environmental, health and safety regulations is substantial. Our business activities, especially those at our Precision segment, involve the controlled use of hazardous materials and we cannot eliminate the risk or potential liability of accidental contamination, release or injury from these materials. In the event of an accident or environmental discharge, we may be held liable for any resulting damages, which may exceed our financial resources, and our production of plates could be delayed indefinitely, either of which could materially harm our business, financial condition and results of operations.

On October 30, 2006, a chemical was released from a mixing tank into a holding pool at our Precision segment manufacturing plant in Massachusetts, which caused us to temporarily cease digital and analog aluminum plate manufacturing operations at this location. The chemical release was contained on-site, there were no reported injuries, neighboring properties were not damaged and there are no requirements for soil or groundwater remediation. At this time, the cause of the event is undetermined. Digital plate manufacturing was restarted on November 6, 2006. On December 28, 2006, the Audit Committee of the Company's Board of Directors ratified a plan submitted by management to terminate production in South Hadley, Massachusetts of Precision-branded analog plates used in newspaper applications.

***We face substantial competition in the sale of our products.***

We compete with manufacturers of conventional presses and products utilizing existing plate-making technology, as well as presses and other products utilizing new technologies, including other types of direct-to-plate solutions such as companies that employ electrophotography as their imaging technology. Canon Inc., Hewlett Packard Company, Kodak and Xerox Corporation are companies that have introduced color electrophotographic copier products. Various companies are marketing product versions manufactured by these companies..

We are also aware that there is a trend in the graphic arts industry to create stand-alone computer-to-plate imaging devices for single and multi-color applications. Most of the major corporations in the graphic arts industry have developed and/or are developing and marketing off press computer-to-plate imaging systems. To date, devices manufactured by our competitors, for the most part, utilize printing plates that require a post imaging photochemical developing step, and in some cases, also require a heating process. Potential competitors in this area include, among others, Agfa Gevaert N.V., Dai Nippon Screen Manufacturing Ltd., Heidelberg and Kodak.

We also anticipate competition from plate manufacturing companies that manufacture printing plates, or have the potential to manufacture digital thermal plates. These companies include Agfa Gevaert N.V., Kodak and Fuji Photo Film Co., Ltd. Heidelberg is marketing a competitive plate product as an alternative to Presstek's PEARLdry for the Quickmaster DI. The introduction of a competitive plate could reduce the revenue generated by Presstek under its relationship with Heidelberg, and could have a material adverse effect on our business, results of operations and financial condition.

Products incorporating our technologies can also be expected to face competition from conventional methods of printing and creating printing plates. Most of the companies marketing competitive products, or with the potential to do so, are well established, have substantially greater financial, marketing and distribution resources than us and have established reputations for success in the development, sale and service of products. There can be no assurance that we will be able to compete successfully in the future.

While we believe we have strong intellectual property protection covering many of our technologies, there is no assurance that the breadth or degree of such protection will be sufficient to prohibit or otherwise delay the introduction of competitive products or technologies. The introduction of competitive products and technologies may have a material adverse effect on our business, results of operations and financial condition.

***We may not be able to adequately respond to changes in technology affecting the printing industry.***

Our continuing product development efforts have focused on refining and improving the performance of our PEARL and DI technology and our consumables and we anticipate that we will continue to focus such efforts. The printing and publishing industry has been characterized in recent years by rapid and significant technological changes and frequent new product introductions. Current competitors or new market entrants could introduce new or enhanced products with features, which render our technologies, or products incorporating our technologies, obsolete or less marketable. Our future success will depend, in part, on our ability to:

- use leading technologies effectively;
- continue to develop our technical expertise and patented position;
- enhance our current products and develop new products that meet changing customer needs;
- time new product introductions in a way that minimizes the impact of customers delaying purchases of existing products in anticipation of new product releases;
- adjust the prices of our existing products to increase customer demand;
- successfully advertise and market our products; and

- influence and respond to emerging industry standards and other technological changes.

We must respond to changing technology and industry standards in a timely and cost-effective manner. We may not be successful in effectively using new technologies, developing new products or enhancing our existing products and technology on a timely basis. Our new technologies or enhancements may not achieve market acceptance. Our pursuit of new technologies may require substantial time and expense. We may need to license new technologies to respond to technological change. These licenses may not be available to us on terms that we can accept. Finally, we may not succeed in adapting our products to new technologies as they emerge.

***Ongoing litigation could have an adverse impact on our business.***

From time to time in the ordinary course of our business, we may be subject to lawsuits.

On October 26, 2006, we were served with a complaint naming the Company, together with certain of its executive officers, as defendants in a purported securities class action suit filed in the United States District Court for the District of New Hampshire. The suit claims to be brought on behalf of purchases of Presstek's common stock during the period from July 27, 2006 through September 29, 2006. The complaint alleges, among other things, that the Company and the other defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. While we believe the allegations are without merit and intend to vigorously defend against them, we cannot assure an outcome that is favorable to us, and an unfavorable outcome in connection with this or a future lawsuit could have a material adverse effect on our business, results of operations and financial condition.

Presstek is party to other litigation that it considers routine and incidental to its business; however, it does not expect the results of any of these actions to have a material adverse effect on its business, results of operation or financial condition.

***The loss or unavailability of our key personnel would have a material adverse effect on our business.***

Our success is largely dependent on the personal efforts of our senior management team. We have employment agreements with Edward J. Marino, our President and Chief Executive Officer, Jeffrey A. Cook, our Senior Vice President and Chief Financial Officer, and certain other executives. The loss or interruption of the services of any or all of these individuals could have an adverse effect on our business and prospects.

Our success is also be dependent on our ability to hire and retain additional qualified engineering, technical, sales, marketing and other personnel. Competition for qualified personnel in our industry can be intense, and there can be no assurance that we will be able to hire or retain additional qualified personnel.

***Our stock price has been and could continue to be extremely volatile.***

The market price of our common stock has been subject to significant fluctuations. The securities markets, and the Nasdaq National Market in particular, have experienced, and are likely to experience in the future, significant price and volume fluctuations that could adversely affect the market price of our common stock without regard to our operating performance. In addition, the trading price of our common stock could be subject to significant fluctuations in response to:

- actual or anticipated variations in our quarterly operating results;
- significant announcements by us or other industry participants;
- changes in national or regional economic conditions;

- changes in securities analysts' estimates for us, our competitors or our industry, or our failure to meet analysts' expectations; and

- general market conditions.

These factors may materially and adversely affect our stock price, regardless of our operating performance.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2.** ***Properties***

The following table summarizes our significant occupied properties:

| Location | Functions | Square footage (approximate) | Ownership status/ lease expiration |
|---|---|---|---|
| Hudson, New Hampshire | Corporate headquarters, manufacturing, research and development, marketing, demonstration activities, administrative and customer support | 165,000 | Owned |
| South Hadley, Massachusetts (two buildings) | Manufacturing, research and development, administrative support | 100,000 | Owned |
| Tucson, Arizona | Manufacturing, research and development, administrative supports | 75,000 | Owned |
| Des Plaines, Illinois | Distribution center | 127,000 | Lease expires in February 2008 |
| Des Plaines, Illinois | Sales, service | 10,000 | Lease expires in October 2007 |
| Fresno, California | Distribution center | 13,000 | Lease expires in July 2007 |
| Harrisburg, Pennsylvania | Distribution center | 15,000 | Lease expires in June 2007 |
| Mississauga, Ontario | Sales, service | 28,000 | Lease expires in March 2010 |
| Vancouver, British Columbia | Sales, service | 10,500 | Lease expires in December 2007 |
| Heathrow, United Kingdom | European headquarters, sales, service | 20,000 | Lease expires in November 2020, with an option to cancel in November 2010 |

Our Hudson, New Hampshire facility, in its capacity as corporate headquarters, is utilized by all of our operating segments.

Our Presstek segment utilizes the facilities in New Hampshire, Massachusetts, Illinois, New York, Pennsylvania, California, Ontario, British Columbia and the United Kingdom.

Our Lasertel segment utilizes the facilities in Arizona.

In addition to the properties referenced above, we also lease a number of small sales and marketing offices in the United States and internationally. At December 30, 2006, we were productively utilizing substantially all of the space in our facilities, with the exception of the Massachusetts facility, of which one of the two buildings is not being fully utilized. This building was subject to a chemical release on October 30, 2006 and has not been fully utilized subsequent to this event. We believe that our existing facilities are adequate for our needs for at least the next twelve months.

All of the properties we own are secured by our five-year, $80.0 million credit facilities.

We believe that our existing facilities are well maintained, in good operating condition and are adequate for our current and expected future operations.

**Item 3.** ***Legal Proceedings***

On October 26, 2006, the Company was served with a complaint naming the Company, together with certain of its executive officers, as defendants in a purported securities class action suit filed in the United States District Court for the District of New Hampshire. The suit claims to be brought on behalf of purchasers of Presstek's common stock during the period from July 27, 2006 through September 29, 2006. The complaint alleges, among other things, that the Company and the other defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder based on allegedly false forecasts of fiscal third quarter and annual 2006 revenues. As relief, the plaintiff seeks an unspecified amount of monetary damages, but makes no allegation as to losses incurred by any purported class member other than himself, court costs and attorneys' fees. The Company believes the allegations are without merit and intends to vigorously defend against them.

In March 2005, we filed an action against Creo, Inc. (subsequently acquired by Kodak) in the U.S. District for the District of New Hampshire for patent infringement. In this action, we allege that Creo has distributed a product that violates a Presstek U.S. Patent. We are seeking an order from the court that Creo refrain from offering the infringing product for sale, from using the infringing material or introducing it for the named purposes, or from possessing such infringing material, and for the payment of damages associated with the infringement.

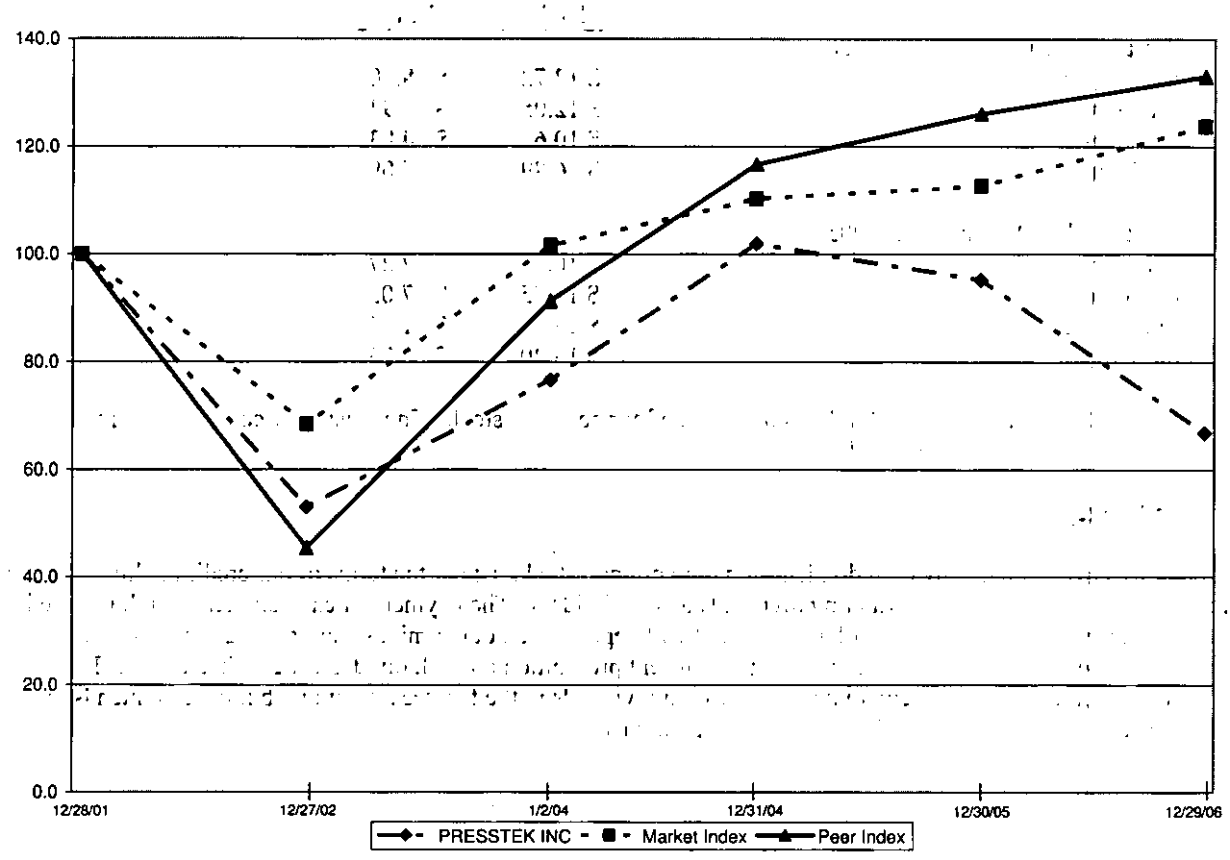
In September 2003, Presstek filed an action against Fuji Photo Film Corporation, Ltd., in the District Court of Mannheim, Germany for patent infringement. In this action, Presstek alleges that Fuji has manufactured and distributed a product that violates Presstek European Patent 0 644 047 registered under number DE 694 17 129 with the German Patent and Trademark Office. Presstek seeks an order from the court that Fuji refrain from offering the infringing product for sale, from using the infringing material or introducing it for the named purposes, and from possessing such infringing material. A trial was held in November 2004 and March 2005, and we await a final determination from the Courts.

In our Quarterly Report on Form 10-Q filed with the SEC on August 10, 2006, we reported that we had brought an action against the Office of the Treasurer of the State of Illinois. As disclosed in our Quarterly Report on Form 10-Q filed with the SEC on November 9, 2006, as part of our settlement with an unrelated party, we withdrew our legal action against the Illinois State Treasurer's Office.

Presstek is a party to other litigation that it considers routine and incidental to its business however it does not expect the results of any of these actions to have a material adverse effect on its business, results of operation or financial condition.

**Performance Graph**

The Stock Performance Graph set forth below compares the cumulative total return on the Company's Common Stock from December 28, 2001 through December 30, 2006, with the cumulative total return for the Nasdaq Stock Market Index and the SIC Code Printing Trades Machinery and Equipment Index which consists of the returns of Baldwin Technology (AMEX: BLD) and Delphax Technologies, Inc. (Nasdaq: DLPX). The comparison assumes that $100 was invested on December 28, 2001 in the Company's Common Stock, the Nasdaq Stock Market Index and the stock of the SIC Code Printing Trades Machinery and Equipment Index and assumes the reinvestment of all dividends, if any.




**Item 6.** ***Selected Financial Data***

The selected consolidated financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included as Part II Item 7 of this Annual Report on Form 10-K and our consolidated financial statements and notes thereto included in Part II Item 8 of this Annual Report on Form 10-K. On December 28, 2006, the Audit Committee of the Company's Board of Directors ratified a plan submitted by management to terminate production in South Hadley, Massachusetts of Precision-branded analog plates used in newspaper applications. The results of operations for the years ended December 31, 2005 and January 1, 2005 have been restated to reflect the analog newspaper business as discontinued operations for all periods presented. The historical results provided below are not necessarily indicative of future results.

(in thousands, except per-share data)

| | Fiscal year ended | | | | |
|---|---|---|---|---|---|
| | December 30, 2006 | December 31, 2005 | January 1, 2005 (1) | January 3, 2004 (2) | December 28, 2002 (3) |
| Revenue | $ 265,694 | $ 259,134 | $ 121,453 | $ 87,232 | $ 83,453 |
| Cost of revenue | 186,716 | 176,814 | 78,180 | 51,151 | 54,639 |
| Gross profit | 78,978 | 82,320 | 43,273 | 36,081 | 28,814 |
| Operating expenses | | | | | |
| Research and development | 6,409 | 7,335 | 6,460 | 7,061 | 9,303 |
| Sales, marketing and customer support | 39,970 | 40,241 | 17,574 | 12,272 | 10,767 |
| General and administrative | 19,938 | 20,970 | 12,399 | 8,399 | 9,345 |
| Amortization of intangible assets | 2,980 | 2,595 | 1,261 | 964 | 867 |
| Restructuring and special charges (credits) | 5,481 | 874 | (392) | 550 | 5,961 |
| Total operating expenses | 74,778 | 72,015 | 37,302 | 29,246 | 36,243 |
| Operating income | 4,200 | 10,305 | 5,971 | 6,835 | (7,429) |
| Other income (expense), net | (1,826) | (2,220) | (870) | (167) | (851) |
| Income (loss) from continuing operations before income taxes | 2,374 | 8,085 | 5,101 | 6,668 | (8,280) |
| Provision (benefit) for income taxes | (10,643) | 1,164 | 166 | - | - |
| Income (loss) from continuing operations | 13,017 | 6,921 | 4,935 | 6,668 | (8,280) |
| Income (loss) from discontinued operations, net of income tax | (3,273) | (835) | (1,070) | 1,429 | - |
| Net income (loss) | $ 9,744 | $ 6,086 | $ 3,865 | $ 8,097 | $ (8,280) |
| Earnings (loss) per share - basic | | | | | |
| Income (loss) from continuing operations | $ 0.36 | $ 0.20 | $ 0.14 | $ 0.20 | $ (0.24) |
| Income (loss) from discontinued operations | (0.09) | (0.03) | (0.03) | 0.04 | - |
| | $ 0.27 | $ 0.17 | $ 0.11 | $ 0.24 | $ (0.24) |
| Earnings (loss) per share - diluted | | | | | |
| Income (loss) from continuing operations | $ 0.36 | $ 0.19 | $ 0.14 | $ 0.20 | $ (0.24) |
| Income (loss) from discontinued operations | (0.09) | (0.02) | (0.03) | 0.04 | - |
| | $ 0.27 | $ 0.17 | $ 0.11 | $ 0.24 | $ (0.24) |
| Weighted average shares outstanding | | | | | |
| Basic | 35,565 | 35,153 | 34,558 | 34,167 | 34,124 |
| Diluted | 35,856 | 35,572 | 35,357 | 34,400 | 34,124 |

| | As of | | | | |
|---|---|---|---|---|---|
| | December 30, 2006 | December 31, 2005 | January 1, 2005 | January 3, 2004 | December 28, 2002 |
| Working capital | $ 47,498 | $ 41,392 | $ 41,117 | $ 42,512 | $ 28,572 |
| Total assets | $ 198,014 | $ 181,487 | $ 171,318 | $ 106,528 | $ 101,796 |
| Total debt and capital lease obligations | $ 37,572 | $ 35,643 | $ 41,822 | $ 14,464 | $ 16,707 |
| Stockholders' equity | $ 111,237 | $ 98,633 | $ 89,402 | $ 80,183 | $ 71,766 |

(1) Amounts include results of operations of ABD International, Inc. (which acquired certain assets and assumed certain liabilities of The A.B. Dick Company on November 5, 2004) and Precision Lithograining Corp. (acquired July 30, 2004) for the periods subsequent to their respective acquisitions.

(2) The income from discontinued operations amount relates to the operations of Delta V Technologies, Inc., which were shut down in fiscal 1999.

(3) The cost of revenue amount reported for the fiscal year ended December 28, 2002 includes $3.7 million of inventory writedowns and other charges related to discontinued programs.

**Item 7.** ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following Management's Discussion and Analysis should be read in connection with "Item 1. Business", "Item 1A. Risk Factors", "Item 6. Selected Financial Data", "Item 7A. Quantitative and Qualitative Disclosures about Market Risks" and the Company's Consolidated Financial Statements and Notes thereto included in this Annual Report on Form 10-K.

**Overview**

We are a market-focused company primarily engaged in the design, manufacture, sales and service of high-technology digital imaging solutions to the graphic arts industry worldwide. We are helping to lead the industry's transformation from analog print production methods to digital imaging technology. We are a leader in the development of advanced printing systems using digital imaging equipment and consumables-based solutions that economically benefit the user through a streamlined workflow and chemistry free, environmentally responsible operation. We are also a leading sales and service channel in the small to mid-sized commercial, quick and in-plant printing markets offering a wide range of solutions to over 20,000 customers worldwide.

Presstek's business model is a capital equipment and consumables (razor and blade) model. In this model, approximately 63% of our revenue is recurring revenue. Our model is designed so that each placement of either a Direct Imaging Press or a Computer to Plate system results in recurring aftermarket revenue for consumables and service.

Through our various operations, we:

- provide advanced print solutions through the development and manufacture of digital laser imaging equipment and advanced technology chemistry-free printing plates, which we call consumables, for commercial and in-plant print providers targeting the growing market for high quality, fast turnaround short-run color printing;

- are a leading sales and services company delivering Presstek digital solutions and solutions from other manufacturing partners through our direct sales and service force and through distribution partners worldwide;

- manufacture semiconductor solid state laser diodes for Presstek imaging applications and for use in external applications; and

- distribute printing plates for conventional print applications.

We have developed a proprietary system by which digital images are transferred onto printing plates for Direct Imaging on-press applications and for computer-to-plate applications. We refer to Direct Imaging as DI and computer-to-plate as CTP. Our digital imaging systems enable customers to produce high-quality, full color lithographic printed materials more quickly and cost effectively than conventional methods that employ more complicated workflows and toxic chemical processing. This results in reduced printing cycle time and lowers the effective cost of production for commercial printers. Our solutions make it more cost effective for printers to meet the increasing demand for shorter print runs, higher quality color and faster turn-around times.

Our ground breaking DI technology is marketed to leading press manufacturers. Our Presstek business segment supplies these manufacturers with imaging kits complete with optical assemblies and software which are integrated into the manufacturers' presses. The result is a DI press, which is designed to image our printing plates. Similar digital imaging technologies are used in our CTP systems. Our Presstek business segment designs and manufactures CTP systems that incorporate our imaging technology and image our chemistry free printing plates.

In addition to marketing, selling and servicing our proprietary digital products, we also market, sell and service traditional, or analog products for the commercial print market. This analog equipment is manufactured by third party strategic partners and analog consumables are manufactured by either us or our strategic partners. The addition of these non-proprietary products and our ability to directly sell and service them is made possible by acquisitions we completed in 2004: ABDick and Precision.

On November 5, 2004, we, through our wholly-owned subsidiary, ABD International, Inc. completed the acquisition of certain assets and assumed certain liabilities of the The A.B. Dick Company, which we acquired through a Section 363 sale in the United States Bankruptcy Court. We refer to the business that we acquired as the ABDick business. The business we acquired manufactures, markets and services offset systems, CTP systems and related supplies for the graphics arts and printing industries. In 2005, we substantially completed the integration of the operations of the ABDick business into Presstek.

On July 30, 2004, we acquired all the stock of Precision Lithograining Corporation, an independent plate manufacturer located in South Hadley, Massachusetts, which we refer to as Precision. Precision manufactures our Anthem and Freedom digital printing plates and prior to December 28, 2006, the date on which the company discontinued operations related to Precision's newspaper analog business, it provided conventional analog printing plates for web and sheet-fed applications to external customers.

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

Our operations are organized based on the market application of our products and related services and consist of two reportable segments: Presstek and Lasertel. The Presstek segment is primarily engaged in the development, manufacture, sale and servicing of our 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 for Presstek and for sale to external customers.

We generate revenue through four main sources: (i) the sale of our equipment, including DI presses and CTP devices, as well as imaging kits, which are incorporated by leading press manufacturers into direct imaging presses for the graphic arts industry; (ii) the sale of high-powered laser diodes for the graphic arts, defense and industrial sectors; (iii) the sale of our proprietary and non-proprietary consumables and supplies; and (iv) the servicing of offset printing systems and analog and CTP systems and related equipment.

Our business strategy is centered on maximizing the sale of consumable products, such as printing plates, and therefore our business efforts focus on the sale of "consumable burning engines" such as our DI presses and CTP devices. Our strategy to grow our consumables has two parts. The first part is to increase the number of our DI and CTP units in the field. By increasing the number of consumable burning engines we expect to increase the demand for our consumables.

