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BALDWIN TECHNOLOGY CO INC
Form 10-Q
February 13, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

Form 10-Q

[Mark One]

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For quarter ended December 31, 2005

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 number 1-9334

BALDWIN TECHNOLOGY COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3258160
(I.R.S. Employer Identification No.)

2 Trap Falls Road, Suite 402, Shelton, Connecticut 06484
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 203-402-1000

N/A
(Former name, former address and former fiscal year, if changed since
last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 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 Exchange 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 Exchange Act).

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YES [] NO [X]

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class -----	Outstanding at January 27, 2006 -----
Class A Common Stock \$0.01 par value	13,017,647
Class B Common Stock \$0.01 par value	1,935,419

BALDWIN TECHNOLOGY COMPANY, INC.

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BALDWIN TECHNOLOGY COMPANY, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)
(UNAUDITED)

ASSETS

	December 31, 2005	June 30, 2005
	-----	-----
CURRENT ASSETS:		
Cash	\$ 16,949	\$ 15,443
Accounts receivable trade, net of allowance for doubtful accounts of \$1,655 (\$1,962 at June 30, 2005)	25,101	27,160
Notes receivable, trade	9,539	8,090
Inventories, net	21,878	22,755
Deferred taxes	369	416
Prepaid expenses and other	3,287	3,132
	-----	-----
Total Current Assets	77,123	76,996
	-----	-----
MARKETABLE SECURITIES:		
Cost \$678 (\$610 at June 30, 2005)	899	678
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land and buildings	919	936
Machinery and equipment	2,058	2,082
Furniture and fixtures	3,767	3,796
Capital leases	382	391
	-----	-----
	7,126	7,205
Less: Accumulated depreciation and amortization	(3,925)	(3,790)
	-----	-----
Net Property, Plant and Equipment	3,201	3,415
	-----	-----
PATENTS, TRADEMARKS AND ENGINEERING DRAWINGS, at cost, less accumulated amortization of \$4,750 (\$4,559 at June 30, 2005)	2,647	2,561
GOODWILL, less accumulated amortization of \$3,283 (\$3,456 at June 30, 2005)	10,458	10,922
DEFERRED TAXES	10,398	10,623
OTHER ASSETS	3,681	4,156
	-----	-----
TOTAL ASSETS	\$108,407	\$109,351
	=====	=====

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

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BALDWIN TECHNOLOGY COMPANY, INC.

CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA) (UNAUDITED)

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 2005	June 30, 2005
	-----	-----
CURRENT LIABILITIES:		
Loans payable	\$ 2,544	\$ 2,705
Current portion of long-term debt	1,251	1,033
Accounts payable, trade	14,009	14,789
Notes payable, trade	8,856	9,278
Accrued salaries, commissions, bonus and profit-sharing	5,668	7,641
Customer deposits	3,361	3,320
Accrued and withheld taxes	1,883	2,041
Income taxes payable	1,868	1,204
Other accounts payable and accrued liabilities	9,157	9,486
	-----	-----
Total current liabilities	48,597	51,497
	-----	-----
LONG TERM LIABILITIES:		
Long-term debt	11,940	12,223
Other long-term liabilities	6,682	6,400
	-----	-----
Total long-term liabilities	18,622	18,623
	-----	-----
Total liabilities	67,219	70,120
	-----	-----
SHAREHOLDERS' EQUITY:		
Class A Common Stock, \$.01 par, 45,000,000 shares authorized, 16,647,849 shares issued at December 31, 2005 and 16,575,349 shares issued at June 30, 2005	167	166
Class B Common Stock, \$.01 par, 4,500,000 shares authorized, 2,107,883 shares issued at December 31, 2005 and 2,137,883 shares issued at June 30, 2005	21	21
Capital contributed in excess of par value	57,283	57,065
Accumulated Deficit	(5,056)	(7,632)
Accumulated other comprehensive income	1,494	2,332
Less: Treasury stock, at cost:		
Class A - 3,630,202 shares at December 31, 2005 and June 30, 2005		
Class B - 172,464 shares at December 31, 2005 and June 30, 2005	(12,721)	(12,721)
	-----	-----
Total shareholders' equity	41,188	39,231
	-----	-----

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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$108,407	\$109,351
	=====	=====

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

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BALDWIN TECHNOLOGY COMPANY, INC.

CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	For the three months ended December 31,		For the six months ended December 31,	
	2005	2004	2005	2004
	-----	-----	-----	-----
Net Sales	\$43,826	\$41,232	\$86,471	\$81,229
Cost of goods sold	29,040	28,525	57,629	56,431
	-----	-----	-----	-----
Gross Profit	14,786	12,707	28,842	24,798
	-----	-----	-----	-----
Operating Expenses:				
General and administrative	4,951	3,959	9,639	7,950
Selling	3,652	3,623	7,086	6,965
Engineering and development	3,818	3,864	7,598	7,222
	-----	-----	-----	-----
	12,421	11,446	24,323	22,137
	-----	-----	-----	-----
Operating income	2,365	1,261	4,519	2,661
	-----	-----	-----	-----
Other (income) expense:				
Interest expense	249	571	547	1,523
Interest income	(33)	(30)	(61)	(53)
Royalty income, net	--	(763)	(200)	(1,517)
Other (income) expense, net	12	137	79	124
	-----	-----	-----	-----
	228	(85)	365	77
	-----	-----	-----	-----
Income before income taxes	2,137	1,346	4,154	2,584
Provision for income taxes	754	558	1,578	1,077
	-----	-----	-----	-----
Net income	\$ 1,383	\$ 788	\$ 2,576	\$ 1,507
	=====	=====	=====	=====
Net income per share - basic and diluted				
Income per share - basic	\$ 0.09	\$ 0.05	\$ 0.17	\$ 0.10
Income per share - diluted	0.09	0.05	0.17	0.10
	-----	-----	-----	-----
Weighted average shares outstanding:				
Basic	14,953	14,901	14,983	14,887
	=====	=====	=====	=====
Diluted	15,666	15,319	15,570	15,335
	=====	=====	=====	=====

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

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BALDWIN TECHNOLOGY COMPANY, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARES) (UNAUDITED)

	Class A Common Stock		Class B Common Stock		Capital Contributed In Excess of Par	Retained Deficit	Accumulated Other Comprehensive Income
	Shares	Amount	Shares	Amount			
Balance at June 30, 2005	16,575,349	\$166	2,137,883	\$21	\$57,065	\$ (7,632)	\$ 2,332
Net income for the six months ended December 31, 2005						2,576	
Translation adjustment							(1,006)
Unrealized gain on available- for-sale securities, net of tax							139
Deferred stock based compen- sation					134		
Unrealized gain on forward contracts, net of tax							29
Comprehensive Income							
Conversion of Shares	30,000		(30,000)				
Shares issued under Stock Option Plan	42,500	1			84		
Balance at December 31, 2005	16,647,849	\$167	2,107,883	\$21	\$57,283	\$ (5,056)	\$ 1,494

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

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BALDWIN TECHNOLOGY COMPANY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	For the six months ended December 31,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 2,576	\$ 1,507
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	704	972
Accrued retirement pay	479	80
Provision for losses on accounts receivable	53	51
Stock option expense	134	--
Deferred income taxes	51	21
Changes in assets and liabilities:		
Accounts and notes receivable	(805)	1,533
Inventories	307	(815)
Prepaid expenses and other	(289)	837
Other assets	368	(636)
Customer deposits	195	543
Accrued compensation	(1,797)	(1,956)
Payments against restructuring charges	--	(347)
Accounts and notes payable, trade	(161)	1,064
Income taxes payable	746	(989)
Accrued and withheld taxes	(158)	(80)
Other accounts payable and accrued liabilities	(59)	(495)
Interest payable	(21)	(84)
Net cash provided by operating activities	2,323	1,206
Cash flows from investing activities:		
Additions of property, plant and equipment	(325)	(312)
Additions of patents and trademarks	(293)	(317)
Net cash used by investing activities	(618)	(629)
Cash flows from financing activities:		
Long-term and short-term debt borrowings	899	--
Long-term and short-term debt repayments	(596)	(535)
Principal payments under capital lease obligations	(56)	(61)