We rely on partnerships with press manufacturers such as Ryobi Limited, Heidelberger Druckmaschinen AG, or Heidelberg, and Koenig & Bower AG, or KBA, to market printing presses and press solutions that use our proprietary consumables. We also rely on distribution partners, such as Eastman Kodak to sell, distribute and service press systems and the related proprietary consumable products.

Another method of growing the market for consumables is to develop consumables that can be imaged by non-Presstek devices. In addition to expanding our base of our consumable burning engines, an element of our focus is to reach beyond our proprietary systems and penetrate the installed base of CTP devices in all market segments with our chemistry free and process-free offerings. The first step in executing this strategy was the launch of our non-proprietary Aurora chemistry-free printing plate designed to be used with consumable burning engines manufactured by thermal CTP market leaders Screen and Kodak. We continue to work with other CTP

manufacturers to qualify our consumables on their systems. We believe this shift in strategy fundamentally enhances our ability to expand and control our business.

We operate and report on a 52- or 53-week; fiscal year ending on the Saturday closest to December 31. Accordingly, the consolidated financial statements include the financial reports for the 52-week fiscal year ended December 30, 2006, which we refer to as "fiscal 2006", the 52-week fiscal year ended December 31, 2005, which we refer to as "fiscal 2005", and the 52-week fiscal year ended January 1, 2005, which we refer to as "fiscal 2004".

We intend the discussion of our financial condition and results of operations that follows to provide information that will assist in understanding our consolidated financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our consolidated financial statements.

The discussion of results of operations at the consolidated level is presented together with results of operations by business segment.

## RESULTS OF OPERATIONS

Results of operations in dollars and as a percentage of revenue were as follows (in thousands of dollars):

| | Fiscal year ended | | | | | |
|---|---|---|---|---|---|---|
| | December 30, 2006 [1] | | December 31, 2005 [1] | | January 1, 2005 [1] | |
| | | % of revenue | | % of revenue | | % of revenue |
| Revenue | | | | | | |
| Product | $ 220,724 | 83.1 | $ 210,613 | 81.3 | $ 108,390 | 89.2 |
| Service and parts | 44,970 | 16.9 | 48,521 | 18.7 | 13,063 | 10.8 |
| Total revenue | 265,694 | 100.0 | 259,134 | 100.0 | 121,453 | 100.0 |
| Cost of revenue | | | | | | |
| Product | 154,250 | 58.1 | 143,952 | 55.5 | 69,045 | 56.9 |
| Service and parts | 32,466 | 12.2 | 32,862 | 12.7 | 9,135 | 7.5 |
| Total cost of revenue | 186,716 | 70.3 | 176,814 | 68.2 | 78,180 | 64.4 |
| Gross profit | 78,978 | 29.7 | 82,320 | 31.8 | 43,273 | 35.6 |
| Operating expenses | | | | | | |
| Research and development | 6,409 | 2.4 | 7,335 | 2.8 | 6,460 | 5.3 |
| Sales, marketing and customer support | 39,970 | 15.0 | 40,241 | 15.6 | 17,574 | 14.5 |
| General and administrative | 19,938 | 7.5 | 20,970 | 8.1 | 12,399 | 10.2 |
| Amortization of intangible assets | 2,980 | 1.1 | 2,595 | 1.0 | 1,261 | 1.0 |
| Restructuring and other charges (credits) | 5,481 | 2.1 | 874 | 0.3 | (392) | (0.3) |
| Total operating expenses | 74,778 | 28.1 | 72,015 | 27.8 | 37,302 | 30.7 |
| Operating income | 4,200 | 1.6 | 10,305 | 4.0 | 5,971 | 4.9 |
| Interest and other expense, net | (1,826) | (0.7) | (2,220) | (0.9) | (870) | (0.7) |
| Income from continuing operations before income taxes | 2,374 | 0.9 | 8,085 | 3.1 | 5,101 | 4.2 |
| Provision (benefit) for income taxes | (10,643) | (4.0) | 1,164 | 0.4 | 166 | 0.1 |
| Income from continuing operations | 13,017 | 4.9 | 6,921 | 2.7 | 4,935 | 4.1 |
| Loss from discontinued operations | (3,273) | (1.2) | (835) | (0.3) | (1,070) | (0.9) |
| Net income | $ 9,744 | 3.7 | $ 6,086 | 2.4 | $ 3,865 | 3.2 |

1 – Operating results related to the Precision analog newspaper business have been reclassified to discontinued operations for all periods presented. See Note 3 of Notes to Consolidated Financial Statements.

**Fiscal 2006 Compared to Fiscal 2005**

***Revenue***

Consolidated Revenue

Consolidated revenues were $265.7 million in fiscal 2006, an increase of $6.6 million, or 2.5%, from $259.1 million in fiscal 2005. Equipment revenues increased $13.7 million over fiscal 2005 resulting from strong DI unit sales, including the introduction of the new 52DI press. Partially offsetting increases in equipment revenue was a decline in both consumables and service revenues ($3.6 million each) driven principally from a continuing slowdown in analog sales. Consistent with our strategy of migrating our customer base to digital solutions, digital product sales improved from $143.4 million in 2005 to $170.5 million in 2006, an increase of 18.9% year over year. As a percentage of total product revenues, sales of digital solutions increased from approximately 68% in 2005 to approximately 77% in 2006.

Equipment revenues were $97.6 million in 2006 compared to $83.9 million in 2005, an increase of $13.7 million, or 16.4%. Growth in equipment revenues was due primarily to a 72.8% increase in the number of DI presses sold in fiscal 2006 compared to fiscal 2005, driven largely by growth in our 34DI product sales and the introduction of the new 52DI press. Total DI equipment sales were strong in both the North American and European markets during 2006, as revenues improved by $12.2 million, or 46.7%, and $12.3 million, or 220.0%, respectively. Fiscal 2006 equipment revenues were also favorably impacted by the launch of a new generation CTP system, the Vector TX52, in the fourth quarter of 2005. The Vector TX52 accounted for $4.1 million of revenue in fiscal 2006, an increase of $2.0 million, or 96.0%, compared to fiscal 2005. Offsetting these items were lower DPM and Dimension sales, which declined by $3.7 million, or 51.5%, and $3.4 million, or 25.8%, respectively. Sales of these units were impacted by competitive pressures, as well as quality issues on both equipment units and related consumable plates (AnthemPro). Analog equipment revenues also declined from $22.7 million in 2005 to $14.0 million in 2006. This decline reflects the transition of our customer base from analog to digital solutions, however, we do anticipate that sales of analog solutions will level off and stabilize as a percentage of our total revenue in the near term. Overall, digital equipment sales in the Presstek segment increased 34.8% from $57.0 million in 2005 to $76.8 million in 2006. On a consolidated basis, digital sales as a percentage of total equipment revenues in 2006 accounted for 85.6% of sales compared to 72.5% in 2005.

Revenue for the Lasertel segment of $11.5 million in 2006 represented a year over year increase of 47.8%, or $3.7 million, due primarily to the addition of two new customers, as well as higher sales to the Presstek segment.

Revenues generated from consumables sales decreased 3.0% year over year, from $126.8 million in 2005 to $123.1 million in 2006. The decrease in sales was primarily attributable to the anticipated slowdown in the analog market resulting from the continued migration of our customer base from analog to digital solutions. Total analog consumables sales declined from $44.5 million in 2005 to $36.1 million in 2006, a decrease of 18.9%. Partially offsetting this decline were improved sales of digital products, which increased from $82.4 million in 2005 to $87.0 million in 2006. This increase was primarily due to increased placements of DI and CTP equipment and strengthening relationships with OEM partners. These increases were partially offset by declines in older technology digital lines such as DPM consumables. Overall, digital sales of consumables products increased $4.6 million year over year, or 5.6%, from $82.4 million in fiscal 2005 to $87.0 million in fiscal 2006. As a percentage of total consumables revenues, digital sales accounted for 70.6% of sales in 2006 compared to 65.0% in 2005.

Service and parts revenues were $45.0 million in 2006, a decrease of $3.5 million, or 7.3%, compared to $48.5 million in 2005. The decrease in revenue was due primarily to the elimination of certain legacy service contracts, as well as a reduction in billable service and analog parts sales as our customer base continues to migrate to digital solutions.

*Cost of Revenue*

Consolidated cost of product, consisting of costs of material, labor and overhead, shipping and handling costs and warranty expenses, was $154.2 million in fiscal 2006, an increase of $10.3 million, or 7.2%, compared to fiscal 2005. This increase was primarily the result of increased product revenues year over year. In addition, Presstek recorded $0.6 million of incremental warranty costs related to the Vector TX52 and AnthemPro plate quality issues experienced during 2006.

Consolidated cost of service and parts revenues was $32.5 million in fiscal 2006, slightly lower than the $32.9 million reported in 2005. These amounts represent the costs of spare parts, labor and overhead associated with the ongoing service of products. Costs in 2006 were impacted by higher fuel expenses, as well as increased technology costs related to an upgrade of the communications and logistics capabilities of our service technicians and engineers. These costs were offset by the termination of 47 service personnel in North America and the use of independent service contractors during the second half of 2006, the result of a restructuring plan intended to realign our service costs with a declining analog revenue base.

*Gross Margin*

Consolidated gross margin as a percentage of total revenue was 29.7% in 2006 compared to 31.8% in 2005. Gross margin as a percentage of product revenue was 30.1% compared to 31.7% in 2005. The product gross margin decrease reflects a heavier mix of equipment revenues as a percentage of total sales, which historically carry significantly lower margins than Presstek's consumables line of products, increased warranty costs related to quality issues experienced with our Vector TX52 and AnthemPro plates, partially offset by improved margins in our Lasertel segment.

Gross margin as a percentage of service and parts revenues decreased from 32.3% in 2005 to 27.8% in 2006. The decrease in margin percentage is principally due to a decline in the analog contract revenue base, which despite restructuring action taken to realign fixed service delivery costs in the second half of 2006, negatively impacted margins. We are currently working to transition our legacy analog service contracts to a time and materials model which, in the short-term, due to fixed price arrangements on these contracts, has exerted additional downward pressure on our service margins.

*Research and Development*

Research and development expenses primarily consist of payroll and related expenses for personnel, parts and supplies, and contracted services required to conduct our equipment, consumables and laser diode development efforts. Consolidated research and development expenses were $6.4 million in fiscal 2006 compared to $7.3 million in fiscal 2005. The decrease is principally attributable to efficiencies realized from the integration of the acquired ABDick business into the company during the fourth quarter of 2005.

Research and development expenses for the Presstek segment were $5.3 million in 2006, a decrease of $1.1 million compared to 2005. This decrease is primarily attributable to efficiencies realized from the integration of the ABDick business into this segment.

Research and development expenses for the Lasertel segment were $1.1 million in 2006 compared to $0.9 million in 2005. The increase reflects increased development costs associated with specialized new products for third party foreign customers.

*Sales, Marketing and Customer Support*

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

To improve operations, we took steps in both fiscal 2005 and 2006 to strengthen capacity and capability within the sales, marketing and customer support area through reorganization, training in advanced technology products and services, and changes in key personnel. We also eliminated costs, primarily for customer support and marketing personnel by integrating U.S. marketing and customer support operations within the Presstek segment. As we continue to pursue initiatives designed to drive penetration of Presstek technology in the marketplace, we expect expenses in this area to increase in absolute dollars in future periods.

Consolidated sales, marketing and customer support expenses of $40.0 million in fiscal 2006 were relatively unchanged from expenses of $40.2 million in fiscal 2005.

Sales, marketing and customer support expenses for the Presstek segment were $39.5 million and $39.9 million in 2006 and 2005, respectively.

Sales, marketing and customer support expenses for the Lasertel segment increased from $0.3 million in 2005 to $0.5 million in 2006.

***General and Administrative***

Consolidated general and administrative expenses, primarily comprised of payroll and related expenses for personnel, and contracted professional services necessary to conduct our finance, information systems, human resources and administrative activities, were $19.9 million in 2006 compared to $21.0 million in 2005. This decrease is primarily attributable to cost savings realized by the integration of the ABDick U.S. operations into Presstek. As a percentage of total sales, consolidated general and administrative expenses declined from 8.1% in 2005 to 7.5% in 2006. We anticipate that general and administrative expenses will continue to decrease as a percentage of revenue in future periods, as our strategy is to position the growth of general and administrative expenses at lower rates than the growth of revenue and as the impact of integration actions is fully realized.

General and administrative expenses for the Presstek segment were $18.9 million in fiscal 2006, compared to $20.1 million in fiscal 2005. The decrease in expense is primarily attributable to the elimination of redundant costs resulting from the integration of the ABDick U.S. operations into the segment.

General and administrative expenses for the Lasertel segment increased $0.3 million to $1.1 million in fiscal 2006 from $0.8 million in fiscal 2005. This increase was due primarily to a change in allowance for doubtful accounts arising from certain customer accounts.

***Amortization of Intangible Assets***

Intangible asset amortization expense increased from $2.6 million in 2005 to $3.0 million in 2006. Amortization relates to intangible assets recorded in connection with the Company's 2004 ABDick and Precision acquisitions, patents and other purchased intangible assets.

***Restructuring and Other Charges (Credits)***

In fiscal 2006, the Company recognized restructuring and other charges of $5.5 million. These charges included $2.3 million related to impairment of intangible assets associated with patent defense costs on the Creo litigation matter, $2.8 million related to impairment of goodwill resulting from SFAS 144 valuation adjustments of long lived assets at Precision as a result of the decision to discontinue its newspaper analog business, $0.5 million for merger-related costs primarily related to additional professional fees, and $0.3 million related to the impairment of other assets. In addition, approximately $0.4 million of previously established accruals at the Presstek segment were recognized in income in fiscal 2006 due principally to changes in the scope of previously announced severance programs.

In fiscal 2005, we recognized $0.9 million of restructuring and other charges related to Precision and ABDick. These charges included severance and fringe benefit costs, executive and other contractual obligations, and a settlement with previously terminated employees.

***Interest and Other Income (Expense), Net***

Net interest expense was $2.2 million in fiscal 2006 compared to $2.3 million in fiscal 2005. The decrease in the current year period is attributable to lower outstanding long-term debt resulting from the repayments of principal.

On September 7, 2006, an agreement related to the ABDick acquisition under which we were reimbursed $1.2 million was approved by the United States Bankruptcy Court for the District of Delaware. The net amount, after reductions for legal fees and additional adjustments for settlement of various assets and liabilities related to this action, totaled $0.3 million, and is included as a component of Interest and other income (expense), net, in our Consolidated Statements of Operations for the year ended December 30, 2006. The balance of other income (expense), net relates to gains or losses on foreign currency transactions for all periods presented.

***Provision (Benefit) for Income Taxes***

Our effective tax rate was (448.3%) in fiscal 2006 and 14.4% in fiscal 2005. The variance from the federal statutory rate for fiscal 2006 was primarily due to the reversal of valuation allowance provided against our net deferred tax assets in the U.S.

The variance from the federal statutory rate for fiscal 2005 was primarily due to the utilization of net operating losses previously offset by a valuation allowance, foreign taxes, and alternative minimum taxes.

In fiscal 2006, in accordance with Statement of Financial Accounting Standards No. 109, *"Accounting for Income Taxes"*, ("FAS 109"), the Company recognized through its tax provision a $11.2 million deferred tax benefit from the reversal of the previously recorded valuation allowance established on its U.S. federal, state and local deferred tax assets, except for that portion where the evidence does not yet support a reversal. To support the determination that is more likely than not that the Company's deferred tax assets will be realized in the future, FAS 109 requires that the Company consider all available positive and negative evidence. Based on a detailed analysis conducted during fiscal 2006, the Company concluded that evidence exists to support the U.S. valuation allowance reversal as of December 30, 2006.

During 2007, we expect our income tax provision to reflect statutory federal and state tax rates.

**Fiscal 2005 Compared to Fiscal 2004**

***Revenue***

Consolidated Revenue

Consolidated revenues were $259.1 million in fiscal 2005, an increase of $137.6 million, or 113.4%, from $121.5 million of consolidated revenues in fiscal 2004. Revenue growth in fiscal 2005 reflects the impact of our acquisition strategy launched in 2004 with the Precision and ABDick acquisitions and our success in integrating these operations into our business in 2005. We grew our digital technology base significantly in fiscal 2005, with digital product revenues increasing from $98.6 million in fiscal 2004 to $143.4 million in fiscal 2005, an increase of 45.4%.

Product equipment revenues, including royalties, were $83.9 million in fiscal 2005, an increase of $42.0 million, or 100.4%, from fiscal 2004. The fiscal 2005 increase is primarily attributable to the ABDick acquisition, which business's direct sales channel favorably impacted our installed base of DI and CTP presses, referred to as consumable burning engines, or CBEs, sold in the current period. We increased digital equipment sales by approximately 300 units, or $23.1 million, in fiscal 2005.

Revenues generated from consumable product sales were $126.8 million in fiscal 2005, an increase of $60.2 million, or 90.5%, from the prior fiscal year. The increase is attributable primarily to incremental revenues associated with the Precision and ABDick acquisitions.

Service and parts revenues were $48.5 million in fiscal 2005, an increase of $35.5 million, or 271.4%, from the prior fiscal year. The increase is attributable primarily to incremental revenue derived from the ABDick acquisition.

Segment Revenue

The following business segment revenue information includes intersegment revenues for the Lasertel segment. Intersegment revenues are eliminated in consolidation.

*Presstek Segment*
Revenue for the Presstek segment was $255.4 million in fiscal 2005, an increase of $136.8 million, or 115.3%, compared to $118.6 million in fiscal 2004. This revenue increase is primarily attributable to the incremental sales generated from the acquisition of the ABDick business and the introduction of Presstek technology products into those new distribution channels. Equipment, consumables and service/parts revenues increased by $41.2 million, $60.2 million and $35.4 million, respectively.

Digital product revenues in the Presstek segment increased 45.8% from $95.8 million in fiscal 2004 to $139.6 million in fiscal 2005. A primary factor in the increase in digital revenues in fiscal 2005 was an 84% increase in sales of CBEs. Product equipment revenue was also favorably impacted by the direct sales channel acquired in the ABDick acquisition and the launch of the Vector TX52, a new generation of CTP system, into U.S. and European markets, which contributed $1.2 million in incremental revenue in fiscal 2005.

In fiscal 2005, we experienced organic growth in several consumable digital product lines, including Profire Digital Media plates, which increased $1.9 million, or 414% year over year. In addition, we entered into several strategic consumable relationships, including those with Heidleberg naming the Quickmaster DI as a preferred plate and Screen USA to market consumable plate products in non-Presstek proprietary CTP systems.

In fiscal 2005, we brought back to Presstek the previously outsourced service of our digital equipment and introduced DI training to service engineers and customer support to drive digital service growth. Our digital service contract mix increased from 18% to 24% in fiscal 2005.

*Lasertel Segment*
Revenue for the Lasertel segment was $7.8 million in both fiscal 2005 and fiscal 2004. Revenue earned from external customers increased $0.9 million, from $2.9 million in fiscal 2004 to $3.8 million in fiscal 2005, primarily due to the addition of two significant new customers in the defense and industrial fields.

***Cost of Revenue***

Consolidated Cost of Revenue

Consolidated cost of product, consisting of costs of material, labor and overhead, shipping and handling costs and warranty expenses, was $144.0 million in fiscal 2005, an increase of $74.9 million, or 108.5%, from $69.0 million in fiscal 2004. The increase is primarily attributable to additional cost of product associated with the Precision and ABDick businesses acquisitions and higher revenues in fiscal 2005.

Consolidated cost of service and parts was $32.9 million in fiscal 2005 and $9.1 million in fiscal 2004. These amounts represent the costs of spare parts, labor and overhead associated with the ongoing service of products. These increases are attributable primarily to the addition of the ABDick business in November 2004.

Segment Cost of Revenue

Cost of revenue for the Presstek segment was $170.5 million in fiscal 2005, an increase of $98.5 million, compared to $72.0 million in fiscal 2004. The increase relates primarily to the addition of ABDick and higher production costs driven by increased equipment, consumable and parts sales.

Cost of revenue for the Lasertel segment was $9.1 million in fiscal 2005, compared to $9.5 million in fiscal 2004. The decrease in fiscal 2005 relates to production efficiency gains, yield improvements, and, to a lesser extent, a change in the lives of certain machinery and equipment from five to seven years, resulting in a reduction of depreciation costs of $0.4 million in both the fourth quarter and fiscal 2005. This change in estimate positively impacted net income by $0.3 million and earnings per share on both a basic and diluted basis by $0.01 in both the fiscal 2005 fourth quarter and year.

***Consolidated Gross Margin***

Consolidated gross margin as a percentage of total revenue was 31.8% in fiscal 2005, compared to 35.6% in fiscal 2004. Gross margin as a percentage of product revenue was 31.7% in fiscal 2005, compared to 36.3% in fiscal 2004. The product gross margin percentage decrease in fiscal 2005 is primarily the result of the addition of the Precision and ABDick businesses, together with a higher mix of equipment revenues, which historically carry lower gross margins than Presstek's core business.

Gross margin as a percentage of service and parts revenue was 32.3% and 30.1% in fiscal 2005 and 2004, respectively. The service and parts gross margin percentage increase in fiscal 2005 is attributable to integration savings resulting from consolidating operations and a shift from an outsourced service provider to internal services.

***Research and Development***

Research and development expenses primarily consist of payroll and related expenses for personnel, parts and supplies, and contracted services required to conduct our equipment, consumables and laser diode development efforts. Our research and development team also contribute to the development, presentation, and launch of new technology products at key industry shows in the U.S. and Europe.

Consolidated research and development expenses were $7.3 million in fiscal 2005, an increase of $0.8 million, or 13.5%, from $6.5 million in fiscal 2004. The increase is attributable to additional costs associated with the Precision and ABDick business acquisitions, partially offset by development supplies costs incurred in fiscal 2004 in preparation for the Drupa trade show that were not incurred in 2005. As a percentage of revenue, research and development expenses declined from 5.3% to 2.8% in fiscal 2005.

Research and development expenses for the Presstek segment were $6.4 million in fiscal 2005, an increase of $0.5 million, or 9.3%, compared to $5.9 million in fiscal 2004. This increase is due to increased salary and benefits costs, partially offset by $0.6 million of development parts and supply costs incurred in fiscal 2004 in preparation for the Drupa trade show that were not incurred in fiscal 2005.

Research and development expenses for the Lasertel segment were $0.9 million in fiscal 2005, an increase of $0.3 million, compared to $0.6 million in fiscal 2004. This increase relates primarily to increased salary and benefits costs from additional development personnel associated with new product activities, combined with increased development parts and supplies expenses.

***Sales, Marketing and Customer Support***

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

Consolidated sales, marketing and customer support expenses were $40.2 million in fiscal 2005, an increase of $22.6 million, or 129.0%, from $17.6 million in fiscal 2004. The increases are primarily attributable to the Precision and ABDick acquisitions, partially offset by operating costs of $0.4 million incurred in fiscal 2004 in preparation for the Drupa trade show that were not incurred in 2005.

Sales, marketing and customer support expenses for the Presstek segment were $39.8 million in fiscal 2005, an increase of $22.7 million, compared to $17.1 million in fiscal 2004. The increase in fiscal 2005 is attributable to the ABDick acquisition, partially offset by operating costs of $0.4 million incurred in fiscal 2004 in preparation for the Drupa trade show that were not incurred in 2005.

Sales and marketing expenses for the Lasertel segment were $0.4 million in both fiscal 2005 and fiscal 2004. These costs reflect a continuing drive to enhance external revenues from customers in the defense and industrial fields.

***General and Administrative***

Consolidated general and administrative expenses, primarily comprised of payroll and related expenses for personnel, and contracted professional services necessary to conduct our finance, information systems, human resources and administrative activities, were $21.0 million in fiscal 2005, an increase of $8.6 million, or 69.1%, compared to $12.4 million in fiscal 2004. The increase is primarily attributable to the acquisitions of ABDick and Precision, combined with salaries, benefits, professional fees and integration costs incurred by the Presstek segment.

General and administrative expenses were 8.1% of total revenue in fiscal 2005 compared to 10.2% in fiscal 2004. The decrease in fiscal 2005 reflects integration savings associated with the consolidation of operations of both Precision and ABDick, as well as overall revenue growth of 113.4% in the period due to such acquisitions.

General and administrative expenses for the Presstek segment were $20.1 million in fiscal 2005, an increase of $8.6 million, or 75.2%, compared to $11.5 million in fiscal 2004. This increase is primarily attributable to additional general and administrative costs associated with the ABDick acquisition, coupled with higher salary and benefit costs and increased fees for professional services.

General and administrative expenses for the Lasertel segment were $0.8 million in fiscal 2005 and $0.9 million in fiscal 2004.

***Amortization of Intangible Assets***

Amortization expense of $2.6 million and $1.3 million in fiscal 2005 and fiscal 2004, respectively, relates to intangible assets recorded in connection with the Company's 2004 ABDick and Precision acquisitions, patents and other purchased intangible assets.

***Restructuring and Other Charges/Credits***

In fiscal 2005, we charged $0.9 million of restructuring and other charges related to Precision and ABDick to results of operations. These charges consisted of severance and fringe benefit costs, executive and other contractual obligations, and a settlement with previously terminated employees. In fiscal 2005, we also incurred net costs of $1.5 million associated with the integration of ABDick into Presstek. These costs were recorded as an adjustment to the purchase price of the acquisition.

In fiscal 2004, we reversed $0.4 million of excess restructuring charges related to estimated severance and fringe benefits accrued in fiscal 2003 and 2002 as a result of lower actual fringe benefit costs.

***Interest and Other Income/Expense, Net***

Interest expense was $2.5 million in fiscal 2005, an increase of $1.6 million from $0.9 million in fiscal 2004. The increase in interest expense is primarily attributable to higher average debt balances related to financing the two

acquisitions completed in 2004 and higher interest rates on borrowings. Effective August 31, 2005, we amended our debt facilities to reduce the current applicable LIBOR Margin to 2.5%, from the previous Applicable LIBOR Margin of 3.5%.

We recorded interest income of $0.1 million and $0.3 million in fiscal 2005 and fiscal 2004, respectively. The decrease in fiscal 2005 is principally a result of decreased cash balances available for investment.

The primary components of other income (expense), net, are gains or losses on foreign currency transactions and disposals of long-lived assets. In fiscal 2005 and fiscal 2004, we recorded losses on foreign currency transactions of $3,000 and $133,000, respectively. We recognized losses on the disposals of long-lived assets totaling $153,000 and $24,000 in fiscal 2005 and fiscal 2004, respectively.

***Provision for Income Taxes***

Our effective tax rate was 14.4% in fiscal 2005 and 3.3% in fiscal 2004. The variance from the federal statutory rate for fiscal 2005 was primarily due to the recognition of a non-cash deferred tax liability for goodwill, foreign taxes, and alternative minimum taxes.

In fiscal 2004, our effective tax rate differed from the federal statutory rate primarily due to state, foreign and alternative minimum tax, offset by changes in the valuation allowance.

At December 31, 2005, we had net deferred tax assets of approximately $36.0 million which were subject to consideration of a valuation allowance. A full valuation allowance was provided against the net deferred tax assets in the U.S. due to the uncertainty of their realization.

**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 charges for discontinued operations have been classified as "Loss from discontinued operations, net of income taxes" in the accompanying Consolidated Statements of Income. 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 classified on a consistent basis.

Precision Lithograining Corp. – Analog Newspaper Business

On December 28, 2006, the Audit Committee of the Company's Board of Directors ratified a plan submitted by management to terminate 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):

| | December 30, 2006 | December 31, 2005 | January 1, 2005 |
|---|---|---|---|
| Revenue | $ 10,816 | $ 15,006 | $ 8,398 |
| Loss before income taxes | (2,267) | (825) | (1,036) |
| Provision (benefit) for income taxes | (771) | 10 | 34 |
| Loss from discontinued operations | (1,496) | (835) | (1,070) |
| Loss from disposal of discontinued operations, net of tax benefit of $915 for the year ended December 30, 2006 | (1,777) | -- | -- |
| Net loss from discontinued operations | $ (3,273) | $ (835) | $ (1,070) |
| Loss per diluted share | $ (0.09) | $ (0.02) | $ (0.03) |

As of December 30, 2006, and in accordance with SFAS 144 and SFAS 142, the Company reviewed the potential impairment of long-lived assets associated with the analog newspaper business and goodwill of the Precision reporting unit and determined that impairment charges aggregating $4.0 million were required. Of this amount $2.8 million relates to the impairment of goodwill, $0.3 million relates to the acceleration of depreciation on fixed assets abandoned, $0.6 million relates to the acceleration of amortization on certain intangible assets and $0.3 million relates to the adjustment of inventory on hand to the lower of cost or market. Impairment charges of the reporting unit goodwill resulting from the abandonment of the analog newspaper business are reflected within restructuring and other charges (credits) of continuing operations, and the remaining charges included in the loss from discontinued operations for fiscal 2006.

**Liquidity and Capital Resources**

We finance our operating and capital investment requirements primarily through cash flows from operations and borrowings. At December 30, 2006, we had $9.4 million of cash and $47.5 million of working capital, compared to $5.6 million of cash and $41.4 million of working capital at December 31, 2005.

Continuing Operations

Our operating activities provided $12.8 million of cash in fiscal 2006. Cash provided by operating activities came from net income, after adjustments for non-cash depreciation, amortization, restructuring and merger-related expenses, provisions for warranty costs and accounts receivable allowances, stock compensation expense, deferred income taxes, and losses on the disposal of assets. Cash provided by operating activities were further benefited from a decrease in inventory levels of $2.2 million and an increase of $9.2 million in accounts payable. The decrease in inventory levels reflects our continued focus on inventory management. Accounts payable increases primarily relate to the timing of purchases and payments to suppliers. These amounts were partially offset by an increase of $10.9 million in accounts receivable, a decrease of $6.5 million in accrued expenses, an increase of $1.4 million of other current assets, and a decrease in deferred revenue of $0.7 million. Accounts receivable increases at December 30, 2006 are primarily attributable to increased revenue activity in the third month of the fourth quarter, timing of funding for equipment sold under third party and in-house leasing arrangements, and increased dealer sales in Europe which carry longer terms. Days sales outstanding were 62 at December 30, 2006 and 53 at December 31, 2005. The decrease in accrued expense relates to payments of, and adjustments to, previously accrued payroll-related costs, and adjustments to restructuring and related accruals. The decrease in deferred revenue relates to a reduction in service contracts resulting from the continuing erosion of our analog customer base.

We used $7.7 million of net cash for investing activities during 2006, comprised of $4.0 million of additions to property, plant and equipment, $2.8 million of investments in patents and other intangible assets and $0.8 million of transaction and accrued integration costs paid related to the acquisition of the ABDick business. Our additions to property, plant and equipment primarily relate to production equipment and investments in our infrastructure, including costs related to the implementation of a new service management system.

Our financing activities generated $4.1 million of net cash, comprised of $2.1 million of cash received from the exercise of stock options and purchase of common stock under our employee stock purchase program and $9.0 million of net borrowings under our current line of credit. These amounts were offset by payments on our current term loan and capital lease aggregating $7.0 million.

Discontinued Operations

Operating activities of discontinued operations used $4.5 million in cash in fiscal 2006. Cash used by operating activities reflect a net loss of $2.1 million, after adjustments for non-cash depreciation, amortization, provisions for warranty and accounts receivable allowances, and losses on disposal of assets. Cash used by operating activities also included an increase of $1.0 million in accounts payable and $1.4 million in accrued expenses related to facility closure and other response actions.

In fiscal 2006, investing activities of discontinued operations of $.4 million relate to capital expenditures associated with discontinued operations.

Our current senior secured credit facilities, referred to as the Facilities, include a $35.0 million five year secured term loan, referred to as the Term Loan, and a $45.0 million five year secured revolving line of credit, referred to as the Revolver, which replaced our then-existing term loan and revolver entered into in October 2003. At December 30, 2006, we had $12.3 million outstanding under letters of credit, thereby reducing the amount available under the Revolver to $17.7 million. At December 30, 2006 and December 31, 2005, the interest rates on the outstanding balance of the Revolver were 7.1% and 6.9%, respectively. Principal payments on the Term Loan are made in consecutive quarterly installments of $1.75 million, with a final settlement of all remaining principal and unpaid interest on November 4, 2009. The Facilities were used to partially finance the acquisition of the business of ABDick, and are available for working capital requirements, capital expenditures, acquisitions, and general corporate purposes. Borrowings under the Facilities bear interest at either (i) the London InterBank Offered Rate, or LIBOR, plus applicable margins or (ii) the Prime Rate, as defined in the agreement; plus applicable margins. The applicable margins range from 1.25% to 4.0% for LIBOR, or up to 1.75% for the Prime Rate, based on certain financial performance. At December 30, 2006 and December 31, 2005, the effective interest rates on the Term Loan were 7.1% and 7.5%, respectively.

Under the terms of the Revolver and Term Loan, we are required to meet various financial covenants on a quarterly and annual basis, including maximum funded debt to EBITDA, a non-U.S. GAAP measurement that we define as earnings before interest, taxes, depreciation, amortization and restructuring and other charges (credits), and minimum fixed charge coverage covenants. At December 30, 2006, we were in compliance with all financial covenants.

The Company entered into interest rate swap agreements with its lenders in October 2003, which were intended to protect the Company's long-term debt against fluctuations in LIBOR rates. Under the interest rate swaps LIBOR was set at a minimum of 1.15% and a maximum of 4.25%. Because the interest rate swap agreement did not qualify as a hedge for accounting purposes under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), and related amendments, including SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* ("SFAS 149"), the Company recorded a reduction to expense of $40,000, $28,000 and $133,000 in fiscal 2006, fiscal 2005 and fiscal 2004, respectively, to mark these interest rate swap agreements to market.

On November 23, 2005, we purchased equipment under a capital lease arrangement qualifying under Statement of Financial Accounting Standards ("SFAS") No. 13, *Accounting for Leases* ("SFAS 13"). The equipment is included as a component of property, plant and equipment and the current and long-term principal amounts of the lease obligation are included in our Consolidated Balance Sheets.

We believe that existing funds, cash flows from operations, and cash available under our Revolver should be sufficient to satisfy working capital requirements and capital expenditures through at least the next twelve months. There can be no assurance, however, that we will not require additional financing, or that such additional financing, if needed, would be available on acceptable terms.

**Contractual Obligations**

Our contractual obligations at December 30, 2006 consist of the following (in thousands):

| | | Payments due by period | | | |
|---|---|---|---|---|---|
| | Total | Less than one year | One to three years | Three to five years | Five or more years |
| Senior Secured Credit Facilities | $ 37,500 | $ 22,000 | $ 15,500 | $ -- | $ -- |
| Estimated interest payments on Senior Secured Credit Facilities | 3,855 | 2,499 | 1,356 | -- | -- |
| Capital lease, including contractual interest | 72 | 37 | 35 | -- | -- |
| Royalty obligation | 7,616 | 880 | 1,604 | 1,320 | 3,812 |
| Executive contractual obligations | 2,532 | 1,532 | 1,000 | -- | -- |
| Operating leases | 5,293 | 2,463 | 2,444 | 386 | -- |
| Total contractual obligations | $ 56,868 | $ 29,411 | $ 21,939 | $ 1,706 | $ 3,812 |

The amounts above related to estimated interest payments on the Facilities are based upon the interest rates in effect at December 30, 2006. Actual interest amounts could differ from the estimates above.

In fiscal 2000, we entered into an agreement with Fuji Photo Film Co., Ltd., whereby minimum royalty payments to Fuji are required based on specified sales volumes of our A3 format size four-color sheet-fed press. The agreement provides for total royalty payments to be no less than $6 million and not greater than $14 million over the life of the agreement. As of December 30, 2006, the Company had paid Fuji $6.4 million related to this agreement. We currently expect future sales volume to be sufficient to satisfy minimum commitments under the agreement. In the event of a volume shortfall over the term of the agreement, we are obligated to fund the shortfall as a lump-sum payment. Were such lump-sum payment required, we do not believe the amount of the payment will be material.

We have employment agreements with certain of our employees, some of which include change of control agreements that provide them with benefits should their employment with us be terminated other than for cause or their disability or death, or if they resign for good reason, as defined in these agreements, within a certain period of time from the date of any change of control of us.

From time to time we have engaged in sales of equipment that is leased by or intended to be leased by a third party purchaser to another party. In certain situations, we may retain recourse obligations to a financing institution involved in providing financing to the ultimate lessee in the event the lessee of the equipment defaults on its lease obligations. In certain such instances, we may refurbish and remarket the equipment on behalf of the financing company, should the ultimate lessee default on payment of the lease. In certain circumstances, should the resale price of such equipment fall below certain predetermined levels, we would, under these arrangements, reimburse the financing company for any such shortfall in sale price (a "shortfall payment"). The maximum contingent obligation under these shortfall payment arrangements is estimated to be $0.2 million at December 30, 2006. As of December 30, 2006, there were no defaults by ultimate lessees.

***Effect of Inflation***

Inflation has not had, and is not expected to have, a material impact on our financial conditions or results of operations.

*Net Operating Loss Carryforwards*

At December 30, 2006, we had net operating loss carryforwards for tax purposes totaling $74.3 million, of which $60.7 million resulted from stock option compensation deductions for U.S. federal tax purposes and $13.6 million resulted from operating losses. To the extent that net operating losses resulting from stock option compensation deductions result in reduction of current taxes payable, the benefit will be credited directly to additional paid-in capital. The Company's ability to utilize its net operating loss and credit carryforwards may be limited in the future if the company experiences an ownership change, as defined by the Internal Revenue Code. An ownership change occurs when the ownership percentage of 5% or greater of stockholders changes by more than 50% over a three year period.

**Critical Accounting Policies and Estimates**

*General*

Our Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles as adopted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and related 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; allowances 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. We base our 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.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. For a complete discussion of our accounting policies, see Note 1 to our consolidated financial statements appearing elsewhere herein.

*Revenue Recognition*

The Company recognizes revenue principally from the sale of products (equipment, consumables, laser diodes) and services (equipment maintenance contracts, installation, training, support, and spare parts). Revenue is recognized when persuasive evidence of a sales arrangement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable and collection is reasonably assured. In accordance with Staff Accounting Bulletin ("SAB") No. 104 *Revenue Recognition* ("SAB 104") and Emerging Issues Task Force ("EITF") Issue 00-21 *Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"), when a sales arrangement contains multiple elements, such as equipment and services, revenue is allocated to each element based on its relative fair value. The fair value of any undelivered elements, such as warranty, training and services, are deferred until delivery has occurred or services have been rendered. A general right of return or cancellation does not exist once product is delivered to the customer; however, the Company may elect, in certain circumstances, to accept returns of product. Product revenues are recorded net of estimated returns, which are adjusted periodically, based upon historical rates of return. The estimated cost of post-sale obligations, including product warranties, is accrued at the time revenue is recognized based on historical experience.

The Company records amounts invoiced to customers in excess of revenue recognized as deferred revenue until all revenue recognition criteria are met.

The Company accounts for shipping and handling fees passed on to customers as revenue. Shipping and handling costs are reported as components of cost of revenue (product) and cost of revenue (service and parts).

*Products*

*End-User Customers* - Under the Company's standard terms and conditions of sale of equipment, title and risk of loss are transferred to third-party end-user customers upon completion of installation and revenue is recognized at that time, unless customer acceptance is uncertain or significant deliverables remain. Sales of other products, including printing plates, are generally recognized at the time of shipment.

*OEM Relationships* - Product revenue and any related royalties for products sold to companies with whom we have an OEM relationship are recognized at the time of shipment as installation is not required and title and risk of loss pass to the buyer at such point. Contracts with companies with whom we have OEM relationships do not include price protection or product return rights; however, the Company may elect, in certain circumstances, to accept returns of product.

*Distributor Relationships* - Revenue for product sold to distributors, whereby the distributor is responsible for installation, is recognized at the time of shipment. Revenue for equipment sold to distributors whereby the Company is responsible for installation, is recognized upon completion of installation. Except in the case of termination of the contract, which includes product return rights, contracts with distributors do not include price protection or product return rights; however, the Company may elect, in certain circumstances, to accept returns of product.

*Services and Parts*

Revenue for installation services, including time and material contracts, is recognized as services are rendered. Revenue associated with maintenance or extended service agreements is recognized ratably over the contract period. Revenue associated with training and support services is recognized as services are rendered. Certain fees and other reimbursements are recognized as revenue when the related services have been performed or the revenue is otherwise earned.

*Sales Transactions Financed with Recourse Clauses*

From time to time the Company has engaged in sales of equipment that is leased by or intended to be leased by a third party purchaser to another party. In certain situations, the Company may retain recourse obligations to a financing institution involved in providing financing to the ultimate lessee in the event the lessee of the equipment defaults on its lease obligations. In certain such instances, the Company may refurbish and remarket the equipment on behalf of the financing company, should the ultimate lessee default on payment of the lease. In certain circumstances, should the resale price of such equipment fall below certain predetermined levels, the Company would, under these agreements, reimburse the financing company for any such shortfall in sale price.

*Sales Transactions Financed by the Company*

In fiscal 2006, the Company periodically entered into sales-type leases resulting from the marketing of the Company's and complementary third-party products. These transactions typically have seven year terms and are collateralized by a security interest in the underlying assets. These transactions are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, *Accounting for Leases* ("SFAS 13"). The long-term portion of financing receivables is included in Other noncurrent assets in the Company's Consolidated Balance Sheet at December 30, 2006.

***Allowance for Doubtful Accounts***

The Company's accounts receivable are customer obligations due under normal trade terms, carried at face value less an allowance for doubtful accounts. The Company evaluates its allowance for doubtful accounts on an ongoing basis and adjusts for potential credit losses when it determines that receivables are at risk for collection based upon the length of time receivables are outstanding, past transaction history and various other criteria. Receivables are written off against reserves in the period they are determined to be uncollectible.

*Inventory Valuation*

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

*Acquisitions*

In accordance with the purchase method of accounting, the fair values of assets acquired and liabilities assumed are determined and recorded as of the date of the acquisition. The Company utilizes an independent valuation specialist to determine the fair values of identifiable intangible assets acquired in order to determine the portion of the purchase price allocable to these assets. Costs to acquire the business, including transaction costs, are allocated to the fair value of net assets acquired. Any excess of the purchase price over the estimated fair value of the net assets acquired is recorded as goodwill.

As part the allocation of purchase price, the Company records liabilities, including lease termination costs and certain employee severance costs, in accordance with Emerging Issues Task Force Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination.* Throughout the allocation period, these accruals are reviewed and adjusted for changes in cost and timing assumptions.

*Goodwill and Intangible Assets*

Presstek has goodwill and net intangible assets of $29.0 million at December 30, 2006. Goodwill and intangible assets with indefinite lives are tested annually for impairment in accordance with the goodwill provisions of SFAS 142. Intangible assets with estimated lives and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"). Recoverability of intangible assets with estimated lives and other long-lived assets is measured by comparison of the carrying amount of an asset or asset group to future net undiscounted pretax cash flows expected to be generated by the asset or asset group. If these comparisons indicate that an asset is not recoverable, the Company will recognize an impairment loss for the amount by which the carrying value of the asset or asset group exceeds the related estimated fair value. Estimated fair value is based on either discounted future pretax operating cash flows or appraised values, depending on the nature of the asset. The Company determines the discount rate for this analysis based on the expected internal rate of return of the related business and does not allocate interest charges to the asset or asset group being measured. Considerable judgment is required to estimate discounted future operating cash flows. Judgment is also required in determining whether an event has occurred that may impair the value of goodwill or identifiable intangible assets. Factors that could indicate that an impairment may exist include significant underperformance relative to plan or long-term projections, strategic changes in business strategy, significant negative industry or economic trends or a significant decline in our stock price for a sustained period of time. We must make assumptions about future cash flows, future operating plans, discount rates and other factors in the models and valuation reports. To the extent these future projections and estimates change, the estimated amounts of impairment could differ from current estimates.

Patents represent the cost of preparing and filing applications to patent the Company's proprietary technologies, in addition to certain patent and license rights obtained in the Company's acquisitions or other related transactions. Such costs are amortized over a period ranging from five to seven years, beginning on the date the patents or rights are issued or acquired.

From time to time, the Company enters into agreements with third parties under which the party will design and prototype a product incorporating Presstek products and technology. The capitalized costs associated with rights or intellectual property under these agreements will be amortized over the estimated sales life-cycle and future cash flows of the product. The Company does not amortize capitalized costs related to either patents or purchased intellectual property until the respective asset has been placed into service.

The Company amortizes license agreements and loan origination fees over the term of the respective agreement. The amortizable lives of the Company's other intangible assets are as follows:

| | |
|---|---|
| Trade names | 2 – 3 years |
| Customer relationships | 7 – 10 years |
| Software licenses | 3 years |
| Non-compete covenants | 5 years |

***Accounting for Income Taxes***

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. The asset and liability approach underlying SFAS No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of the Company's assets and liabilities. A valuation allowance is provided against deferred tax assets for amounts if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

We monitor the realization of our deferred tax assets based on changes in circumstances; for example, recurring periods of income for tax purposes following historical periods of cumulative losses or changes in tax laws or regulations. Our income tax provisions and our assessment of the realizability of our deferred tax assets involve significant judgments and estimates.

The Company does not provide for U.S. income taxes on the undistributed earnings of its foreign subsidiaries, which the Company considers to be permanently reinvested.

**Recently Issued Accounting Standards**

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is required to be adopted by Presstek in the first quarter of fiscal 2007. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. Presstek is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In September 2006, the SEC issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects of each of the company's balance sheet and statement of operations and the related financial statement disclosures. SAB 108 is effective for fiscal years ending after November 15, 2006. Upon initial application, SAB 108 permits a one-time cumulative effect adjustment to beginning retained earnings. The adoption of SAB 108 did not have a material impact on its consolidated results of operations and financial condition.

In fiscal 2006 the Company adopted SFAS No. 151, *Inventory Costs* ("SFAS 151"), an amendment of Accounting Research Bulletin ("ARB") No. 43, Chapter 4, *Inventory Pricing*. SFAS 151 amends previous guidance regarding treatment of abnormal amounts of idle facility expense, freight, handling costs and spoilage. This Statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of "so abnormal" which was the criterion specified in ARB No. 43. In addition, this Statement requires that the allocation

of fixed production overheads to the cost of the production be based on normal capacity of the production facilities. The adoption of SFAS 151 did not have a material impact on the Company.

In fiscal 2006, the Company adopted Financial Accounting Standards Board ("FASB") issued SFAS No. 154, *Accounting Changes and Error Corrections* ("SFAS 154"), which replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements – An Amendment of APB Opinion No. 28*. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. There was no financial statement impact in 2006.

In June 2006, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* ("EITF 06-3"). EITF 06-3 is effective for periods beginning after December 15, 2006, with earlier application permitted. EITF 06-3 requires disclosure of the accounting policy for any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction (i.e., sales, use, value added) on a gross basis (included in revenues and costs) or net basis (excluded from revenues and costs). The Company excludes these amounts from its revenues and costs; accordingly, no additional disclosure will be required.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company in fiscal 2008. Presstek is currently evaluating the effect that the adoption of SFAS 157 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("SFAS 159"), *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No 115*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted, provided the company also elects to apply the provisions of SFAS 157. Presstek is currently evaluating the effect that the adoption of SFAS 159 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

**Off-Balance Sheet Arrangements**

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPEs"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purpose. As of December 30, 2006, we were not involved in any unconsolidated SPE transactions.

**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to a variety of market risks, including changes in interest rates primarily as a result of our borrowing activities, commodity price risk, and to a lesser extent, our investing activities and foreign currency fluctuations. The Company has established procedures to manage its fluctuations in interest rates and foreign currency exchange rates.

Our long-term borrowings are in variable rate instruments, with interest rates tied to either the Prime Rate or the LIBOR. A 100 basis point change in these rates would have an impact of approximately $0.2 million on our annual interest expense, assuming consistent levels of floating rate debt with those held at the end of fiscal 2006.