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Payment of debt financing costs	--	(259)
Proceeds of stock option exercise	85	78
Other long-term liabilities	42	48
	-----	-----
Net cash provided (used) by financing activities	374	(729)
	-----	-----
Effects of exchange rate changes	(573)	811
	-----	-----
Net increase in cash and cash equivalents	1,506	659
Cash and cash equivalents at beginning of period	15,443	12,008
	-----	-----
Cash and cash equivalents at end of period	\$16,949	\$12,667
	=====	=====

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

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BALDWIN TECHNOLOGY COMPANY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	For the six months ended December 31,	

	2005	2004
	----	-----
Cash paid during the period for:		
Interest	\$568	\$1,607
Income taxes	\$858	\$2,029

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

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BALDWIN TECHNOLOGY COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION:

Baldwin Technology Company, Inc. and its subsidiaries ("Baldwin" or the "Company") are engaged primarily in the development, manufacture and sale of

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accessories and controls for the printing industry.

The accompanying unaudited consolidated financial statements include the accounts of Baldwin and its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in compliance with the rules and regulations of the Securities and Exchange Commission. These financial statements reflect all adjustments of a normal recurring nature, which are in the opinion of management, necessary to present a fair statement of the results for the interim periods. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's latest Annual Report on Form 10-K for the fiscal year ended June 30, 2005.

NOTE 2 - RECENTLY ISSUED ACCOUNTING STANDARDS:

On June 1, 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). SFAS 154 changes the requirements for the accounting and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in accounting principle as well as changes required by an accounting pronouncement that do not otherwise include specific transition provisions. Previously, most changes in accounting principle were required to be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application in prior periods' financial statements of a change in accounting principle as if that principle had always been used. In addition, SFAS 154 requires that retrospective application of a change in accounting principle be limited to the direct effects of the change while indirect effects should be recognized in the period of the accounting change. SFAS 154 will be effective for fiscal years beginning after December 15, 2005. The impact of the adoption of SFAS 154 will depend upon the nature of accounting changes the Company may initiate in future periods, if any.

NOTE 3 - LONG TERM DEBT:

Effective July 1, 2005, the Company amended its primary source of outside financing, the revolving credit agreement with Maple Bank GmbH (the "Maple Credit Agreement"). Borrowings under the credit facility are subject to a borrowing base and bear interest at a rate equal to the three-month Euribor rate (as defined in the Credit Agreement) plus (i) 3.375%, (5.125% for the period ended December 31, 2005) for loans denominated in U.S. Dollars or (ii) 3.775% (5.525% for the period ended December 31, 2005) for loans denominated in Euros. The amended credit agreement does not require the Company to meet any financial covenants, except for the limitation on annual capital expenditures; however, it contains a material adverse effect clause, which provides that Maple Bank would not be obligated to fund any loan, convert or continue any loan as a LIBOR loan or issue any new letters of credit in the event of a material adverse effect. Management does not anticipate that such an event will occur; however, there can be no assurance that such an event will not occur.