Commodity price movements create a market risk by affecting the price we must pay for certain raw materials. The Company purchases aluminum for use in manufacturing consumables products and is embedded in certain components we purchase from major suppliers. From time to time, we enter into agreements with certain suppliers to manage price risks within a specified range of prices; however, our suppliers generally pass on significant commodity price changes to us in the form of revised prices on future purchases. In general, the Company has not used commodity forward or option contracts to manage this market risk.

The Company operates foreign subsidiaries in Canada and Europe and is exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales, anticipated purchases and assets and liabilities denominated in currencies other than the U.S. dollar. Presstek routinely evaluates whether the foreign exchange risk associated with its foreign currency exposures acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency. In general, the Company does not hedge the net assets or net income of its foreign subsidiaries. In addition, certain key customers and strategic partners are not located in the United States. As a result, these parties may be 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 our products could be adversely affected and our products may become less competitive to them. This may have an adverse impact on our business. Likewise, certain major suppliers are not located in the United States and thus, such suppliers are subject to foreign exchange rate risks in transactions with us. Decreases in the value of their home country currency, versus that of the United States dollar, could cause fluctuations in supply pricing which could have an adverse effect on our business.

## PART II

**Item 8.** ***Financial Statements and Supplementary Data***

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Presstek, Inc.:

We have audited the accompanying consolidated balance sheet of Presstek, Inc. and its subsidiaries as of December 30, 2006 and the related consolidated statements of income, changes in stockholders' equity and comprehensive income and cash flows for the fiscal year ended December 30, 2006. In connection with our audit of the consolidated financial statements, we also have audited the financial statement schedule II. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Presstek, Inc. and its subsidiaries at December 30, 2006 and the results of their operations and cash flows for the fiscal year ended December 30, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 2 to the consolidated financial statements, Presstek, Inc. adopted Statement of Financial Accounting Standards No. 123(R) *Share-Based Payment* effective January 1, 2006 utilizing the modified prospective application transition method.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 30, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 24, 2007 expressed an unqualified opinion on management's assessment of, and an adverse opinion on the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Boston, Massachusetts
April 24, 2007

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Presstek, Inc.
Hudson, New Hampshire

We have audited the accompanying consolidated balance sheets of Presstek, Inc. and its subsidiaries as of December 31, 2005 and the related consolidated statements of income, changes in stockholders' equity and comprehensive income and cash flows for the fiscal years ended December 31, 2005 and January 1, 2005. We have also audited the accompanying financial statement Schedule II for the years then ended. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements and schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Presstek, Inc. and its subsidiaries at December 31, 2005 and the results of their operations and their cash flows for the fiscal years ended December 31, 2005 and January 1, 2005 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statements schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Also, in our opinion, the schedule presents fairly, in all material respects, the information set forth therein.

/s/ BDO SEIDMAN, LLP
BDO Seidman, LLP

Boston, Massachusetts
March 16, 2006, except for the effects of the
discontinued operation as to which the date is April 24, 2007

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 9,449 | $ 5,615 |
| Accounts receivable, net | 53,158 | 42,194 |
| Inventories, net | 46,050 | 48,463 |
| Assets of discontinued operations | 3,321 | 3,514 |
| Deferred income taxes | 4,162 | - |
| Other current assets | 2,600 | 1,175 |
| Total current assets | 118,740 | 100,961 |
| Property, plant and equipment, net | 42,194 | 45,147 |
| Intangible assets, net | 8,741 | 11,303 |
| Goodwill | 20,280 | 23,089 |
| Assets of discontinued operations | | 774 |
| Deferred income taxes | 7,515 | |
| Other noncurrent assets | 544 | 213 |
| Total assets | $ 198,014 | $ 181,487 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Current portion of long-term debt and capital lease obligation | $ 7,037 | $ 7,037 |
| Line of credit | 15,000 | 6,036 |
| Accounts payable | 27,126 | 20,114 |
| Accrued expenses | 10,471 | 16,570 |
| Deferred revenue | 7,901 | 8,579 |
| Liabilities of discontinued operations | 3,707 | 1,233 |
| Total current liabilities | 71,242 | 59,569 |
| Long-term debt and capital lease obligation, less current portion | 15,535 | 22,570 |
| Deferred income taxes | - | 715 |
| Total liabilities | 86,777 | 82,854 |
| Commitments and contingencies (See Note 20) | | |
| 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, 35,662,318 and 35,366,024 shares issued and outstanding at December 30, 2006 and December 31, 2005, respectively | 357 | 354 |
| Additional paid-in capital | 108,769 | 106,268 |
| Accumulated other comprehensive income (loss) | 297 | (59) |
| Retained earnings (accumulated deficit) | 1,814 | (7,930) |
| Total stockholders' equity | 111,237 | 98,633 |
| Total liabilities and stockholders' equity | $ 198,014 | $ 181,487 |

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

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

| | Fiscal year ended | | |
|---|---|---|---|
| | December 30, 2006 | December 31, 2005 | January 1, 2005 |
| Revenue | | | |
| Product | $ 220,724 | $ 210,613 | $ 108,390 |
| Service and parts | 44,970 | 48,521 | 13,063 |
| Total revenue | 265,694 | 259,134 | 121,453 |
| Cost of revenue | | | |
| Product | 154,250 | 143,952 | 69,045 |
| Service and parts | 32,466 | 32,862 | 9,135 |
| Total cost of revenue | 186,716 | 176,814 | 78,180 |
| Gross profit | 78,978 | 82,320 | 43,273 |
| Operating expenses | | | |
| Research and development | 6,409 | 7,335 | 6,460 |
| Sales, marketing and customer support | 39,970 | 40,241 | 17,574 |
| General and administrative | 19,938 | 20,970 | 12,399 |
| Amortization of intangible assets | 2,980 | 2,595 | 1,261 |
| Restructuring and other charges (credits) | 5,481 | 874 | (392) |
| Total operating expenses | 74,778 | 72,015 | 37,302 |
| Operating income | 4,200 | 10,305 | 5,971 |
| Interest and other income (expense), net | (1,826) | (2,220) | (870) |
| Income from continuing operations before income taxes | 2,374 | 8,085 | 5,101 |
| Provision (benefit) for income taxes | (10,643) | 1,164 | 166 |
| Income from continuing operations | 13,017 | 6,921 | 4,935 |
| Loss from discontinued operations, net of income taxes | (3,273) | (835) | (1,070) |
| Net income | $ 9,744 | $ 6,086 | $ 3,865 |
| Earnings per common share - basic | | | |
| Income from continuing operations | $ 0.36 | $ 0.20 | $ 0.14 |
| Loss from discontinued operations | (0.09) | (0.03) | (0.03) |
| | $ 0.27 | $ 0.17 | $ 0.11 |
| Earnings per common share - diluted | | | |
| Income from continuing operations | $ 0.36 | $ 0.19 | $ 0.14 |
| Loss from discontinued operations | (0.09) | (0.02) | (0.03) |
| | $ 0.27 | $ 0.17 | $ 0.11 |
| Weighted average shares outstanding | | | |
| Weighted average shares outstanding - basic | 35,565 | 35,153 | 34,558 |
| Dilutive effect of stock options | 291 | 419 | 799 |
| Weighed average shares outstanding - diluted | 35,856 | 35,572 | 35,357 |

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

PRESSTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
(in thousands)

| | Common stock | | Additional paid-in capital | Accumulated other comprehensive income (loss) | Retained earnings (accumulated deficit) | Total |
|---|---|---|---|---|---|---|
| | Shares | Par value | | | | |
| *Balance at January 3, 2004* | 34,202 | $ 342 | $ 97,769 | $ (47) | $ (17,881) | $ 80,183 |
| Issuance of common stock | 695 | 7 | 5,193 | - | - | 5,200 |
| Realization of loss related to interest rate swaps | - | - | - | 47 | - | 47 |
| Foreign currency translation adjustments | - | - | - | 107 | - | 107 |
| Net income | - | - | - | - | 3,865 | 3,865 |
| *Balance at January 1, 2005* | 34,897 | 349 | 102,962 | 107 | (14,016) | 89,402 |
| Issuance of common stock | 469 | 5 | 3,306 | - | - | 3,311 |
| Foreign currency translation adjustments | - | - | - | (166) | - | (166) |
| Net income | - | - | - | - | 6,086 | 6,086 |
| *Balance at December 31, 2005* | 35,366 | 354 | 106,268 | (59) | (7,930) | 98,633 |
| Issuance of common stock | 296 | 3 | 2,127 | - | - | 2,130 |
| Foreign currency translation adjustments | - | - | - | 356 | - | 356 |
| Share based compensation under SFAS No. 123(R) | - | - | 374 | - | - | 374 |
| Net income | - | - | - | - | 9,744 | 9,744 |
| *Balance at December 30, 2006* | 35,662 | $ 357 | $ 108,769 | $ 297 | $ 1,814 | $ 111,237 |

Comprehensive income is calculated as follows:

| | Year ended | | |
|---|---|---|---|
| | December 30, 2006 | December 31, 2005 | January 1, 2005 |
| Net income | $ 9,744 | $ 6,086 | $ 3,865 |
| Adjustments to accumulated other comprehensive income (loss) | 356 | (166) | 154 |
| Comprehensive income | $ 10,100 | $ 5,920 | $ 4,019 |

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

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

| | Fiscal year ended | | |
|---|---|---|---|
| | December 30, 2006 | December 31, 2005 | January 1, 2005 |
| Operating activities | | | |
| Net income | $ 9,744 | $ 6,086 | $ 3,865 |
| Add loss from discontinued operations | 3,273 | 835 | 1,070 |
| Income from continuing operations | 13,017 | 6,921 | 4,935 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 6,964 | 8,132 | 7,762 |
| Amortization of intangible assets | 2,953 | 2,595 | 1,261 |
| Restructuring and other charges (credits) | 5,481 | 874 | (392) |
| Provision for warranty costs | 3,400 | 1,558 | 1,109 |
| Provision for accounts receivable allowances | 391 | 1,604 | 2,474 |
| Stock compensation expense | 374 | 148 | - |
| Deferred income taxes | (11,677) | 715 | 120 |
| Loss on disposal of assets | 72 | 153 | 24 |
| Changes in operating assets and liabilities, net of effects from business acquisitions and divestures: | | | |
| Accounts receivable | (10,947) | (8,588) | (6,474) |
| Inventories | 2,214 | (7,707) | (4,939) |
| Other current assets | (1,445) | 214 | 324 |
| Other noncurrent assets | 39 | (43) | (304) |
| Accounts payable | 9,163 | 7,516 | (4,633) |
| Accrued expenses | (6,522) | (3,390) | 7,454 |
| Deferred revenue | (692) | (1,940) | 1,039 |
| Net cash provided by operating activities | 12,785 | 8,762 | 9,760 |
| Investing activities | | | |
| Purchase of property, plant and equipment | (4,033) | (6,100) | (2,087) |
| Business acquisitions, net of cash acquired | (832) | (3,467) | (57,317) |
| Investment in patents and other intangible assets | (2,791) | (2,176) | (387) |
| Proceeds from the sale of long-lived assets | - | 124 | 5 |
| Net cash used in investing activities | (7,656) | (11,619) | (59,786) |
| Financing activities | | | |
| Net proceeds from issuance of common stock | 2,130 | 3,113 | 5,200 |
| Proceeds from term loan | - | - | 35,000 |
| Repayments of term loan and capital lease | (7,035) | (5,503) | (14,464) |
| Net borrowings (repayments) under line of credit agreement | 8,964 | (786) | 6,822 |
| Debt financing costs | - | - | (332) |
| Net cash provided by (used in) financing activities | 4,059 | (3,176) | 32,226 |
| Cash provided by (used in) discontinued operations | | | |
| Operating activities | (4,531) | 2,968 | (3,399) |
| Investing activities | (396) | (29) | 1,742 |
| Financing activities | - | - | - |
| Net cash used in discontinued operations | (4,927) | 2,939 | (1,657) |
| Effect of exchange rate changes on cash and cash equivalents | (427) | (30) | - |
| Net increase (decrease) in cash and cash equivalents | 3,834 | (3,124) | (19,457) |
| Cash and cash equivalents, beginning of period | 5,615 | 8,739 | 28,196 |
| Cash and cash equivalents, end of period | $ 9,449 | $ 5,615 | $ 8,739 |
| ***Supplemental disclosure of cash flow information*** | | | |
| Cash paid for interest | $ 2,364 | $ 2,459 | $ 923 |
| Cash paid for income taxes | $ 1,252 | $ 327 | $ - |

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

## 1. NATURE OF THE BUSINESS

Presstek, Inc. and subsidiaries ("Presstek", the "Company", "we") is a market-focused company primarily engaged in the design, manufacture, sales and service of high-technology digital imaging solutions to the graphic arts industry worldwide. We are helping to lead the industry's transformation from analog print production methods to digital imaging technology. We are a leader in the development of advanced printing systems using digital imaging equipment and consumables-based solutions that economically benefit the user through a streamlined workflow and chemistry free, environmentally responsible operation. We are also a leading sales and service channel in the small to mid-sized commercial, quick and in-plant printing markets offering a wide range of solutions to over 20,000 customers worldwide.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Principles of Consolidation and Basis of Presentation*

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The Company has made certain organizational realignments in order to more closely align its financial reporting with its current business structure. Effective on December 28, 2006, the Audit Committee of the Company's Board of Directors ratified a plan submitted by management to terminate production in South Hadley, Massachusetts of Precision-branded analog plates used in newspaper applications (the "analog newspaper business"). Accordingly, the financial results of the analog newspaper business are reported as discontinued operations, and the results of operations and associated footnotes for the years ended December 31, 2005 and January 1, 2005 have been reclassified for this reporting change.

On November 5, 2004, the Company, through its wholly-owned subsidiary, ABD International, Inc. ("ABDick") completed the acquisition of certain assets and the assumption of certain liabilities of The A.B. Dick Company, which the Company acquired through a Section 363 sale in the United States Bankruptcy Court. On July 30, 2004, the Company acquired the stock of Precision Lithograining Corp. ("Precision"). The results of these acquired entities are included in the Company's Consolidated Statements of Income and Cash Flows for the periods subsequent to their respective acquisitions.

The Company's operations are currently organized into two business segments: Presstek and 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 serving 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 Company operates and reports on a 52- or 53-week fiscal year ending on the Saturday closest to December 31. Accordingly, the financial statements presented herein include the financial results for the 52-week fiscal year ended December 30, 2006 ("fiscal 2006"), the 52-week fiscal year ended December 31, 2005 ("fiscal 2005") and the 52-week fiscal year ended January 1, 2005 ("fiscal 2004").

*Use of Estimates*

The Company prepares its financial statements in accordance with U.S. generally accepted accounting principles ("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 goodwill, 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.

*Revenue Recognition*

The Company recognizes revenue principally from the sale of products (equipment, consumables, laser diodes) and services (equipment maintenance contracts, installation, training, support, and spare parts). Revenue is recognized when persuasive evidence of a sales arrangement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable and collection is reasonably assured. In accordance with Staff Accounting Bulletin ("SAB") No. 104 *Revenue Recognition* ("SAB 104") and Emerging Issues Task Force ("EITF") Issue 00-21 *Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"), when a sales arrangement contains multiple elements, such as equipment and services, revenue is allocated to each element based on its relative fair value. The fair value of any undelivered elements, such as warranty, training and services, are deferred until delivery has occurred or services have been rendered. A general right of return or cancellation does not exist once product is delivered to the customer; however, the Company may elect, in certain circumstances, to accept returns of product. Product revenues are recorded net of estimated returns, which are adjusted periodically, based upon historical rates of return. The estimated cost of post-sale obligations, including product warranties, is accrued at the time revenue is recognized based on historical experience.

The Company records amounts invoiced to customers in excess of revenue recognized as deferred revenue until all revenue recognition criteria are met.

The Company accounts for shipping and handling fees passed on to customers as revenue. Shipping and handling costs are reported as components of cost of revenue (product) and cost of revenue (service and parts).

*Products*

*End-User Customers* - Under the Company's standard terms and conditions of sale of equipment, title and risk of loss are transferred to third-party end-user customers upon completion of installation and revenue is recognized at that time, unless customer acceptance is uncertain or significant deliverables remain. Sales of other products, including printing plates, are generally recognized at the time of shipment.

*OEM Relationships* - Product revenue and any related royalties for products sold to companies with whom we have an OEM relationship are recognized at the time of shipment as installation is not required and title and risk of loss pass to the buyer at such point. Contracts with companies with whom we have OEM relationships do not include price protection or product return rights; however, the Company may elect, in certain circumstances, to accept returns of product.

*Distributor Relationships* - Revenue for product sold to distributors, whereby the distributor is responsible for installation, is recognized at the time of shipment. Revenue for equipment sold to distributors whereby the Company is responsible for installation, is recognized upon completion of installation. Except in the case of termination of the contract, which includes product return rights, contracts with distributors do not include price protection or product return rights; however, the Company may elect, in certain circumstances, to accept returns of product.

*Services and Parts*

Revenue for installation services, including time and material billings, are recognized as services are rendered. Revenue associated with maintenance or extended service agreements is recognized ratably over the contract period. Revenue associated with training and support services is recognized as services are rendered. Certain fees and other reimbursements are recognized as revenue when the related services have been performed or the revenue is otherwise earned.

*Sales Transactions Financed with Recourse Clauses*

The Company has engaged in sales of equipment that is leased by or intended to be leased by a third party purchaser to another party. In certain situations, the Company may retain recourse obligations to a financing institution involved in providing financing to the ultimate lessee in the event the lessee of the equipment defaults on its lease obligations. In certain such instances, the Company may refurbish and remarket the equipment on behalf of the financing company, should the ultimate lessee default on payment of the lease. In certain circumstances, should the resale price of such equipment fall below certain predetermined levels, the Company would, under these agreements, reimburse the financing company for any such shortfall in sale price.

*Sales Transactions Financed by the Company*

In fiscal 2006, the Company periodically entered into sales-type leases resulting from the marketing of the Company's and complementary third-party products. These transactions typically have seven year terms and are collateralized by a security interest in the underlying assets. These transactions are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, *Accounting for Leases* ("SFAS 13"). The long-term portion of financing receivables is included in Other noncurrent assets in the Company's Consolidated Balance Sheet at December 30, 2006.

*Fair Value of Financial Instruments*

The carrying values of cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments. The carrying amounts of the Company's bank borrowings under its credit agreement, approximate fair value because the interest rates are based on floating rates identified by reference to market rates. The carrying amount of the Company's capital lease approximates fair value because the amount financed is equivalent to the fair value of the long-lived asset acquired in the transaction. At both December 30, 2006 and December 31, 2005, the fair value of the Company's long-term debt approximated carrying value.

*Cash and Cash Equivalents*

Cash and cash equivalents include savings deposits, certificates of deposit and money market funds that have original maturities of three months or less and are classified as cash equivalents.

*Concentration of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents and accounts receivable. The Company may invest in high-quality money market instruments, securities of the U.S. government, and high-quality corporate issues. Accounts receivable are generally unsecured and are derived from the Company's customers located around the world. The Company performs ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts.

*Accounts Receivable, Net of Allowances*

The Company's accounts receivable are customer obligations due under normal trade terms, carried at face value less allowances for doubtful accounts and sales returns. The Company evaluates its allowances on an ongoing basis and adjusts for potential uncollectible amounts when it determines that receivables are at risk for collection based upon the length of time receivables are outstanding, past transaction history and various other criteria. Receivables are written off against the allowance in the period they are determined to be uncollectible.

*Inventories, Net*

Inventories include material, direct labor and related manufacturing overhead, and are stated at the lower of cost (determined on a first-in, first-out basis) or net realizable value. The Company assesses the recoverability of inventory to determine whether adjustments for impairment are required. Inventory that is in excess of future requirements is written down to its estimated market value based upon forecasted demand for its products. If actual demand is less favorable than what has been forecasted by management, additional inventory impairments may be required.

*Property, Plant and Equipment, Net*

Property, plant and equipment are stated at cost and are depreciated using a straight-line method over their respective estimated useful lives. Leasehold improvements are amortized over the shorter of the remaining term of the lease or the life of the related asset. The estimated useful lives assigned to the Company's other property, plant and equipment categories are as follows:

| | |
|---|---|
| Buildings and improvements | 25 – 30 years |
| Production equipment and other | 5 – 10 years |
| Office furniture and equipment | 3 – 7 years |

The Company periodically reviews the remaining lives of property, plant and equipment as a function of the original estimated lives assigned to these assets for purposes of recording appropriate depreciation expense. Factors that could impact the estimated useful life of a fixed asset, in addition to physical deterioration from the passage of time and depletion, include, but are not limited to, plans of the enterprise and anticipated use of the assets.

*Acquisitions*

In accordance with the purchase method of accounting and Statement of Financial Accounting Standard No. 141 *Business Combinations* ("SFAS 141"), the fair values of assets acquired and liabilities assumed are determined and recorded as of the date of the acquisition. Costs to acquire the business, including transaction costs, are allocated to the fair value of net assets acquired. Any excess of the purchase price over the estimated fair value of the net assets acquired is recorded as goodwill.

As part the allocation of purchase price, the Company records liabilities, including lease termination costs and certain employee severance costs, in accordance with Emerging Issues Task Force Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination.* Throughout the allocation period, these accruals are reviewed and adjusted for changes in cost and timing assumptions.

*Intangible Assets and Goodwill*

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

Patents represent the cost of preparing and filing applications to patent the Company's proprietary technologies, in addition to certain patent and license rights obtained in the Company's acquisitions or other related transactions. Such costs are amortized over a period ranging from five to seven years, beginning on the date the patents or rights are issued or acquired.

From time to time, the Company enters into agreements with third parties under which the party will design and prototype a product incorporating Presstek products and technology. The capitalized costs associated with rights or intellectual property under these agreements will be amortized over the estimated sales life-cycle and future cash flows of the product. The Company does not amortize capitalized costs related to either patents or purchased intellectual property until the respective asset has been placed into service.

At December 30, 2006 and December 31, 2005, the Company had recorded $0.7 million and $1.5 million, of costs related to patents and intellectual property not yet in service.

The Company amortizes license agreements and loan origination fees over the term of the respective agreement.

The amortizable lives of the Company's other intangible assets are as follows:

| | |
|---|---|
| Trade names | 2 – 3 years |
| Customer relationships | 7 – 10 years |
| Software licenses | 3 years |
| Non-compete covenants | 5 years |

Goodwill is recorded when the consideration paid for acquisitions exceeds the fair value of net tangible and identifiable intangible assets acquired. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), goodwill is not amortized, but rather, is tested at least annually for impairment at the reporting unit level. The Company has recorded goodwill aggregating $20.3 million and $23.1 million at December 30, 2006 and December 31, 2005, respectively, related to the ABDick and Precision acquisitions.

*Impairment of Goodwill and Long-Lived Assets*

In accordance with the provisions of SFAS 142, goodwill and intangible assets with indefinite lives are tested at least annually, on the first day of the third quarter, for impairment unless a triggering event occurs. The Company's impairment review is based on a fair value test. The Company uses its judgment in assessing whether assets 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 goodwill, as determined by the Company at any measurement date, fall below its carrying value, a charge for impairment of goodwill will be recorded in the period.

Intangible assets with estimated lives and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"). Recoverability of intangible assets with estimated lives and other long-lived assets is measured by comparison of the carrying amount of an asset or asset group to future net undiscounted pretax cash flows expected to be generated by the asset or asset group. If these comparisons indicate that an asset is not recoverable, the Company will recognize an impairment loss for the amount by which the carrying value of the asset or asset group exceeds the related estimated fair value. Estimated fair value is based on either discounted future pretax operating cash flows or appraised values, depending on the nature of the asset. The Company determines the discount rate for this analysis based on the expected internal rate of return of the related business and does not allocate interest charges to the asset or asset group being measured. Considerable judgment is required to estimate discounted future operating cash flows.

*Product Warranties*

The Company warrants its products against defects in material and workmanship for various periods generally from a period of ninety days to one year from the date of installation or shipment. The Company's typical warranties require it to repair or replace defective products during the warranty period at no cost to the customer. The Company provides for the estimated cost of product warranties, based on historical experience, at the time revenue is recognized. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. The estimated liability for product warranties could differ materially from future actual warranty costs.

*Research and Development Costs*

Research and development costs include payroll and related expenses for personnel, parts and supplies, and contracted services. Research and development costs are charged to expense when incurred.

*Advertising Costs*

Advertising costs are expensed as incurred and are reported as a component of Sales, marketing and customer support expenses in the Company's Consolidated Statements of Income. Advertising expenses were $0.8 million in fiscal 2006 and $0.6 million in both fiscal 2005 and fiscal 2004.

*Income Taxes*

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. The asset and liability approach underlying SFAS No. 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of the Company's assets and liabilities. A valuation allowance is provided against deferred tax assets for amounts if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company monitors the realization of deferred tax assets based on changes in circumstances; for example, recurring periods of income for tax purposes following historical periods of cumulative losses or changes in tax laws or regulations. The income tax provisions and assessment of the realizability of deferred tax assets involve significant judgments and estimates.

Following an assessment of positive and negative evidence regarding the realization of net deferred tax assets, in fiscal 2006 the Company determined that its valuation allowance against U.S. deferred tax assets should be reversed, resulting in a $11.2 million benefit reflected in the Provision/Benefit for Income Taxes in the consolidated statement of income in that period. Management's assessment included consideration of recurring periods of historical income, estimates of future taxable income, scheduled reversals of deferred tax assets and liabilities, and other factors. See Note 14.

The Company does not provide for U.S. income taxes on the undistributed earnings of its foreign subsidiaries, which the Company considers to be permanently reinvested.

*Stock-Based Compensation*

Prior to January 1, 2006, the Company's employee stock compensation plans were accounted for in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations. Generally, no employee stock-based compensation cost was recognized in the statement of operations prior to January 1, 2006, as stock options granted under the plans had fixed terms, including an exercise price equal to the market value of the underlying common stock on the date of grant. On January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No.123(R), *Share-Based Payment* ("SFAS 123R") using the modified prospective method, which requires measurement of compensation cost at fair value on the date of grant and recognition of compensation expense over the service period for awards expected to vest. In December 2005, prior to the adoption of SFAS 123R, the Company accelerated the vesting of all outstanding employee stock options as of December 31, 2005 in order to avoid fair value-based compensation charges for those options in future periods.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value-based method of SFAS 123 to its awards for the purpose of recording expense for stock-based compensation in each period presented (in thousands, except per share data):

| | December 31, 2005 | January 1, 2005 |
|---|---|---|
| Net income, as reported | $ 6,086 | $ 3,865 |
| Add: stock-based compensation expense recognized | 148 | -- |
| Deduct: total stock-based employee compensation determined under the fair-value-based method for all awards, net of related tax effects | (4,011) | (2,074) |
| Pro forma net income | $ 2,223 | $ 1,791 |
| | | |
| Earnings per common share, as reported: | | |
| Basic | $ 0.17 | $ 0.11 |
| Diluted | $ 0.17 | $ 0.11 |
| | | |
| Pro forma earnings per common share: | | |
| Basic | $ 0.06 | $ 0.05 |
| Diluted | $ 0.06 | $ 0.05 |

The Company used the Black-Scholes valuation model to calculate the compensation expense related to rights to purchase shares of common stock under the Company's 2002 Employee Stock Purchase Plan (the "ESPP") and options to purchase common stock under the Company's 2003 Stock Option and Incentive Plan (the "2003 Plan") in fiscal 2006. This is consistent with the valuation techniques previously utilized for options in footnote disclosures required under SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), as amended by SFAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123*. For options to purchase common stock granted after the adoption of SFAS 123R, the Company is required to utilize an estimated forfeiture rate when calculating the expense for the period, whereas SFAS 123 permitted companies to record forfeitures based on actual forfeitures, which was Presstek's historical policy under SFAS 123. An estimated forfeiture rate is calculated based on then-current facts and circumstances at the time the Company grants options to purchase its common stock. For further information regarding the assumptions used in determining stock-based compensation expense related to the Company's ESPP and options to purchase common stock, see Note 16.

*Comprehensive Income*

Comprehensive income is comprised of net income, plus all changes in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including any foreign currency translation adjustments, unrealized gains and losses on marketable securities, or changes in derivative values. These changes in equity are recorded as adjustments to Accumulated other comprehensive income (loss) in the Company's Consolidated Financial Statements. The primary components of Accumulated other comprehensive income (loss) are unrealized gains or losses on foreign currency translation.

*Foreign Currency Translation*

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. The resulting unrealized gains or losses are reported under the caption Accumulated other comprehensive income (loss) in the Company's Consolidated Financial Statements. Revenues and expenses from these subsidiaries are translated at average monthly exchange rates in effect for the periods in which the transactions occur.

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 Income. The Company reported gains on foreign

currency transactions of approximately $165,000 in fiscal 2006, and losses on foreign currency transactions of approximately $3,000 and $133,000 in fiscal 2005 and fiscal 2004, respectively.

*Derivatives*

The Company entered into interest rate swap agreements with its lenders in October 2003, which were intended to protect the Company's long-term debt against fluctuations in LIBOR rates. Under the interest rate swaps LIBOR was set at a minimum of 1.15% and a maximum of 4.25%. Because the interest rate swap agreement did not qualify as a hedge for accounting purposes under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), and related amendments, including SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* ("SFAS 149"), the Company recorded a reduction to interest expense of $40,000, $28,000 and $133,000 in fiscal 2006, fiscal 2005 and fiscal 2004, respectively, to mark these interest rate swap agreements to market. The adjustment to fair value of the interest rate swap agreement was recorded in other income (expense).

*Earnings (Loss) per Share*

Earnings per share is computed under the provisions of SFAS No. 128, *Earnings per Share* ("SFAS 128"). Accordingly, basic earnings (loss) per share is computed by dividing net income (loss) 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 and warrants.

Approximately 1,425,700 and 843,000 options to purchase common stock were excluded from the calculation of diluted earnings per share for fiscal 2006 and fiscal 2005, respectively, as their effect would be antidilutive. Approximately 865,000 options and warrants to purchase common stock were excluded from the calculation of diluted earnings per share for fiscal 2004, as their effect would be antidilutive. Warrants had expired as of January 1, 2005.

*Reclassifications*

Certain amounts in prior periods have been reclassified to conform to current presentation.

*Recent Accounting Pronouncements*

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is required to be adopted by Presstek in the first quarter of fiscal 2007. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. Presstek is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In September 2006, the SEC issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects of each of the company's balance sheet and statement of operations and the related financial statement disclosures. SAB 108 is effective for fiscal years ending after November 15, 2006. Upon initial application, SAB 108 permits a one-time cumulative effect adjustment to beginning retained earnings. The adoption of SAB 108 did not have a material impact on its consolidated results of operations and financial condition.

In fiscal 2006 the Company adopted SFAS No. 151, *Inventory Costs* ("SFAS 151"), an amendment of Accounting Research Bulletin ("ARB") No. 43, Chapter 4, *Inventory Pricing*. SFAS 151 amends previous guidance regarding treatment of abnormal amounts of idle facility expense, freight, handling costs and spoilage. This Statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of "so abnormal" which was the criterion specified in ARB No. 43. In addition, this Statement requires that the allocation of fixed production overheads to the cost of the production be based on normal capacity of the production facilities. The adoption of SFAS 151 did not have a material impact on the Company.

In fiscal 2006, the Company adopted Financial Accounting Standards Board ("FASB") issued SFAS No. 154, *Accounting Changes and Error Corrections* ("SFAS 154"), which replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements – An Amendment of APB Opinion No. 28*. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. There was no financial statement impact in 2006.

In June 2006, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* ("EITF 06-3"). EITF 06-3 is effective for periods beginning after December 15, 2006, with earlier application permitted. EITF 06-3 requires disclosure of the accounting policy for any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction (i.e., sales, use, value added) on a gross basis (included in revenues and costs) or net basis (excluded from revenues and costs). The Company excludes these amounts from its revenues and costs; accordingly, no additional disclosure will be required.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company in fiscal 2008. Presstek is currently evaluating the effect that the adoption of SFAS 157 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("SFAS 159"), *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No 115*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted, provided the company also elects to apply the provisions of SFAS 157. Presstek is currently evaluating the effect that the adoption of SFAS 159 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

## 3. 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 charges for discontinued operations have been classified as "Loss from discontinued operations, net of income taxes" in the accompanying Consolidated Statements of Income. 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.

Precision Lithograining Corp. – Analog Newspaper Business

On December 28, 2006, the Audit Committee of the Company's Board of Directors ratified a plan submitted by management to terminate 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):

| | December 30, 2006 | December 31, 2005 | January 1, 2005 |
|---|---|---|---|
| Revenue | $ 10,816 | $ 15,006 | $ 8,398 |
| Loss before income taxes | (2,267) | (825) | (1,036) |
| Provision (benefit) for income taxes | (771) | 10 | 34 |
| Loss from discontinued operations | (1,496) | (835) | (1,070) |
| Loss from disposal of discontinued operations, net of tax benefit of $915 for the year ended December 30, 2006 | (1,777) | -- | -- |
| Net loss from discontinued operations | $ (3,273) | $ (835) | $ (1,070) |
| Loss per diluted share | $ (0.09) | $ (0.02) | $ (0.03) |

As of December 30, 2006, and in accordance with SFAS 144 and SFAS 142, the Company reviewed the potential impairment of long-lived assets associated with the analog newspaper business and goodwill of the Precision reporting unit and determined that impairment charges aggregating $4.0 million were required. Of this amount $2.8 million relates to the impairment of goodwill, $0.3 million relates to the acceleration of depreciation on fixed assets abandoned, $0.6 million relates to the acceleration of amortization on certain intangible assets and $0.3 million relates to the adjustment of inventory on hand to the lower of cost or market. Impairment charges of the reporting unit goodwill resulting from the abandonment of the analog newspaper business are reflected within restructuring and other charges (credits) of continuing operations, and the remaining charges included in the loss from discontinued operations for fiscal 2006.

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

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Receivables, net | $ 1,875 | $ 1,894 |
| Inventories, net | 1,446 | 1,620 |
| Total current assets | $ 3,321 | $ 3,514 |
| | | |
| Property, plant and equipment, net | $ -- | $ 103 |
| Intangible assets, net | -- | 671 |
| Total noncurrent assets | $ -- | $ 774 |
| | | |
| Accounts payable | $ 2,126 | $ 1,085 |
| Accrued expenses | 1,581 | 148 |
| Total current liabilities | $ 3,707 | $ 1,233 |

## 4. BUSINESS ACQUISITIONS

*ABDick*

On November 5, 2004, the Company, through its wholly-owned subsidiary, ABDick, completed the acquisition of certain assets and assumed certain liabilities of The A.B. Dick Company, which the Company acquired through a Section 363 sale in the United States Bankruptcy Court. The acquired business manufactured, marketed and

serviced offset systems and computer-to-plate ("CTP") systems and related supplies for the graphics arts and printing industries. In consideration, the Company paid the previous owners approximately $40.0 million in cash.

As part of this acquisition, the Company paid $5.1 million of transaction costs for legal, audit and other transaction costs, and accrued as purchase price adjustments, an aggregate of $3.0 million for costs primarily related to the consolidation of ABDick's Rochester, New York manufacturing operations into the Company's existing manufacturing facility at its corporate headquarters in Hudson, New Hampshire, and the closing of ABDick's Niles, Illinois office facility (the "integration cost accruals"). The consolidation of the Rochester, New York manufacturing operations was substantially completed in the third quarter of 2005.

On August 8, 2005, as part of its previously announced plan to achieve cost savings with regard to the ABDick operating segment, Presstek announced that in order to consolidate operations, the Company would close its Niles office facility by December 31, 2005. The Niles facility was closed as planned on December 31, 2005. The Company transferred certain executives of ABDick from the Niles facility to the Company's headquarters in Hudson. ABDick's inside sales staff and other limited customer service operations were moved to a new facility in the Chicago, Illinois area. These activities were expected to result in the Company incurring miscellaneous incremental transition expenses (before any expected savings anticipated from the consolidation) aggregating approximately $0.75 million in cash as charges to earnings. In the fiscal 2005 period subsequent to the announcement, the Company recorded $0.3 million of miscellaneous incremental transition expenses, all of which were recorded in the fourth quarter. An additional $0.1 million of expense was recorded in fiscal 2006 as restructuring charges within the Statement of Income to finalize the transition.

In fiscal 2004, the Company had recorded integration cost accruals aggregating $1.5 million. In fiscal 2005, the Company had recorded additional integration cost accruals aggregating $2.4 million, comprised of $2.3 million of additional severance and fringe benefits costs and $0.1 million of lease termination and related costs. In fiscal 2005, the Company performed the analysis required to finalize the purchase price allocation for the ABDick acquisition. As a result of this analysis, the Company identified $0.9 million of excess integration cost accruals and, accordingly, adjusted the amounts recorded to reflect the lower estimated requirements, with a corresponding offset to goodwill. These amounts are reflected in the table below. Of the net $3.0 million accrued for these integration activities, $2.7 million was recorded for severance and related costs primarily for personnel located at the Niles and Rochester facilities and affected by the consolidation of operations and $0.3 million was recorded for costs related to the affected facilities. The Company also expects to invest a total of approximately $1.25 million in capital expenditures relating to facilities used by the operations affected by the consolidation. At December 31, 2005 and December 30, 2006, the Company had recorded $0.4 million and $0.5 million, respectively, of capitalized costs, primarily for the installation of new office space at the Hudson headquarters facility and additional computer hardware and software required to support this transition. All of these accruals and charges relate to and were recorded by the Company's Presstek operating segment.

A summary of the transaction and the allocation of the purchase price are as follows (in thousands):

| | |
|---|---|
| Consideration | |
| Net cash paid | $ 40,000 |
| Transaction costs | 5,121 |
| Integration costs | 3,029 |
| Total consideration | 48,150 |
| Allocation of consideration to assets acquired (liabilities assumed) | |
| Accounts receivable | 16,930 |
| Inventories | 21,172 |
| Other current assets | 646 |
| Property, plant and equipment | 1,375 |
| Other noncurrent assets | 109 |
| Accounts payable and accrued expenses | (7,472) |
| Deferred revenue | (8,899) |
| Fair value of net tangible assets acquired | 23,861 |
| Excess of consideration over fair value of net tangible assets acquired | 24,289 |
| Allocation of excess consideration to identifiable intangible assets | |
| Trade names (estimated life of 3 years) | 2,100 |
| Customer relationships (estimated life of 10 years) | 3,800 |
| Software license (estimated life of 3 years) | 450 |
| | 6,350 |
| Allocation of excess consideration to goodwill | $ 17,939 |

The weighted average life of the identifiable intangible assets recorded in connection with this transaction is 7.2 years.

The activity related to the Company's integration cost accruals for the periods subsequent to the acquisition date is as follows (in thousands):

| | | Fiscal 2006 Activity | | |
|---|---|---|---|---|
| | Balance December 31, 2005 | Utilization | Currency Translation | Balance December 30, 2006 |
| Severance and fringe benefits | $ 1,242 | $ (761) | $ 6 | $ 487 |
| Lease termination and other costs | 95 | (71) | -- | 24 |
| | $ 1,337 | $ (832) | $ 6 | $ 511 |

| | Fiscal 2005 Activity | | | | |
|---|---|---|---|---|---|
| | | Purchase accounting adjustments offset to goodwill | | | |
| | Balance January 1, 2005 | Additions | Reversals – changes in estimate | Utilization | Balance December 31, 2005 |
| Severance and fringe benefits | $ 795 | $ 2,340 | $ (380) | $(1,513) | $ 1,242 |
| Lease termination and other costs | 703 | 75 | (504) | (179) | 95 |
| | $ 1,498 | $ 2,415 | $ (884) | $(1,692) | $ 1,337 |

| | Fiscal 2004 Activity | | | |
|---|---|---|---|---|
| | Balance January 3, 2004 | Purchase accounting adjustments offset to goodwill | Utilization | Balance January 1, 2005 |
| Severance and fringe benefits | $ -- | $ 795 | $ -- | $ 795 |
| Lease termination and other costs | -- | 703 | -- | 703 |
| | $ -- | $ 1,498 | $ -- | $ 1,498 |

*Precision*

On July 30, 2004, the Company acquired the stock of Precision for an aggregate cash purchase price of $12.1 million, net of cash acquired. A summary of the transaction and the final allocation of the purchase price are as follows (in thousands):

| | |
|---|---|
| Consideration | |
| Net cash paid | $ 12,127 |
| Integration costs | 400 |
| Total consideration | 12,527 |
| | |
| Allocation of consideration to assets acquired (liabilities assumed) | |
| Accounts receivable | 2,636 |
| Inventories | 2,695 |
| Property, plant and equipment | 6,065 |
| Accounts payable and accrued expenses | (5,279) |
| Fair value of net tangible assets acquired | 6,117 |
| | |
| Excess of consideration over fair value of net tangible assets acquired | 6,410 |
| | |
| Allocation of excess consideration to identifiable intangible assets | |
| Customer relationships (estimated life of 7 years) | 900 |
| Trade names (estimated life of 2 years) | 260 |
| Non-compete covenants (estimated life of 5 years) | 100 |
| | 1,260 |
| | |
| Allocation of excess consideration to goodwill (deductible for tax purposes) | $ 5,150 |

Financial results of the analog newspaper business of Precision are reported as discontinued operations in the accompanying Consolidated Statements of Income (see Note 3).

The Company did not incur any transaction costs related to the acquisition of Precision. The weighted average life of the identifiable intangible assets recorded in connection with this transaction is 5.8 years.

*Pro forma results of operations*

The following pro forma results of operations for fiscal 2004 have been prepared as though the acquisitions of ABDick and Precision digital business had occurred on January 4, 2004, the first day of fiscal 2004. This pro forma financial information does not purport to be indicative of the results of operations that would have been attained had the acquisitions been made as of January 4, 2004 or of results of operations that may occur in future periods (in thousands, except per share data):

| | Fiscal 2004 |
|---|---|
| Revenue | $ 271,990 |
| Net income from continuing operations | $ 3,433 |
| Earnings per share from continuing operations (basic) | $ 0.10 |
| Earnings per share from continuing operations (diluted) | $ 0.10 |

## 5. ACCOUNTS RECEIVABLE, NET OF ALLOWANCES

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

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Accounts receivable | $ 56,152 | $ 45,488 |
| Less allowances | (2,994) | (3,294) |
| | $ 53,158 | $ 42,194 |

The activity related to the Company's allowances for losses on accounts receivable for fiscal 2006, fiscal 2005 and fiscal 2004 is as follows (in thousands):

| | Fiscal 2006 | Fiscal 2005 | Fiscal 2004 |
|---|---|---|---|
| Balance at beginning of period | $ 3,294 | $ 4,304 | $ 1,892 |
| Charged to costs and expenses | 391 | 1,604 | 2,474 |
| Charged to other accounts: | | | |
| Purchase accounting adjustments | -- | (30) | -- |
| Acquired balance in business combinations | -- | -- | 1,964 |
| Deductions and write-offs | (691) | (2,584) | (2,026) |
| Balance at end of period | $ 2,994 | $ 3,294 | $ 4,304 |

## 6. INVENTORIES, NET

The components of inventories in the Consolidated Balance Sheets are as follows (in thousands):

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Raw materials | $ 3,434 | $ 6,325 |
| Work in process | 7,102 | 8,953 |
| Finished goods | 35,514 | 33,185 |
| | $ 46,050 | $ 48,463 |

## 7. PROPERTY, PLANT AND EQUIPMENT, NET

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

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Land and improvements | $ 2,286 | $ 2,241 |
| Buildings and leasehold improvements | 29,428 | 28,902 |
| Production and other equipment | 56,462 | 51,879 |
| Office furniture and equipment | 7,263 | 6,668 |
| Construction in process | 1,886 | 3,882 |
| Total property, plant and equipment, at cost | 97,325 | 93,572 |
| Accumulated depreciation and amortization | (55,131) | (48,425) |
| Net property, plant and equipment | $ 42,194 | $ 45,147 |

Construction in process is primarily related to production equipment not yet placed into service. The amount reported at December 30, 2006 includes $1.4 million related to a new service management system, which is in the implementation phase. The Company is capitalizing all applicable costs in accordance with AICPA Statement of Position No. 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*, and estimates that the total cost of implementation will approximate $1.8 million.

Property, plant and equipment at December 30, 2006 includes $110,000 in equipment and related accumulated depreciation of $38,000 associated with a capital lease.

The Company recorded depreciation expense of $7.0 million, $8.1 million and $7.8 million in fiscal 2006, fiscal 2005 and fiscal 2004, respectively. Under the Company's financing arrangements (See Note 9), all property, plant and equipment is pledged as security.

## 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amounts of goodwill for the fiscal year ended December 30, 2006 are as follows (in thousands):

| | |
|---|---|
| Balance at January 1, 2005 | $ 18,888 |
| Purchase accounting adjustments for prior period acquisitions | 4,201 |
| Balance at December 31, 2005 | $ 23,089 |
| Purchase accounting adjustments for prior period acquisitions | -- |
| Impairment adjustments | (2,809) |
| Balance at December 30, 2006 | $ 20,280 |

The impairment of goodwill is discussed in detail in Note 3.

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

| | December 30, 2006 | | December 31, 2005 | |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Cost | Accumulated amortization |
| Patents and intellectual property | $ 11,277 | $ 7,206 | $ 10,840 | $ 6,173 |
| Trade names | 2,360 | 1,776 | 2,360 | 1,001 |
| Customer relationships | 4,583 | 1,443 | 4,641 | 705 |
| Software licenses | 450 | 325 | 450 | 175 |
| License agreements | 750 | 169 | 750 | 11 |
| Non-compete covenants | 100 | 48 | 100 | 28 |
| Loan origination fees | 332 | 144 | 332 | 77 |
| | $ 19,852 | $ 11,111 | $ 19,473 | $ 8,170 |

The Company recorded amortization expense for its identifiable intangible assets of $3.0 million, $2.6 million and $1.3 million in fiscal 2006, fiscal 2005 and fiscal 2004, respectively. As of December 30, 2006, there was $0.7 million of patents not yet in service. Estimated future amortization expense for the Company's in-service patents and all other identifiable intangible assets recorded by the Company at December 30, 2006, are as follows (in thousands):

| | |
|---|---|
| Fiscal 2007 | $ 2,252 |
| Fiscal 2008 | 1,275 |
| Fiscal 2009 | 1,129 |
| Fiscal 2010 | 961 |
| Fiscal 2011 | 744 |
| Thereafter | 1,664 |

As of July 2, 2005, the Company's Lasertel subsidiary had advanced $0.9 million (the "Advance") to a customer (the "Customer"), of which $0.7 million was secured by, among other things, a lien on the assets of the Customer, including intellectual property. In addition, Lasertel had an accounts receivable balance of $0.9 million (the "Receivables") with the Customer. In a series of agreements with the Customer and a material end user to whom the Customer had been providing products under a supply contract (the "Supply Contract"), in exchange for the Customer's Advance and Receivables, Lasertel received ownership of certain assets of the Customer, which were comprised of all of the Customer's patents, intellectual property and know-how (as well as all updates thereto) (the "Assets") as well as having the Customer's rights under the Supply Contract assigned to Lasertel. In connection with this transaction, the Company recorded $1.7 million and $0.1 million of patents and customer contracts, respectively, which are amortized over their estimated useful lives, which range from nine months to seven years.

These amounts are included in the tables above. The value of the Assets, as well as the rights assigned under the Supply Contract, approximates the $1.8 million in Advances and Receivables.