(IN THOUSANDS)

DECEMBER 31, 2005 JUNE 30, 2005

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	CURRENT	LONG-TERM	CURRENT	LONG-TERM
	-----	-----	-----	-----
Revolving Credit Facility due October 1, 2008, interest rate 5.525% plus three-month euribor rate (2.153% at June 30).....	\$ --	\$ --	\$ --	\$11,504
Revolving Credit Facility due October 1, 2008, interest rate 3.775% plus three-month euribor rate (2.108% at December 31).....	--	11,254	--	--
Term loan payable by foreign subsidiary due September 2008, interest rate 1.81%..... (a)	289	488	--	--
Term Loan payable by foreign subsidiary due December 8, 2006, interest rate 1.5%...	847	--	902	450
Note payable by foreign subsidiary through 2008, interest rate 5.95%.....	113	198	115	259
Note payable by foreign subsidiary through February 2007, interest rates ranging from 4.58% to 4.67%.....	2	--	16	10
	-----	-----	-----	-----
	\$1,251	\$11,940	\$1,033	\$12,223
	=====	=====	=====	=====

(a) Yen 100,000,000 3-year term loan (approximately \$882,000). Quarterly principal payments of Yen 8,333,000, interest rate at Tokyo Inter Bank offered rate (TIBOR) plus .075%. The interest rate swap converts variable rate to fixed rate of 1.81% and has the same maturity date as the term loan.

The Company maintains relationships with both foreign and domestic banks, which combined have extended short and long term credit facilities to the Company totaling \$35,824 including \$30,000 available under the Maple GmbH Credit Agreement. As of December 31, 2005, the Company had \$17,251 outstanding under these credit facilities, including \$12,771 under the Maple GmbH Credit Agreement.

NOTE 4 - NET INCOME (LOSS) PER SHARE:

Basic net income per share includes no dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution of securities that could share in the earnings of an entity. The weighted average shares outstanding used to compute diluted net income per share include 713,000 and 632,000 of potentially dilutive shares, respectively for the three and six months ended December 31, 2005 and 418,000 and 448,000 of potentially dilutive shares, respectively, for the three and six months ended December 31, 2004. Outstanding options to purchase 182,000 and 687,000 shares of the Company's common stock for the six months ended December 31, 2005 and 2004 respectively, are not included in the above calculation to compute diluted net income per share as their exercise prices exceeded the current market value of these shares.

NOTE 5 -OTHER COMPREHENSIVE INCOME (LOSS):

Accumulated Other Comprehensive Income (Loss) ("AOCI") is comprised of various items, which affect equity that result from recognized transactions and

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other economic events other than transactions with owners in their capacity as owners. AOCI is included in stockholders' equity in the consolidated balance sheets. AOCI consists of the following:

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	(in thousands)	
	December 31, 2005	June 30, 2005
	(Unaudited)	
Cumulative translation adjustments	\$1,399	\$2,407
Unrealized gain on investments, net of tax	179	40
Unrealized loss on forward contracts, net of tax	(6)	(35)
Minimum pension liability, net of tax	(78)	(80)
	-----	-----
	\$1,494	\$2,332
	=====	=====

NOTE 6 - INVENTORIES:

Inventories consist of the following:

	(in thousands)	
	December 31, 2005	June 30, 2005
	(Unaudited)	
Raw materials	\$11,438	\$11,453
In process	4,490	4,409
Finished goods	5,950	6,893
	-----	-----
	\$21,878	\$22,755
	=====	=====

Foreign currency translation effects decreased inventories by \$570 from June 30, 2005 to December 31, 2005.

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS:

The changes in the carrying amount of goodwill for the six months ended December 31, 2005 are as follows:

	(in thousands)		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value

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Balance as of July 1, 2005	\$14,378	\$ 3,456	\$10,922
Effects of currency translation	(637)	(173)	(464)
Balance as of December 31, 2005	\$13,741	\$ (3,283)	\$10,458

Intangible assets subject to amortization are comprised of the following:

(in thousands)

Intangible Assets:	As of December 31, 2005		As of June 30, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents and trademarks	\$7,397	\$4,750	\$7,120	\$4,559
Other	897	710	937	746
Total	\$8,294	\$5,460	\$8,057	\$5,305

Amortization expense associated with these intangible assets was \$121 and \$242, respectively, for the three and six months ended December 31, 2005 and \$207 and \$368, respectively for the three and six months ended December 31, 2004. The other category is included in "Other assets" on the accompanying consolidated balance sheets.