## 9. FINANCING ARRANGEMENTS

The components of the Company's outstanding borrowings at December 30, 2006 and December 31, 2005 are as follows (in thousands):

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Term loan | $ 22,500 | $ 29,500 |
| Line of credit | 15,000 | 6,036 |
| Capital lease | 72 | 107 |
| | 37,572 | 35,643 |
| Less current portion | (22,037) | (13,073) |
| Long-term debt | $ 15,535 | $ 22,570 |

In November 2004, in connection with the acquisition of the business of the A.B. Dick Company, the Company replaced its then-current credit facilities, which it had entered into in October 2003, with $80.0 million in Senior Secured Credit Facilities (the "Facilities") from three lenders. The terms of 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. Effective August 31, 2005, the Company amended its Facilities to reduce the current Applicable LIBOR Margin to 2.5%, from the previous Applicable LIBOR Margin of 3.5%.

The Company entered into interest rate swap agreements with its lenders in October 2003, which were intended to protect the Company's long-term debt against fluctuations in LIBOR rates. Under the interest rate swaps LIBOR was set at a minimum of 1.15% and a maximum of 4.25%. The Company recorded a reduction to interest expense of $40,000, $28,000 and $133,000 in fiscal 2006, fiscal 2005 and fiscal 2004, respectively, to mark these interest rate swap agreements to market.

The Facilities were used to partially finance the ABDick acquisition, and are available to the Company for working capital requirements, capital expenditures, business acquisitions and general corporate purposes.

At December 30, 2006 and December 31, 2005, the Company had outstanding balances on the Revolver of $15.0 million and $6.0 million, respectively, with interest rates of 7.1% and 6.9%, respectively. At December 30, 2006, there were $12.3 million of outstanding letters of credit, thereby reducing the amount available under the Revolver to $17.7 million at that date.

The Term Loan required an initial principal payment of $0.25 million on March 31, 2005, and requires subsequent quarterly principal payments of $1.75 million, with a final settlement of all remaining principal and unpaid interest on November 4, 2009. At December 30, 2006 and December 31, 2005, outstanding balances under the Term Loan were $22.5 million and $29.5 million, respectively, with interest rates of 7.1% and 7.5%, respectively.

On November 23, 2005, the Company acquired equipment of $110,000 qualifying for capital lease treatment under SFAS 13. The lease has a three-year term and expires in November 2008, at which time the Company may purchase the system for a minimal amount. The lease carries an interest rate of 6.95% per year. The equipment is reflected in property, plant and equipment and the current and long-term principal amounts of the lease obligation are included as components of current portion of long-term debt and capital lease obligation and long-term debt and capital lease obligation in the Company's Consolidated Balance Sheets at December 30, 2006 and December 31, 2005.

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

| | |
|---|---|
| 2007 | $ 22,037 |
| 2008 | 7,035 |
| 2009 | 8,500 |

The weighted average interest rate on the Company's short-term borrowings was 7.1% at December 30, 2006.

Under the terms of the Revolver and Term Loan, the Company is required to meet various financial covenants on a quarterly and annual basis, including maximum funded debt to EBITDA (earnings before interest, taxes, depreciation, amortization and restructuring and other charges) and minimum fixed charge coverage covenants. At December 30, 2006, the Company was in compliance with all financial covenants.

## 10. ACCRUED EXPENSES

The components of the Company's accrued expenses in the Consolidated Balance Sheets at December 30, 2006 and December 31, 2005 are as follows (in thousands):

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Accrued payroll and employee benefits | $ 5,642 | $ 8,184 |
| Accrued warranty | 1,729 | 1,481 |
| Accrued integration costs | 511 | 1,337 |
| Accrued restructuring and other charges | 233 | 482 |
| Accrued royalties | 276 | 344 |
| Accrued income taxes | -- | 312 |
| Other | 2,080 | 4,430 |
| | $ 10,471 | $ 16,570 |

## 11. ACCRUED WARRANTY AND DEFERRED REVENUES

*Accrued Warranty*

The Company provides for the estimated cost of product warranties, based on historical experience, at the time revenue is recognized. Presstek warrants its products against defects in material and workmanship for various periods, determined by the product, generally for a period of from ninety days to one year from the date of installation. Typical warranties require the Company to repair or replace defective products during the warranty period at no cost to the customer. Presstek engages in extensive product quality programs and processes, including monitoring and evaluation of component supplies; however, product warranty terms, product failure rates, and material usage and service delivery costs incurred in correcting a product failure may affect the estimated warranty obligation. If actual product failure rates, material usage or service delivery costs differ from current estimates, the Company will adjust the warranty liability. Accruals for product warranties are reflected as a component of accrued expenses in the Company's Consolidated Balance Sheets.

Product warranty activity in fiscal 2006, fiscal 2005 and fiscal 2004 is as follows (in thousands):

| | Fiscal 2006 | Fiscal 2005 | Fiscal 2004 |
|---|---|---|---|
| Balance at beginning of period | $ 1,481 | $ 1,466 | $ 935 |
| Accruals for warranties | 3,400 | 1,558 | 1,109 |
| Assumed warranty liabilities – business acquisitions | -- | -- | 795 |
| Utilization of accrual for warranty costs | (3,152) | (1,543) | (1,373) |
| Balance at end of period | $ 1,729 | $ 1,481 | $ 1,466 |

Accruals for warranties increased in 2006 as the Company experienced quality issues related to the Vector TX52 and AnthemPro plates.

*Deferred Revenues*

Deferred revenues consist of amounts received or billed in advance for products for which revenue recognition criteria has not yet been met or service contracts where services have not yet been rendered. Deferred amounts are recognized as elements are delivered or, in the case of services, recognized ratably over the contract life, generally one year, or as services are rendered.

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

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Deferred service revenue | $ 7,505 | $ 7,951 |
| Deferred product revenue | 396 | 628 |
| | $ 7,901 | $ 8,579 |

## 12. RESTRUCTURING AND OTHER CHARGES (CREDITS)

A summary of restructuring and other charges follows:

| | December 30, 2006 | December 31, 2005 | January 1, 2005 |
|---|---|---|---|
| Asset impairment – goodwill | $ 2,809 | $ -- | $ -- |
| Impairment of intangible assets - patent defense costs | 2,297 | -- | -- |
| Impairment of other assets | 260 | -- | -- |
| Severance and fringe benefits | 115 | 592 | (316) |
| Executive contractual obligations | -- | 282 | (76) |
| Total net restructuring and other charges | $ 5,481 | $ 874 | $ (392) |

In connection with the Company's 2006 restructuring of the analog newspaper business of Precision Lithograining, as more fully described in Note 3, an impairment review of the Precision reporting unit goodwill was completed using a fair value test and charges totaling $2.8 million were recognized in the accompanying statement of income in fiscal 2006.

Impairment of intangible assets for patent defense costs associated with the Creo matter (Note 20) totaling $2.3 million were recognized as expense in fiscal 2006 as the Company determined that the future economic benefits of the patent were not assured of being increased.

Impairment of other assets of $0.3 million was recognized in fiscal 2006 as the Company determined that rights acquired under a product technology arrangement were impaired due to commercialization uncertainty.

In 2006, the Company also recognized charges of $0.5 million primarily for severance costs related to workforce reductions and merger-related professional fees. In addition, the reduction of approximately $0.4 million of previously established accruals at the Presstek segment were recorded in income in 2006 due mainly to changes in the scope of previously announced severance programs. At December 30, 2006, remaining accrual balances of $0.2 million related to severance programs involving 10 manufacturing and administrative positions at the Presstek segment.

In 2005, the Company recognized charges of approximately $1.0 million related to severance costs, executive and other contractual obligations, and a settlement with previously terminated employees in the Presstek business segment. Also, in 2005 approximately $0.1 million of previously established accruals at the Presstek segment were returned to income due mainly to changes in the scope of previously announced severance programs. The Company accrued for severance and fringe benefit costs relating to the elimination of 14 positions, comprised of five technical and customer support positions, five manufacturing positions and four management and support positions. At December 31, 2005, ten employees had been terminated under this plan.

In fiscal 2004, the Company returned approximately $0.4 million of previously established accruals to income due to fewer employee separations than originally planned associated with prior restructuring actions.

The activity for fiscal 2006, fiscal 2005 and fiscal 2004 related to the Company's restructuring and other expense accruals is as follows (in thousands):

| | Fiscal 2006 Activity | | | | |
|---|---|---|---|---|---|
| | Balance December 31, 2005 | Charged to Expense | Reversals | Utilization | Balance December 30, 2006 |
| Severance and fringe benefits | 482 | 324 | (390) | (183) | 233 |
| | $ 482 | $ 324 | $ (390) | $ (183) | $ 233 |

| | Fiscal 2005 Activity | | | | |
|---|---|---|---|---|---|
| | Balance January 1, 2005 | Charged to Expense | Reversals | Utilization | Balance December 31, 2005 |
| Executive contractual obligations | $ 154 | $ 282 | $ -- | $ (436) | $ -- |
| Severance and fringe benefits | -- | 700 | ( 108) | (110) | 482 |
| | $ 154 | $ 982 | $(108) | $ (546) | $ 482 |

| | Fiscal 2004 Activity | | | | |
|---|---|---|---|---|---|
| | Balance January 3, 2004 | Charged to Expense | Reversals | Utilization | Balance January 1, 2005 |
| Executive contractual obligations | $ 699 | $ -- | $ (76) | $ (469) | $ 154 |
| Severance and fringe benefits | 356 | -- | (316) | (40) | -- |
| | $ 1,055 | $ -- | $(392) | $ (509) | $ 154 |

The Company anticipates that payments related to the above restructuring actions will be completed in 2007.

## 13. INTEREST AND OTHER INCOME AND EXPENSE

The components of Interest and other income (expense), net, in the Company's Consolidated Statements of Income are as follows (in thousands):

| | Fiscal 2006 | Fiscal 2005 | Fiscal 2004 |
|---|---|---|---|
| Interest expense | $ (2,364) | $ (2,459) | $ (923) |
| Interest income | 119 | 130 | 318 |
| Other income (expense), net | 419 | 109 | (265) |
| | $ (1,826) | $ (2,220) | $ (870) |

In the third quarter of fiscal 2006, the Company received certain unclaimed funds from the former ABDick estate and settled various other open items with the ABDick estate, realizing a net gain of $0.3 million after legal costs. This gain is included in Other income (expense), net, in the table above for fiscal 2006. The amount reported as Other income (expense), net, for fiscal 2006 also includes $0.2 for gains on foreign currency transactions. The amounts reported as Other income (expense), net, for fiscal 2005 and fiscal 2004 primarily relate to gains or losses on foreign currency transactions.

## 14. INCOME TAXES

For the fiscal years ended December 30, 2006, December 31, 2005, and January 1, 2005, income before income taxes from continuing operations includes the following components (in thousands):

| | Fiscal 2006 | Fiscal 2005 | Fiscal 2004 |
|---|---|---|---|
| U.S. | $3,198 | $ 7,603 | $ 4,990 |
| Foreign | (824) | 482 | 111 |
| | $2,374 | $ 8,085 | $ 5,101 |

For the fiscal years ended December 30, 2006, December 31, 2005, and January 1, 2005, the components of provision (benefit) for income taxes from continuing operations were as follows (in thousands):

| | Fiscal 2006 | Fiscal 2005 | Fiscal 2004 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 129 | $ 175 | $ 40 |
| State | 545 | 176 | 6 |
| Foreign | 37 | 218 | -- |
| | $ 711 | $ 569 | $ 46 |
| Deferred: | | | |
| Federal | (10,274) | 475 | 96 |
| State | (802) | 120 | 24 |
| Foreign | (278) | -- | -- |
| | (11,354) | 595 | 120 |
| Provision for income taxes | $ (10,643) | $ 1,164 | $ 166 |

A reconciliation of the Company's effective tax rate to the statutory federal rate is as follows:

| | Fiscal 2006 | Fiscal 2005 | Fiscal 2004 |
|---|---|---|---|
| Federal statutory tax rate | 34.0% | 34.0% | 34.0% |
| State tax, net of federal benefit | (7.2) | 3.6 | 0.6 |
| Alternative minimum tax | -- | 2.2 | 0.8 |
| Other | (2.5) | 0.7 | (0.7) |
| Change in valuation allowance | (472.6) | (26.1) | (31.4) |
| | (448.3)% | 14.4% | 3.3% |

In fiscal 2006, the Company recognized a tax benefit of approximately $1.7 million associated with the loss from discontinued operations. The Company also recognized approximately $0.1 million as an increase to additional paid in capital as a result of current year tax benefits from excess tax deductions from stock-based compensation.

Deferred Income Taxes

Deferred income taxes result from net operating loss carryforwards and temporary differences between the recognition of items for income tax purposes and financial reporting purposes. Principal components of deferred

income taxes as of December 30, 2006, December 31, 2005, and January 1, 2005 were:

| | December 30, 2006 | December 31, 2005 | January 1, 2005 |
|---|---|---|---|
| Deferred tax assets | | | |
| Net operating loss carryforwards | $ 5,751 | $ 26,500 | $ 29,000 |
| Tax credits | 3,757 | 5,300 | 4,900 |
| Warranty provisions, litigation and other accruals | 4,162 | 5,900 | 4,400 |
| Gross deferred tax assets | 13,670 | 37,700 | 38,300 |
| Valuation allowance | (261) | (35,700) | (34,200) |
| Total assets | 13,409 | 2,000 | 4,100 |
| Deferred tax liabilities | | | |
| Amortizable and depreciable assets | (136) | (715) | (320) |
| Accumulated depreciation and amortization | (1,596) | (2,000) | (3,900) |
| Total liabilities | (1,732) | (2,715) | (4,220) |
| Net deferred tax assets (liabilities) | $ 11,677 | $ (715) | $ (120) |

On December 30, 2006, the Company recognized through its tax provision, a $11.2 million reversal of its U.S. deferred tax asset valuation allowance. In assessing the ability to realize its deferred tax assets, the Company considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized based on available positive and negative evidence. The Company considered historical book income, the scheduled reversal of deferred tax liabilities, and projected future book and taxable income in making this assessment. Based upon a detailed analysis of historical and expected book and taxable income, the Company determined that it is more likely than not that certain U.S. deferred tax assets for which a valuation allowance had been previously recorded will be realized in the future. The valuation allowance of $261,000 as of December 30, 2006 relates to certain federal research and development credit carryforwards for which the Company has determined, based upon historical results and projected future book and taxable income levels, that a valuation allowance should continue to be maintained.

At December 30, 2006, the Company had federal net operating loss carryforwards of approximately $74.3 million which will expire from 2008 to 2026. Approximately $60.7 million of our net operating loss carryforwards was generated from excess tax deductions from stock-based compensation, the tax benefit of which (approximately $20.6 million) will be credited to additional paid-in-capital when the deductions reduce current taxes payable. Upon the adoption of FAS 123(R), the Company netted its deferred tax asset and the related valuation allowance for the net operating loss carryforward generated from excess tax deductions from stock-based compensation.

At December 30, 2006 the Company had federal research and development credit carryforwards of approximately $3.1 million. The net operating loss and credit carryforwards will expire at various dates through 2022, if not utilized.

The Company's ability to utilize its net operating loss and credit carryforwards may be limited in the future if the company experiences an ownership change, as defined by the Internal Revenue Code. An ownership change occurs when the ownership percentage of 5% or greater stockholders changes by more than 50% over a three year period.

At December 30, 2006, the Company had a net operating loss approximating $0.9 million from its European operations headquarted in the United Kingdom. The loss carryforward can be carried forward indefinitely.

The cumulative amount of undistributed earnings of foreign subsidiaries, which is intended to be permanently reinvested and for which U.S. income taxes have not been provided, totaled approximately $0.3 million at December 30, 2006.

## 15. PREFERRED STOCK

The Company's certificate of incorporation empowers the Board of Directors, without stockholder approval, to issue up to 1,000,000 shares of $0.01 par value preferred stock, with dividend, liquidation, conversion and voting or other rights to be determined upon issuance by the Board of Directors. No preferred stock has been issued to date.

## 16. STOCK-BASED COMPENSATION PLANS

Prior to January 1, 2006, the Company's employee stock-based compensation plans were accounted for in accordance with APB 25 and related interpretations. Generally, no stock-based employee compensation cost was recognized in the statement of operations prior to January 1, 2006, as stock options granted under the plans had fixed terms, including an exercise price equal to the market value of the underlying common stock on the date of grant.

On December 31, 2005, the Company accelerated the vesting of all unvested outstanding options to purchase common stock previously issued to directors and employees, including officers. This action mitigated approximately $1.3 million in pre-tax compensation expense in fiscal 2006 and $0.7 million thereafter related to these options. Under the pro forma disclosure requirements of SFAS 123, the Company recognized approximately $4.0 million of stock-based compensation in fiscal 2005, including the expense relating to the accelerated vesting of stock options.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R, using the modified prospective method, which requires measurement of compensation cost at fair value on the date of grant and recognition of compensation expense over the service period for awards expected to vest. As a result, the Company recorded approximately $106,000 of stock-based compensation expense related to its ESPP in fiscal 2006. In addition, the Company recorded approximately $268,000 of stock-based compensation expense in fiscal 2006 related to stock options issued in the third quarter of fiscal 2006 under the 2003 Plan. These amounts are included as a component of General and administrative expense in the Company's Consolidated Statements of Operations for the fiscal year ended December 30, 2006. At December 30, 2006, there was $0.4 million of unrecognized stock compensation expense.

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 of the shares covered by each grant.

*Stock Incentive Plans*

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. Any future options granted as incentive stock options, or ISO's, become exercisable the day before the fifth anniversary of the date of grant. At December 30, 2006, there were 1,220,150 options outstanding and 1,338,875 shares available for future grants under the 1998 Incentive Plan. The options will expire at various dates as prescribed by the individual option grants.

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. The 2003 Plan provides for an automatic annual grant of 7,500 stock options to all active Non-Employee Directors. A total of 2,000,000 shares of common stock, subject to anti-dilution adjustments, has 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 December 30, 2006, there were 1,015,033 options outstanding and 914,567 shares available for future grants under the 2003 Plan. The options will expire at various dates as prescribed by the individual option grants.

The Company had previously adopted equity incentive plans that had expired as of December 30, 2006 and, accordingly, no future grants may be issued under these plans. These plans include the 1991 Stock Option Plan (the "1991 Plan"), which expired on August 18, 2001; the 1994 Stock Option Plan (the "1994 Plan"), which expired on April 8, 2004; and the 1997 Interim Stock Option Plan (the "1997 Plan"), which expired on September 22, 2002. At December 30, 2006 there were 45,900 options outstanding under the 1991 Plan, 569,967 options outstanding under the 1994 Plan and 77,800 options outstanding under the 1997 Plan.

*Employee Stock Purchase Plan*

The Company's 2002 Employee Stock Purchase Plan (the "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. In fiscal 2006, fiscal 2005 and fiscal 2004, approximately 57,000, 36,000 and 23,000 shares were issued, respectively, under the ESPP. The 2006 and 2005 amounts include approximately 16,000 and 8,600 shares in transit at December 30, 2006 and December 31, 2005, respectively. These shares were issued on January 3, 2007 and January 4, 2006, respectively. At December 30, 2006, there were approximately 769,000 shares available for issuance under this plan.

*Director Stock Option Plan*

The Company's Non-Employee Director Stock Option Plan (the "Director Plan") provided for the issuance of options to purchase 5,000 shares of the Company's common stock upon being named a Director of the Company and the automatic issuance, in January of each year, of options to purchase 2,500 shares of the Company's common stock, to each non-employee Director of the Company, with exercise prices equal to the fair market value of the stock at the date of grant. Options granted under this plan became exercisable one year from the date of grant and will terminate five years from the date of grant. At December 30, 2006, there were 27,500 options outstanding under the Director Plan. This Plan expired on December 31, 2003 and, accordingly, no future grants may be issued under this plan.

***Valuation Assumptions***

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:

| Stock purchase right assumptions | Fiscal 2006 |
|---|---|
| Risk-free interest rate | 4.74% |
| Volatility | 52.05% |
| Expected life (in years) | 0.25 |
| Dividend yield | -- |

Based on the above assumptions, the weighted average fair value of the stock purchase rights under the Company's ESPP for fiscal 2006 was $1.34.

The fair value of the options to purchase common stock granted in fiscal 2006 under the 2003 Plan was estimated on the respective grant dates using the Black-Scholes valuation model with the following assumptions:

| Stock option assumptions | Fiscal 2006 |
|---|---|
| Risk-free interest rate | 5.05% |
| Volatility | 57.16% |
| Expected life (in years) | 4.51 |
| Dividend yield | -- |

Based on the above assumptions, the weighted average fair value of the options to purchase shares of the Company's common stock granted in fiscal 2006 under the 2003 Plan was $4.62.

The weighted average fair values of options to purchase common stock granted and stock purchase rights granted under the ESPP in fiscal 2005 and 2004 were $4.66 and $5.85, respectively. The fair value of each option to purchase common stock is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions:

| | Fiscal 2005 | Fiscal 2004 |
|---|---|---|
| Risk-free interest rate | 4.55% | 3.71% |
| Volatility | 55.05% | 63.38% |
| Expected option life (in years) | 4.27 | 5.10 |
| Dividend yield | -- | -- |

Expected volatilities are based on historical volatilities of Presstek's common stock. The expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules, the Company's historical exercise patterns and the ESPP purchase period. The risk-free rate is based on the U.S. Treasury STRIPS (Separate Trading of Registered Interest and Principal of Securities) rate for the period corresponding to the expected life of the options or ESPP purchase period. The expense calculated using the Black-Scholes method is recognized on a straight line basis over the term of the service period.

Stock option activity for fiscal 2004, 2005 and 2006 is summarized as follows:

| | Shares | Weighted average exercise price | Weighted average remaining contractual term | Aggregate intrinsic value |
|---|---|---|---|---|
| Outstanding at January 3, 2004 | 3,452,476 | $ 8.36 | | |
| Granted | 76,750 | $ 10.08 | | |
| Exercised | (663,450) | $ 7.53 | | |
| Canceled/expired | (112,550) | $ 9.25 | | |
| Outstanding at January 1, 2005 | 2,753,226 | $ 8.57 | | |
| Granted | 1,104,667 | $ 8.83 | | |
| Exercised | (477,654) | $ 6.51 | | |
| Canceled/expired | (278,764) | $ 9.92 | | |
| Outstanding at December 31, 2005 | 3,101,475 | $ 8.86 | | |
| Granted | 143,333 | $ 9.12 | | |
| Exercised | (246,883) | $ 6.82 | | |
| Canceled/expired | (41,575) | $ 11.30 | | |
| Outstanding at December 30, 2006 | 2,956,350 | $ 9.01 | 5.6 | $ 4.5 million |
| Exercisable at December 30, 2006 | 2,813,017 | $ 9.00 | 5.4 | $ 4.5 million |

The following table summarizes information about stock options both outstanding at December 30, 2006:

*Options Outstanding and Exercisable*

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Range of exercise prices | Shares | Weighted average remaining contractual life (years) | Weighted average exercise price | Shares | Weighted average exercise price |
| $ 2.88 - $ 5.22 | 127,267 | 5.4 | $ 4.24 | 127,267 | $ 4.24 |
| $ 5.23 - $ 6.00 | 575,400 | 5.1 | $ 5.27 | 575,400 | $ 5.27 |
| $ 6.01 - $ 6.75 | 248,925 | 5.2 | $ 6.35 | 248,925 | $ 6.35 |
| $ 6.76 - $ 8.00 | 340,133 | 5.5 | $ 7.39 | 301,800 | $ 7.36 |
| $ 8.01 - $ 10.00 | 790,325 | 8.5 | $ 8.98 | 685,325 | $ 8.88 |
| $ 10.01 - $ 15.00 | 659,800 | 3.5 | $ 12.71 | 659,800 | $ 12.71 |
| $ 15.01 - $ 23.00 | 214,500 | 3.4 | $ 16.17 | 214,500 | $ 16.17 |
| $ 2.88 - $ 23.00 | 2,956,350 | 5.6 | $ 9.01 | 2,813,017 | $ 9.00 |

In addition to the plans described above, the Company's Lasertel subsidiary has a stock option plan, the Lasertel, Inc. 2000 Stock Incentive Plan (the "Lasertel Plan"). The Lasertel Plan, as amended in fiscal 2001, provides for the award, to employees and other key individuals of Lasertel and Presstek, of non-qualified options to purchase, in the aggregate, up to 2,100,000 shares of Lasertel's common stock. Any future options granted under this plan will generally vest over four years, with termination dates ten years from the date of grant. These grants are subject to termination provisions as provided in the Lasertel Plan.

In September 2003, Presstek filed an action against Fuji Photo Film Corporation, Ltd., in the District Court of Mannheim, Germany for patent infringement. In this action, Presstek alleges that Fuji has manufactured and distributed a product that violates Presstek European Patent 0 644 047 registered under number DE 694 17 129 with the German Patent and Trademark Office. Presstek seeks an order from the court that Fuji refrain from offering the infringing product for sale, from using the infringing material or introducing it for the named purposes, and from possessing such infringing material. A trial was held in November 2004 and March 2005, and we await a final determination from the Courts.

Presstek is a party to other litigation that it considers routine and incidental to its business however it does not expect the results of any of these actions to have a material adverse effect on its business, results of operation or financial condition.

Stock option activity for fiscal 2004, 2005 and 2006 is summarized as follows:

| | Shares | Weighted average exercise price | Weighted average remaining contractual term | Aggregate intrinsic value |
|---|---|---|---|---|
| Outstanding at January 3, 2004 | 3,452,476 | $ 8.36 | | |
| Granted | 76,750 | $ 10.08 | | |
| Exercised | (663,450) | $ 7.53 | | |
| Canceled/expired | (112,550) | $ 9.25 | | |
| Outstanding at January 1, 2005 | 2,753,226 | $ 8.57 | | |
| Granted | 1,104,667 | $ 8.83 | | |
| Exercised | (477,654) | $ 6.51 | | |
| Canceled/expired | (278,764) | $ 9.92 | | |
| Outstanding at December 31, 2005 | 3,101,475 | $ 8.86 | | |
| Granted | 143,333 | $ 9.12 | | |
| Exercised | (246,883) | $ 6.82 | | |
| Canceled/expired | (41,575) | $ 11.30 | | |
| Outstanding at December 30, 2006 | 2,956,350 | $ 9.01 | 5.6 | $ 4.5 million |
| Exercisable at December 30, 2006 | 2,813,017 | $ 9.00 | 5.4 | $ 4.5 million |

The following table summarizes information about stock options both outstanding at December 30, 2006:

*Options Outstanding and Exercisable*

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Range of exercise prices | Shares | Weighted average remaining contractual life (years) | Weighted average exercise price | Shares | Weighted average exercise price |
| $ 2.88 - $ 5.22 | 127,267 | 5.4 | $ 4.24 | 127,267 | $ 4.24 |
| $ 5.23 - $ 6.00 | 575,400 | 5.1 | $ 5.27 | 575,400 | $ 5.27 |
| $ 6.01 - $ 6.75 | 248,925 | 5.2 | $ 6.35 | 248,925 | $ 6.35 |
| $ 6.76 - $ 8.00 | 340,133 | 5.5 | $ 7.39 | 301,800 | $ 7.36 |
| $ 8.01 - $ 10.00 | 790,325 | 8.5 | $ 8.98 | 685,325 | $ 8.88 |
| $ 10.01 - $ 15.00 | 659,800 | 3.5 | $ 12.71 | 659,800 | $ 12.71 |
| $ 15.01 - $ 23.00 | 214,500 | 3.4 | $ 16.17 | 214,500 | $ 16.17 |
| $ 2.88 - $ 23.00 | 2,956,350 | 5.6 | $ 9.01 | 2,813,017 | $ 9.00 |

In addition to the plans described above, the Company's Lasertel subsidiary has a stock option plan, the Lasertel, Inc. 2000 Stock Incentive Plan (the "Lasertel Plan"). The Lasertel Plan, as amended in fiscal 2001, provides for the award, to employees and other key individuals of Lasertel and Presstek, of non-qualified options to purchase, in the aggregate, up to 2,100,000 shares of Lasertel's common stock. Any future options granted under this plan will generally vest over four years, with termination dates ten years from the date of grant. These grants are subject to termination provisions as provided in the Lasertel Plan.

Stock option activity under the Lasertel Plan for fiscal 2004, 2005 and 2006 is summarized as follows:

| | Shares | Weighted average exercise price | Weighted average remaining contractual term | Aggregate intrinsic value |
|---|---|---|---|---|
| Outstanding at January 3, 2004 | 543,437 | $ 0.17 | | |
| Granted | 12,750 | $ 0.15 | | |
| Exercised | -- | $ -- | | |
| Canceled/expired | (312,487) | $ 0.13 | | |
| Outstanding at January 1, 2005 | 243,700 | $ 0.21 | | |
| Granted | 15,000 | $ 0.15 | | |
| Exercised | (250) | $ 0.15 | | |
| Canceled/expired | (8,376) | $ 0.60 | | |
| Outstanding at December 31, 2005 | 250,074 | $ 0.20 | | |
| Granted | -- | $ -- | | |
| Exercised | -- | $ -- | | |
| Canceled/expired | (12,874) | $ 0.15 | | |
| Outstanding and exercisable at December 30, 2006 | 237,200 | $ 0.20 | 4.47 | $ 0.05 million |

## 17. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

Presstek is a market-focused high technology company that designs, manufactures and distributes proprietary and non-proprietary solutions to the graphic arts industries, primarily serving short-run, full-color customers. The Company's operations are organized based on the market application of our products and related services and consist of two business segments: Presstek and Lasertel. The Presstek segment is primarily engaged in the development, manufacture, sale and servicing of our patented digital imaging systems and patented printing plate technologies and related equipment and supplies for the graphic arts and printing industries, primarily serving the short-run, full-color market segment. Lasertel manufactures and develops high-powered laser diodes for sale to Presstek and external customers.

On December 28, 2006, the Audit Committee of the Board of Directors ratified a plan submitted by management to terminate production in South Hadley, Massachusetts of Precision-branded analog plates used in newspaper applications (the "analog newspaper business"), which operated as part of a former Precision segment. See Note 3. The financial information of the analog newspaper business of Precision has been reclassified into "Loss from discontinued operations" in the accompanying Consolidated Statements of Income. As such, the remaining digital operations of the Precision reporting unit have been included as part of the Presstek segment as of December 30, 2006 and prior periods. Selected operating results information for each business segment are as follows (in thousands):

| | Fiscal 2006 | Fiscal 2005 | Fiscal 2004 |
|---|---|---|---|
| Revenue | | | |
| Presstek | $ 258,936 | $ 255,344 | $ 118,576 |
| Lasertel | 11,469 | 7,760 | 7,765 |
| Total revenue, including inter-segment | 270,405 | 263,104 | 126,341 |
| Inter-segment revenue | (4,711) | (3,970) | (4,888) |
| | $ 265,694 | $ 259,134 | $ 121,453 |
| Revenues from external customers | | | |
| Presstek | $ 258,936 | $ 255,344 | $ 118,576 |
| Lasertel | 6,758 | 3,790 | 2,877 |
| | $ 265,694 | $ 259,134 | $ 121,453 |

| | | | |
|---|---|---|---|
| Income (loss) from continuing operations | | | |
| Presstek | $ 5,310 | $ 13,965 | $ 9,609 |
| Lasertel | (1,110) | (3,660) | (3,638) |
| | $ 4,200 | $ 10,305 | $ 5,971 |
| Depreciation and amortization | | | |
| Presstek | $ 8,288 | $ 8,374 | $ 6,530 |
| Lasertel | 1,629 | 2,353 | 2,493 |
| | $ 9,917 | $ 10,727 | $ 9,023 |
| Capital expenditures and other additions to property, plant and equipment | | | |
| Presstek | | | |
| Capital expenditures | $ 3,391 | $ 3,416 | $ 1,106 |
| Equipment obtained under capital lease | -- | 110 | -- |
| Total Presstek | 3,391 | 3,526 | 1,106 |
| Lasertel | 642 | 2,684 | 981 |
| | $ 4,033 | $ 6,210 | $ 2,087 |

Intersegment revenues and costs, which originate from the purchase of goods by the Presstek segment that are manufactured by the Lasertel segment, are eliminated from each segment prior to review of segment results by the Company's management. Accordingly, the amounts of intersegment revenues allocable to each individual segment have been excluded from the table above.

Asset information for the Company's business segments as of December 30, 2006 and December 31, 2005 is as follows (in thousands):

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| Presstek | $ 184,510 | $ 169,677 |
| Lasertel | 13,504 | 11,810 |
| | $ 198,014 | $ 181,487 |

The Company's classification of revenue by geographic area is determined by the location of the Company's customer. The following table summarizes revenue information by geographic area (in thousands):

| | Fiscal 2006 | Fiscal 2005 | Fiscal 2004 |
|---|---|---|---|
| United States | $ 173,585 | $ 159,907 | $ 83,232 |
| United Kingdom | 29,744 | 34,726 | 7,747 |
| Canada | 14,699 | 14,543 | 3,849 |
| Germany | 8,775 | 13,138 | 13,541 |
| Japan | 6,168 | 8,096 | 6,209 |
| All other | 32,723 | 28,724 | 6,875 |
| | $ 265,694 | $ 259,134 | $ 121,453 |

The Company's long-lived assets by geographic area are as follows (in thousands):

| | December 30, 2006 | December 31, 2005 |
|---|---|---|
| United States | $ 78,077 | $ 79,462 |
| United Kingdom | 894 | 682 |
| Canada | 303 | 382 |
| | $ 79,274 | $ 80,526 |

## 18. MAJOR CUSTOMERS

No customer accounted for greater than 10% of revenue in either fiscal 2006 or fiscal 2005, or greater than 10% of the Company's accounts receivable balance at either December 30, 2006 or December 31, 2005.

Revenue generated under the Company's agreements with Heidelberg and its distributors, Pitman Company, and Kodak and its distributors totaled $12.5 million, $14.8 million and $13.6 million, respectively in fiscal 2004, with accounts receivable balances of $2.4 million, $2.6 million and $3.1 million, respectively, at January 1, 2005.

## 19. RELATED PARTIES

The Company engages the services of Amster, Rothstein & Ebenstein, a law firm of which a member of the Company's Board of Directors is a partner. Expenses incurred for services from this law firm were $2.4 million, $0.6 million and $0.2 million in fiscal 2006, fiscal 2005 and fiscal 2004, respectively.

Pursuant to his retirement agreement, during fiscal 2004 the Company made payments totaling $100,006 to Richard A. Williams, the Company's Chief Scientific Officer, who also served as Chairman of the Board of Directors. There were no payments made in either fiscal 2006 or fiscal 2005.

The Company has an accounts receivable from a former executive and director totaling $202,000, resulting from advances made to the individual in a prior year. Although the Company intends to pursue collection of this receivable, it has provided a reserve against this amount in 2002 because of questions concerning its collection. As of December 30, 2006, this receivable remains fully reserved.

## 20. COMMITMENTS AND CONTINGENCIES

*Commitments*

The Company conducts operations in certain facilities under long-term operating leases. The Company also leases certain office and other equipment for use in its operations. These leases expire at various dates through 2010, with various options to renew as negotiated between the Company and its landlords. It is expected that in the normal course of business, leases that expire will be renewed or replaced. Rent expense under these leases was $1.7 million in fiscal 2006, $4.2 million in fiscal 2005 and $0.9 million in fiscal 2004.

The Company's obligations under its non-cancelable operating leases at December 30, 2006 were as follows (in thousands):

| | |
|---|---|
| Fiscal 2007 | $ 2,463 |
| Fiscal 2008 | 1,572 |
| Fiscal 2009 | 872 |
| Fiscal 2010 | 386 |

The Company entered into an agreement in fiscal 2000 with Fuji Photo Film Co., Ltd. ("Fuji"), whereby minimum royalty payments to Fuji are required based on specified sales volumes of the Company's A3 format size four-color sheet-fed press. The agreement provides for total royalty payments to be no less than $6 million and not greater than $14 million over the life of the agreement. As of December 30, 2006, the Company had paid Fuji $6.4 million under the agreement. The Company's maximum remaining liability under the royalty agreement at December 30, 2006, was $7.6 million.

*Contingencies*

On October 30, 2006, a chemical was released from a mixing tank into a holding pool at our manufacturing plant in South Hadley, Massachusetts, which caused us to temporarily cease digital and analog aluminum plate manufacturing operations at this location. The chemical release was contained on-site, there were no reported injuries, neighboring properties were not damaged and there were no requirements for soil or groundwater remediation. Digital plate manufacturing was restarted on November 6, 2006. On December 28, 2006, the Audit Committee of the Board of Directors ratified a plan to discontinue newspaper application analog plate production at the facility. In connection with the chemical release, the Company continues to work closely with federal, state, and local agencies regulating public health and the environment to complete a full assessment of the cause and impact of this incident and bring the matter to closure. Expenses associated with and amounts accrued for this incident as of December 30, 2006 are reflected in the financial results of discontinued operations (Note 3). It is possible that costs in excess of amounts accrued may be incurred. At this time, the Company has not ascertained the future liability, if any, associated with a final resolution of this matter.

The Company has change of control agreements with certain of its employees that provide them with benefits should their employment with the Company be terminated other than for cause or their disability or death, or if they resign for good reason, as defined in these agreements, within a certain period of time from the date of any change of control of the Company.

From time to time the Company has engaged in sales of equipment that is leased by or intended to be leased by a third party purchaser to another party. In certain situations, the Company may retain recourse obligations to a financing institution involved in providing financing to the ultimate lessee in the event the lessee of the equipment defaults on its lease obligations. In certain such instances, the Company may refurbish and remarket the equipment on behalf of the financing company, should the ultimate lessee default on payment of the lease. In certain circumstances, should the resale price of such equipment fall below certain predetermined levels, the Company would, under these arrangements, reimburse the financing company for any such shortfall in sale price (a "shortfall payment"). Generally, the Company's liability for these recourse agreements is limited to 9.5% of the amount outstanding. The maximum amount for which the Company was liable to the financial institution for the shortfall payment was approximately $0.2 million at December 30, 2006.

*Litigation*

On October 26, 2006, the Company was served with a complaint naming the Company, together with certain of its executive officers, as defendants in a purported securities class action suit filed in the United States District Court for the District of New Hampshire. The suit claims to be brought on behalf of purchasers of Presstek's common stock during the period from July 27, 2006 through September 29, 2006. The complaint alleges, among other things, that the Company and the other defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. The Company believes the allegations are without merit and intends to vigorously defend against them.

In March 2005, Presstek filed an action against CREO, Inc., in the United States District Court for the District of New Hampshire for patent infringement. In this action, Presstek alleges that Creo has distributed a product that violates a Presstek US Patent. Presstek seeks an order from the court that Creo refrain from offering the infringing product for sale, from using the infringing material or introducing it for the named purposes, or from possessing such infringing material, and for the payment of damages associated with the infringement.

In September 2003, Presstek filed an action against Fuji Photo Film Corporation, Ltd., in the District Court of Mannheim, Germany for patent infringement. In this action, Presstek alleges that Fuji has manufactured and distributed a product that violates Presstek European Patent 0 644 047 registered under number DE 694 17 129 with the German Patent and Trademark Office. Presstek seeks an order from the court that Fuji refrain from offering the infringing product for sale, from using the infringing material or introducing it for the named purposes, and from possessing such infringing material. A trial was held in November 2004 and March 2005, and we await a final determination from the Courts.

Presstek is a party to other litigation that it considers routine and incidental to its business however it does not expect the results of any of these actions to have a material adverse effect on its business, results of operation or financial condition.

## 21. QUARTERLY RESULTS (UNAUDITED)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter (2)(3)(4)(5) |
|---|---|---|---|---|
| | (in thousands, except per-share data) | | | |
| Fiscal 2006 | | | | |
| Revenue | $ 67,327 | $ 70,882 | $ 61,419 | $ 66,066 |
| Gross profit | $ 20,785 | $ 20,763 | $ 18,044 | $ 19,386 |
| Income from continuing operations | 2,978 | 2,579 | (40) | 7,500 |
| Income (loss) from discontinued operations | (254) | 167 | (383) | (2,803) |
| Net income | $ 2,724 | $ 2,746 | $ (423) | $ 4,697 |
| Earnings per share from continuing operations - basic | 0.09 | 0.07 | 0.00 | 0.21 |
| Earnings per share from discontinued operations - basic | (0.01) | 0.01 | (0.01) | (0.08) |
| Earnings per share – basic (1) | $ 0.08 | $ 0.08 | $ (0.01) | $ 0.13 |
| Earnings per share from continuing operations – diluted | 0.09 | 0.07 | 0.00 | 0.21 |
| Earnings per share from discontinued operations – diluted | (0.01) | 0.01 | (0.01) | (0.08) |
| Earnings per share – diluted (1) | $ 0.08 | $ 0.08 | $ (0.01) | $ 0.13 |
| Fiscal 2005 | | | | |
| Revenue | $ 66,097 | $ 65,897 | $ 61,294 | $ 65,846 |
| Gross profit | $ 20,554 | $ 21,206 | $ 19,740 | $ 20,820 |
| Income from continuing operations | 1,047 | 2,411 | 1,024 | 2,439 |
| Income (loss) from discontinued operations | (566) | (72) | (201) | 4 |
| Net income | $ 481 | $ 2,339 | $ 823 | $ 2,443 |
| Earnings per share from continuing operations - basic | 0.03 | 0.07 | 0.03 | 0.07 |
| Earnings per share from discontinued operations - basic | (0.02) | (0.00) | (0.01) | 0.00 |
| Earnings per share – basic (1) | $ 0.01 | $ 0.07 | $ 0.02 | $ 0.07 |
| Earnings per share from continuing operations – diluted | 0.03 | 0.07 | 0.03 | 0.07 |
| Earnings per share from discontinued operations – diluted | (0.02) | (0.00) | (0.01) | 0.00 |
| Earnings per share – diluted (1) | $ 0.01 | $ 0.07 | $ 0.02 | $ 0.07 |

(1) Income (loss) per share is computed independently for each of the quarters presented; accordingly, the sum of the quarterly income (loss) per share may not equal the total computed for the year.

(2) 2005 amounts reflect the effect of a change in accounting estimate to increase the useful lives of certain property, plant and equipment used by Lasertel from five to seven years. This change reduced depreciation expense by $0.4 million, increased net income by $0.3 million and increased both basic and diluted earnings per share by $0.01.

(3) In the fourth quarter of fiscal 2005, the Company finalized its purchase accounting allocation related to the ABDick acquisition. Adjustments to the acquired balance sheet and to properly reflect integration cost accruals for this acquisition include $0.1 million of increases to accounts receivable, $1.5 million of reductions to inventories, $0.1 million of reductions to other current assets, $0.4 million of increases to accounts payable and $1.2 million of reductions to accrued expenses, including $0.9 million of reversals of integration cost accruals. In accordance with SFAS 141, these adjustments were offset to goodwill.

(4) In the fourth quarter of fiscal 2006, the Company recognized an expense of $2.8 million associated with the impairment of goodwill as a result of applying SFAS 144 and 142.

(5) In the fourth quarter of fiscal 2006, the Company recorded an expense of $2.3 million relating to the impairment of intangible assets relating to patent defense costs as the Company determined that the future economic benefits of the patent were not assured of being increased.

PRESSTEK, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

| | Balance at beginning of period | Additions: Charged to costs and expenses | Additions: Charged to other accounts | Deductions and write-offs | Balance at end of period |
|---|---|---|---|---|---|
| Allowance for losses on accounts receivable | | | | | |
| Fiscal year | | | | | |
| 2006 | $ 3,294 | $ 391 | $ - | $ (691) | $ 2,994 |
| 2005 | $ 4,304 | $ 1,604 | $ (30) (1) | $ (2,584) | $ 3,294 |
| 2004 | $ 1,892 | $ 2,474 | $ 1,964 (2) | $ (2,026) | $ 4,304 |
| Reserves for excess and obsolete inventory | | | | | |
| Fiscal year | | | | | |
| 2006 | $ 16,507 | $ 1,346 | $ - | $ (3,858) | $ 13,995 |
| 2005 | $ 17,707 | $ 2,912 | $ (3,074) (1) | $ (1,038) | $ 16,507 |
| 2004 | $ 4,217 | $ 205 | $ 13,716 (2) | $ (431) | $ 17,707 |

(1) Purchase accounting adjustments
(2) Acquired balance in business combinations

**Item 9.** ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not applicable

**Item 9A.** ***Controls and Procedures***

(a) Evaluation of Disclosure Controls and Procedures

The Company carried out, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on their evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that, as of December 30, 2006, the Company's disclosure controls and procedures were not effective because of the material weakness identified as of such date discussed below. Notwithstanding the existence of the material weakness described below, management has concluded that the consolidated financial statements in this Form 10-K fairly present, in all material respects, the Company's financial position, results of operations and cash flows for the periods and dates presented.

(b) Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

With the participation of the Company's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 30, 2006, based on the framework and criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A significant deficiency means a deficiency in the design or operation of internal control that adversely affects the Company's ability to initiate, authorize, record, process or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the annual or interim financial statements that is more than inconsequential will occur and not be detected.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will occur and not be detected by management before the financial statements are published. In its assessment of the effectiveness in internal control over financial reporting as of December 30, 2006, the Company determined that there was a control deficiency that constituted a material weakness, as described below.

The Company did not maintain a sufficient complement of personnel with the appropriate level of accounting knowledge, experience, and training in the application of U.S. generally accepted accounting principles to analyze, review, and monitor accounting for transactions that are significant or non-routine. As a result, the Company did not prepare adequate contemporaneous documentation that would provide a sufficient basis for an effective evaluation and review of the accounting for transactions that are significant or non-routine. This material weakness resulted in errors in the preliminary December 30, 2006 consolidated financial statements and more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

Due to the material weakness described above, management has concluded that our internal control over financial reporting was not effective as of December 30, 2006.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 30, 2006 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report which appears on page 102.

(c) Remediation Plan for Material Weakness in Internal Control over Financial Reporting

The Company is in the process of developing and implementing a remediation plan to address the material weakness described above. The Company has taken the following actions to improve internal control over financial reporting:

- A new Senior Vice President and Chief Financial Officer was appointed, effective February 28, 2007.
- The Audit Committee of the Board of Directors, effective April 3, 2007, established a Financial Reporting Task Force to immediately develop a corrective action plan to ensure full remediation of the material weakness. This task force will report directly to the Audit Committee and be led by the Senior Vice President & Chief Financial Officer.
- The Senior Vice President and Chief Financial Officer has been authorized to engage third party professionals to advise the Company in connection with the remediation of existing deficiencies.
- During March 2007, a new Financial Reporting Manager was appointed to manage all SEC related activities including accounting guidance and periodic reporting.
- Since December 30, 2006, the Finance organization has been strengthened by the addition of four personnel in the Financial Analysis and General Accounting areas. The Company plans to continue to enhance the staffing and competency level within the Finance organization.
- A Director of Internal Audit position, reporting directly to the Audit Committee, will be filled as quickly as possible. In addition to other duties, this position will be responsible for reviewing and validating compliance with all remedial actions.

In addition, the following are specific remedial actions to be taken for matters related to accounting for significant or non-routine transactions:

- Require all significant or non-routine transactions to be thoroughly researched, analyzed, and documented by qualified accounting personnel, and to provide for complete review of the resulting proposed accounting treatment by the Principal Accounting Officer prior to recording the transactions. In addition, all major transactions will require the additional review and approval of the Senior Vice President & Chief Financial Officer.
- In addition to the review performed by the Company's management, implement an additional review by subject matter experts for complex accounting estimates and accounting treatments, where appropriate.
- Develop and implement focused monitoring controls and other procedures in the Internal Audit organization.

In light of the aforementioned material weakness, management conducted a thorough review of all significant or non-routine transactions for the year ended December 30, 2006. As a result of this review, management believes that there are no material inaccuracies or omissions of material fact and, to the best of its knowledge, believes that the consolidated financial statements for the year ended December 30, 2006 fairly present in all material respects the financial condition and results of operations for the Company in conformity with U.S. generally accepted accounting principles.

We anticipate the actions described above and resulting improvements in controls will strengthen our internal control over financial reporting and will, over time, address the material weakness identified as of December 30, 2006. However, because the remedial actions relate to the hiring of additional personnel and many of the controls in our system of internal controls rely extensively on manual review and approval, the successful operation of these controls for, at least, several quarters may be required prior to management being able to conclude that the material weakness has been remediated.

(d) Changes in Internal Control Over Financial Reporting

During the quarter ended December 30, 2006, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B.** ***Other Information***

None.

**PART III**

**Item 10.** ***Directors, Executive Officers and Corporate Governance***

The policies comprising the Company's code of ethics are set forth in the Company's Code of Business Conduct and Ethics. These policies satisfy the SEC's requirements for a "code of ethics," and apply to all directors, officers and employees. The Code of Business Conduct and Ethics can be found on the Company's website at www.presstek.com.

The remaining information required by this item will be set forth under the captions "Election of Directors", "Board of Directors Meetings and Committees", "Board of Directors and Committee Independence", "Executive Officers", and "Section 16(a) Beneficial Ownership Reporting Compliance" in the definitive proxy statement that the Company expects to file with the Securities Exchange Commission within 120 days of the fiscal year ended December 30, 2006 for the Annual Meeting of Stockholders to be held on June 7, 2007 (the "Proxy Statement") and such information is incorporated herein by reference.

**Item 11.** ***Executive Compensation***

The information required by this item will be set forth under the captions "Executive Compensation", "Employment Agreements and Termination of Employment Agreements", "Options and Stock Plans", "Compensation of Directors", and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement and is incorporated herein by reference.

**Item 12.** ***Security Ownership of Certain Beneficial Owners and Management***

We have securities authorized for issuance under equity compensation plans. Information concerning securities authorized for issuance under our equity compensation plans and further information required by this item will be set forth under the captions "Equity Compensation Plan Information" and "Voting Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement, and is incorporated herein by reference.

**Item 13.** ***Certain Relationships and Related Transactions***

The information required by this item will be set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement, and is incorporated herein by reference.

**Item 14.** ***Principal Accounting Fees and Services***

The information required by this item will be set forth under the captions "Ratification of Selection of Auditors" and "Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors" in the Proxy Statement, and is incorporated herein by reference.

We anticipate the actions described above and resulting improvements in controls will strengthen our internal control over financial reporting and will, over time, address the material weakness identified as of December 30, 2006. However, because the remedial actions relate to the hiring of additional personnel and many of the controls in our system of internal controls rely extensively on manual review and approval, the successful operation of these controls for, at least, several quarters may be required prior to management being able to conclude that the material weakness has been remediated.

(d) Changes in Internal Control Over Financial Reporting

During the quarter ended December 30, 2006, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Presstek, Inc.:

We have audited management's assessment, included in the accompanying *Management's Report on Internal Control over Financial Reporting*, appearing under Item 9A(b), that Presstek, Inc. did not maintain effective internal control over financial reporting as of December 30, 2006, because of the effect of the material weakness identified in management's assessment, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Presstek, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of Presstek, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment: The Company did not maintain a sufficient complement of personnel with the appropriate level of accounting knowledge, experience, and training in the application of U.S. generally accepted accounting principles to analyze, review, and monitor accounting for transactions that are significant or non-routine. As a result, the Company did not prepare adequate contemporaneous documentation that would provide a sufficient basis for an effective evaluation and review of the accounting for transactions that are significant or non-routine. This material weakness resulted in errors in the preliminary December 30, 2006 consolidated financial statements and more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated balance sheet as of December 30, 2006 and the related consolidated statements of income, changes in stockholders' equity and comprehensive income and cash flows for the year ended December 30, 2006 of Presstek, Inc. This material weakness was considered in determining the nature, timing, and

extent of audit tests applied in our audit of the 2006 consolidated financial statements, and this report does not affect our report dated April 24, 2007, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, management's assessment that Presstek, Inc. did not maintain effective internal control over financial reporting as of December 30, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Presstek, Inc. has not maintained effective internal control over financial reporting as of December 30, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG LLP

Boston, Massachusetts
April 24, 2007

**Item 9B.** ***Other Information***

None.

## PART III

**Item 10.** ***Directors, Executive Officers and Corporate Governance***

The policies comprising the Company's code of ethics are set forth in the Company's Code of Business Conduct and Ethics. These policies satisfy the SEC's requirements for a "code of ethics," and apply to all directors, officers and employees. The Code of Business Conduct and Ethics can be found on the Company's website at www.presstek.com.

The remaining information required by this item will be set forth under the captions "Election of Directors", "Board of Directors Meetings and Committees", "Board of Directors and Committee Independence", "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the definitive proxy statement that the Company expects to file with the Securities Exchange Commission within 120 days of the fiscal year ended December 30, 2006 for the Annual Meeting of Stockholders to be held on June 7, 2007 (the "Proxy Statement") and such information is incorporated herein by reference.

**Item 11.** ***Executive Compensation***

The information required by this item will be set forth under the captions "Executive Compensation", "Employment Agreements and Termination of Employment Agreements", "Options and Stock Plans", "Compensation of Directors", and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement and is incorporated herein by reference.

**Item 12.** ***Security Ownership of Certain Beneficial Owners and Management***

We have securities authorized for issuance under equity compensation plans. Information concerning securities authorized for issuance under our equity compensation plans and further information required by this item will be set forth under the captions "Equity Compensation Plan Information" and "Voting Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement, and is incorporated herein by reference.

**Item 13.** ***Certain Relationships and Related Transactions***

The information required by this item will be set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement, and is incorporated herein by reference.

**Item 14.** ***Principal Accounting Fees and Services***

The information required by this item will be set forth under the captions "Ratification of Selection of Auditors" and "Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors" in the Proxy Statement, and is incorporated herein by reference.

## PART IV

**Item 15.** ***Exhibits and Financial Statement Schedules***

(a) (1) Financial Statements

The consolidated financial statements of the Company are listed in the index under Part II, Item 8, of this Annual Report on Form 10-K.

(2) Financial Statement Schedule

The following financial statement schedule is filed as part of this report under Schedule II (Valuation and Qualifying Accounts and Reserves) for the 2004 – 2006 fiscal years. All other schedules called for by Form 10-K are omitted because they are inapplicable or the required information is contained in the consolidated financial statements, or notes thereto, included herein.

(3) Exhibits

The exhibits that are filed with this Annual Report on Form 10-K, or that are incorporated herein by reference, are set forth in the Exhibit Index hereto.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

/s/ Edward J. Marino
Edward J. Marino
President and Chief Executive Officer

Date: April 24, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | | |
|---|---|---|
| /s/ Edward J. Marino<br>Edward J. Marino | President, Chief Executive Officer and Director | April 24, 2007 |
| /s/ Gerald N. Herman<br>Gerald N. Herman | Vice-President and Corporate Controller<br>(Principal Accounting Officer) | April 24, 2007 |
| /s/ John W. Dreyer<br>John W. Dreyer | Chairman of the Board | April 24, 2007 |
| /s/ Daniel S. Ebenstein<br>Daniel S. Ebenstein, Esq. | Director | April 24, 2007 |
| /s/ Dr. Lawrence Howard<br>Dr. Lawrence Howard | Director | April 24, 2007 |
| /s/ Michael d. Moffitt<br>Michael D. Moffitt | Director | April 24, 2007 |
| /s/ Brian Mullaney<br>Brian Mullaney | Director | April 24, 2007 |
| /s/ Steven N. Rappaport<br>Steven N. Rappaport | Director | April 24, 2007 |
| /s/ Donald C. Waite, III<br>Donald C. Waite, III | Director | April 24, 2007 |

| Exhibit Number | Description |
|---|---|
| 3(a) | Amended and Restated Certificate of Incorporation of Presstek, Inc., as amended. (Previously filed as Exhibit 3 to Presstek's Quarterly Report on Form 10-Q for the Quarter ended June 29, 1996, hereby incorporated by reference.) |
| 3(b) | By-laws of Presstek, Inc. (Previously filed as an exhibit with Presstek's Form 10-K for the fiscal year ended December 30, 1995, filed March 29, 1996, hereby incorporated by reference.) |
| 2(a) | Stock Purchase Agreement among Presstek, Inc., Precision Lithograining, Inc. and SDK Realty Co. dated June 2, 2004 (Previously filed as Exhibit 2.1 to Presstek's Form 8-K filed on July 30, 2004, hereby incorporated by reference) |
| 2(b) | Asset Purchase Agreement among Presstek, Inc., Silver Acquisitions Corp., Paragon Corporate Holdings, Inc., A.B. Dick Company, A.B. Dick Company of Canada, Ltd. And Interactive Media Group, Inc., dated July 13, 2004 (Previously filed as Exhibit 2.1 to Presstek's Form 8-K filed on July 13, 2004, hereby incorporated by reference) |
| 2(c) | Second Amendment to Asset Purchase Agreement between the Company and A.B. Dick Company dated November 5, 2004 (Previously filed as Exhibit 2.1 to Presstek's Form 8-K filed on November 12, 2004, hereby incorporated by reference) |
| 2(d) | Amendment to Asset Purchase Agreement between the Company and A.B. Dick Company dated August 20, 2004 (Previously filed as Exhibit 2.2 to Presstek's Form 8-K filed on November 12, 2004, hereby incorporated by reference) |
| 10(a) | Confidentiality Agreement between Presstek, Inc. and Heidelberger Druckmaschinen A.G., effective December 7, 1989 as amended. (Previously filed as Exhibit 10(i) of Presstek's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, hereby incorporated by reference.) |
| 10(b) | Master Agreement effective January 1, 1991, by and between Heidelberger Druckmaschinen Aktiengesellschaft and Presstek, Inc. (Previously filed as an exhibit to Presstek's Form 8-K, dated January 1, 1991, hereby incorporated by reference.) |
| 10(c) | Technology License effective January 1, 1991, by and between Heidelberger Druckmaschinen Aktiengesellschaft and Presstek, Inc. (Previously filed as an exhibit to Presstek's Form 8-K, dated January 1, 1991, hereby incorporated by reference.) |
| 10(d) | Memorandum of Performance No. 3 dated April 27, 1993, to the Master Agreement, Technology License, and Supply Agreement between Presstek, Inc. and Heidelberger Druckmaschinen Aktiengesellschaft. (Previously filed as an exhibit to Presstek's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, hereby incorporated by reference.) |
| 10(e) | Modification to Memorandum of Performance No. 3 dated April 27, 1993, to the Master Agreement, Technology License, and Supply Agreement between Presstek, Inc. and Heidelberger Druckmaschinen Aktiengesellschaft. (Previously filed as an exhibit to Presstek's Annual report on Form 10-K for the fiscal year ended December 31, 1994, hereby incorporated by reference.) |
| 10(f)* | Memorandum of Understanding No. 4 dated November 9, 1995, to the Master Agreement and Technology License and Supply Agreement between Presstek, Inc. and Heidelberger Druckmaschinen Aktiengesellschaft. (Previously filed as Exhibit 10.k to Presstek's Form 10-K for the fiscal year ended December 30, 1995, filed March 29, 1996, hereby incorporated by reference.) |
| 10(g)** | 1991 Stock Option Plan. (Previously filed as an exhibit to Presstek's Annual report on Form 10-K for the fiscal year ended December 31, 1991, hereby incorporated by reference.) |
| 10(h)** | 1994 Stock Option Plan. (Previously filed as an exhibit to Presstek's Annual report on Form 10-K for the fiscal year ended December 31, 1994, hereby incorporated by reference.) |
| 10(i)** | Non-Employee Director Stock Option Plan. (Previously filed as Exhibit 10.0 to Presstek's Form 10-K for the fiscal year ended January 2, 1999, filed March 2, 1999, hereby incorporated by reference.) |

| Exhibit Number | Description |
|---|---|
| 10(kk) | Security Agreement (Intellectual Property) by and between Presstek, Inc. and Citizens Bank New Hampshire dated October 15, 2003. (Previously filed as Exhibit 10.11 to Presstek's Quarterly Report on Form 10-Q for the quarter ended September 27, 2003, filed November 12, 2003, hereby incorporated by reference.) |
| 10(ll) | Security Agreement (Intellectual Property) by and between Lasertel, Inc. and Citizens Bank New Hampshire dated October 15, 2003. (Previously filed as Exhibit 10.12 to Presstek's Quarterly Report on Form 10-Q for the quarter ended September 27, 2003, filed November 12, 2003, hereby incorporated by reference.) |
| 10(mm) | Mortgage and Security Agreement between Presstek, Inc. and Citizens Bank New Hampshire dated October 15, 2003. (Previously filed as Exhibit 10.13 to Presstek's Quarterly Report on Form 10-Q for the quarter ended September 27, 2003, filed November 12, 2003, hereby incorporated by reference.) |
| 10(nn) | Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing by and among Presstek, Inc., First American Title Insurance Company and Citizens Bank New Hampshire dated October 15, 2003. (Previously filed as Exhibit 10.14 to Presstek's Quarterly Report on Form 10-Q for the quarter ended September 27, 2003, filed November 12, 2003, hereby incorporated by reference.) |
| 10(oo)** | Employment Agreement by and between Presstek, Inc. and Moosa E. Moosa dated December 31, 2003 (Previously filed as Exhibit 10(pp) to Presstek's Form 10-K for the fiscal year ended January 3, 2004, filed March 18, 2004, hereby incorporated by reference.) |
| 10(pp) | Amendment to Employment Agreement by and between Presstek, Inc. and Moosa E. Moosa dated January 10, 2004 (Previously filed as Exhibit 10(qq) to Presstek's Form 10-K for the fiscal year ended January 3, 2004, filed March 18, 2004, hereby incorporated by reference.) |
| 10(qq) | Debtor-in-Possession Revolving Credit Agreement by and among A.B. Dick Company, Paragon Corporate Holdings, Inc., KeyBank National Association and Presstek, Inc. dated July 13, 2004 (Previously filed as Exhibit 10.1 to Presstek's Form 8-K filed on July 13, 2004, hereby incorporated by reference) |
| 10(rr) | Amended and Restated Credit Agreement among the Company, the Guarantors, Citizens Bank New Hampshire, KeyBank National Association and Bank North N.A. dated November 5, 2004 (Previously filed as Exhibit 99.1 to Presstek's Form 8-K filed on November 12, 2004, hereby incorporated by reference) |
| 10(ss)** | Employment Agreement by and between Presstek, Inc. and Susan A. McLaughlin dated January 24, 2005 (Previously filed as Exhibit 99.1 to Presstek's Form 8-K, filed January 28, 2005, hereby incorporated by reference.) |
| 10(tt)** | Employment Agreement by and between Presstek, Inc. and Edward J. Marino dated February 2, 2005 (Previously filed as Exhibit 99.1 to Presstek's Form 8-K , filed February 8, 2005, hereby incorporated by reference.) |
| 10(uu)** | Employment Agreement by and between Presstek, Inc. and Moosa E. Moosa dated February 2, 2005 (Previously filed as Exhibit 99.2 to Presstek's Form 8-K , filed February 8, 2005, hereby incorporated by reference.) |
| 10(vv)** | Employment Agreement by and between Presstek, Inc. and Michael McCarthy dated February 2, 2005 (Previously filed as Exhibit 10.4 to Presstek's Form 10-Q, filed May 12, 2005, hereby incorporated by reference.) |
| 10(ww)** | Employment Agreement by and between Presstek, Inc. and Peter E. Bouchard dated July 1, 2005 (Previously filed as Exhibit 99.1 to Presstek's Form 8-K, filed July 8, 2005, hereby incorporated by reference.) |
| 10(xx)** | Employment Agreement by and between Presstek, Inc. and William C. Keller dated July 27, 2006 (Previously filed as Exhibit 99.1 to Presstek's Form 8-K, filed July 28, 2006, hereby incorporated by reference.) |

| Exhibit Number | Description |
|---|---|
| 3(a) | Amended and Restated Certificate of Incorporation of Presstek, Inc., as amended. (Previously filed as Exhibit 3 to Presstek's Quarterly Report on Form 10-Q for the Quarter ended June 29, 1996, hereby incorporated by reference.) |
| 3(b) | By-laws of Presstek, Inc. (Previously filed as an exhibit with Presstek's Form 10-K for the fiscal year ended December 30, 1995, filed March 29, 1996, hereby incorporated by reference.) |
| 2(a) | Stock Purchase Agreement among Presstek, Inc., Precision Lithograining, Inc. and SDK Realty Co. dated June 2, 2004 (Previously filed as Exhibit 2.1 to Presstek's Form 8-K filed on July 30, 2004, hereby incorporated by reference) |
| 2(b) | Asset Purchase Agreement among Presstek, Inc., Silver Acquisitions Corp., Paragon Corporate Holdings, Inc., A.B. Dick Company, A.B. Dick Company of Canada, Ltd. And Interactive Media Group, Inc., dated July 13, 2004 (Previously filed as Exhibit 2.1 to Presstek's Form 8-K filed on July 13, 2004, hereby incorporated by reference) |
| 2(c) | Second Amendment to Asset Purchase Agreement between the Company and A.B. Dick Company dated November 5, 2004 (Previously filed as Exhibit 2.1 to Presstek's Form 8-K filed on November 12, 2004, hereby incorporated by reference) |
| 2(d) | Amendment to Asset Purchase Agreement between the Company and A.B. Dick Company dated August 20, 2004 (Previously filed as Exhibit 2.2 to Presstek's Form 8-K filed on November 12, 2004, hereby incorporated by reference) |
| 10(a) | Confidentiality Agreement between Presstek, Inc. and Heidelberger Druckmaschinen A.G., effective December 7, 1989 as amended. (Previously filed as Exhibit 10(i) of Presstek's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, hereby incorporated by reference.) |
| 10(b) | Master Agreement effective January 1, 1991, by and between Heidelberger Druckmaschinen Aktiengesellschaft and Presstek, Inc. (Previously filed as an exhibit to Presstek's Form 8-K, dated January 1, 1991, hereby incorporated by reference.) |
| 10(c) | Technology License effective January 1, 1991, by and between Heidelberger Druckmaschinen Aktiengesellschaft and Presstek, Inc. (Previously filed as an exhibit to Presstek's Form 8-K, dated January 1, 1991, hereby incorporated by reference.) |
| 10(d) | Memorandum of Performance No. 3 dated April 27, 1993, to the Master Agreement, Technology License, and Supply Agreement between Presstek, Inc. and Heidelberger Druckmaschinen Aktiengesellschaft. (Previously filed as an exhibit to Presstek's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993, hereby incorporated by reference.) |
| 10(e) | Modification to Memorandum of Performance No. 3 dated April 27, 1993, to the Master Agreement, Technology License, and Supply Agreement between Presstek, Inc. and Heidelberger Druckmaschinen Aktiengesellschaft. (Previously filed as an exhibit to Presstek's Annual report on Form 10-K for the fiscal year ended December 31, 1994, hereby incorporated by reference.) |
| 10(f)* | Memorandum of Understanding No. 4 dated November 9, 1995, to the Master Agreement and Technology License and Supply Agreement between Presstek, Inc. and Heidelberger Druckmaschinen Aktiengesellschaft. (Previously filed as Exhibit 10.k to Presstek's Form 10-K for the fiscal year ended December 30, 1995, filed March 29, 1996, hereby incorporated by reference.) |
| 10(g)** | 1991 Stock Option Plan. (Previously filed as an exhibit to Presstek's Annual report on Form 10-K for the fiscal year ended December 31, 1991, hereby incorporated by reference.) |
| 10(h)** | 1994 Stock Option Plan. (Previously filed as an exhibit to Presstek's Annual report on Form 10-K for the fiscal year ended December 31, 1994, hereby incorporated by reference.) |
| 10(i)** | Non-Employee Director Stock Option Plan. (Previously filed as Exhibit 10.0 to Presstek's Form 10-K for the fiscal year ended January 2, 1999, filed March 2, 1999, hereby incorporated by reference.) |

| Exhibit Number | Description |
|---|---|
| 10(kk) | Security Agreement (Intellectual Property) by and between Presstek, Inc. and Citizens Bank New Hampshire dated October 15, 2003. (Previously filed as Exhibit 10.11 to Presstek's Quarterly Report on Form 10-Q for the quarter ended September 27, 2003, filed November 12, 2003, hereby incorporated by reference.) |
| 10(ll) | Security Agreement (Intellectual Property) by and between Lasertel, Inc. and Citizens Bank New Hampshire dated October 15, 2003. (Previously filed as Exhibit 10.12 to Presstek's Quarterly Report on Form 10-Q for the quarter ended September 27, 2003, filed November 12, 2003, hereby incorporated by reference.) |
| 10(mm) | Mortgage and Security Agreement between Presstek, Inc. and Citizens Bank New Hampshire dated October 15, 2003. (Previously filed as Exhibit 10.13 to Presstek's Quarterly Report on Form 10-Q for the quarter ended September 27, 2003, filed November 12, 2003, hereby incorporated by reference.) |
| 10(nn) | Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing by and among Presstek, Inc., First American Title Insurance Company and Citizens Bank New Hampshire dated October 15, 2003. (Previously filed as Exhibit 10.14 to Presstek's Quarterly Report on Form 10-Q for the quarter ended September 27, 2003, filed November 12, 2003, hereby incorporated by reference.) |
| 10(oo)** | Employment Agreement by and between Presstek, Inc. and Moosa E. Moosa dated December 31, 2003 (Previously filed as Exhibit 10(pp) to Presstek's Form 10-K for the fiscal year ended January 3, 2004, filed March 18, 2004, hereby incorporated by reference.) |
| 10(pp) | Amendment to Employment Agreement by and between Presstek, Inc. and Moosa E. Moosa dated January 10, 2004 (Previously filed as Exhibit 10(qq) to Presstek's Form 10-K for the fiscal year ended January 3, 2004, filed March 18, 2004, hereby incorporated by reference.) |
| 10(qq) | Debtor-in-Possession Revolving Credit Agreement by and among A.B. Dick Company, Paragon Corporate Holdings, Inc., KeyBank National Association and Presstek, Inc. dated July 13, 2004 (Previously filed as Exhibit 10.1 to Presstek's Form 8-K filed on July 13, 2004, hereby incorporated by reference) |
| 10(rr) | Amended and Restated Credit Agreement among the Company, the Guarantors, Citizens Bank New Hampshire, KeyBank National Association and Bank North N.A. dated November 5, 2004 (Previously filed as Exhibit 99.1 to Presstek's Form 8-K filed on November 12, 2004, hereby incorporated by reference) |
| 10(ss)** | Employment Agreement by and between Presstek, Inc. and Susan A. McLaughlin dated January 24, 2005 (Previously filed as Exhibit 99.1 to Presstek's Form 8-K, filed January 28, 2005, hereby incorporated by reference.) |
| 10(tt)** | Employment Agreement by and between Presstek, Inc. and Edward J. Marino dated February 2, 2005 (Previously filed as Exhibit 99.1 to Presstek's Form 8-K , filed February 8, 2005, hereby incorporated by reference.) |
| 10(uu)** | Employment Agreement by and between Presstek, Inc. and Moosa E. Moosa dated February 2, 2005 (Previously filed as Exhibit 99.2 to Presstek's Form 8-K , filed February 8, 2005, hereby incorporated by reference.) |
| 10(vv)** | Employment Agreement by and between Presstek, Inc. and Michael McCarthy dated February 2, 2005 (Previously filed as Exhibit 10.4 to Presstek's Form 10-Q, filed May 12, 2005, hereby incorporated by reference.) |
| 10(ww)** | Employment Agreement by and between Presstek, Inc. and Peter E. Bouchard dated July 1, 2005 (Previously filed as Exhibit 99.1 to Presstek's Form 8-K, filed July 8, 2005, hereby incorporated by reference.) |
| 10(xx)** | Employment Agreement by and between Presstek, Inc. and William C. Keller dated July 27, 2006 (Previously filed as Exhibit 99.1 to Presstek's Form 8-K, filed July 28, 2006, hereby incorporated by reference.) |