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NOTE 8 - PENSION AND OTHER POST-RETIREMENT BENEFITS:

The following table sets forth the components of net periodic benefit costs for the Company's defined benefit plans for the three and six months ended December 31, 2005 and 2004:

(in thousands)

	Pension Benefits For the three months ended December 31,		Pension Benefits For the six months ended December 31,	
	2005	2004	2005	2004
Service cost	\$64	\$67	\$128	\$134
Interest cost	12	15	24	30
Expected return on plan assets	(4)	(1)	(8)	(2)
Amortization of transition obligation	3	3	6	6
Amortization of net actuarial gain	(3)	--	(6)	--

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	---	---	----	----
Net periodic benefit cost	\$72	\$84	\$144	\$168
	===	===	====	====

During the six months ended December 31, 2005 and 2004 the Company made contributions to the plans of \$204 and \$173, respectively.

NOTE 9 - STOCK BASED COMPENSATION PLANS:

Effective July 1, 2005 the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), (SFAS 123(R)) "Share Based Payment". The statement focuses primarily on accounting for transactions in which an entity obtains employee services in shared-based payment transactions. SFAS 123(R) eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees", and generally requires that such transactions be accounted for using a fair-value-based method. The Company had previously accounted for its stock option plans under the recognition and measurement principals of APB 25. As all previously issued stock option awards granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant, no compensation costs related to stock option grants was reflected in net income. The effect of initially applying SFAS 123(R) is recognized as of the effective date using a modified prospective method. Under the modified prospective method the Company recognized stock-based compensation expense from July 1, 2005 as if the fair value based accounting method had been used to account for all outstanding unvested employee awards granted in prior years. Option awards, which when exercised would represent newly issued shares, are generally granted with an exercise price equal to the market price at the date of grant; generally vest in three equal annual installments commencing on the second anniversary date of grant and have ten year contractual terms. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model at the grant date.

The following table illustrates the effect on net income and income per share applying the fair value recognition provisions of SFAS 123 (R) for the three and six months ended December 31, 2005 and as if the fair value recognition provisions had been applied for the three and six months ended December 31, 2004:

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	(in thousands, except share and per share data)			
	Three months ended December 31, (Unaudited)		Six months ended December 31, (Unaudited)	
	2005	2004	2005	2004
Net income, as reported	\$1,383	\$ 788	\$2,576	\$1,507
Add: stock-based employee compensation included in reported net income, net of related tax effects (pre-tax \$62K for three				

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months, \$103K pre-tax for six months)	41	--	68	--
Deduct: Total stock-based employee compensation expense determined as if the fair value based method was used for all years presented	(41)	(13)	(68)	(26)
Pro forma net income	\$1,383	\$ 775	\$2,576	\$1,481
Income per share:				
Basic and diluted - as reported	\$ 0.09	\$0.05	\$ 0.17	\$ 0.10
Basic and diluted - pro forma	\$ 0.09	\$0.05	\$ 0.17	\$ 0.10

Stock Options:

The following table summarizes stock option activity under the plans for the six months of 2006:

THE 1986 PLAN							
	CLASS A	CLASS B	OPTION PRICE RANGE	WEIGHTED AVERAGE PRICE		CLASS A	CLASS B
				A	B		
Exercisable at June 30, 2005.....	183,000	105,000	\$3.00-\$6.72	\$4.21	\$6.72	8,055	94,000
Granted.....							
Canceled.....	(92,000)	(105,000)	\$5.38-\$6.72	\$5.41	\$6.72	(2,694)	(30,000)
Exercised.....	(5,000)		\$ 3.00	\$3.00			
Outstanding at December 31, 2005.....	86,000	0	\$3.00-\$5.62	\$3.00		5,361	63,000
Exercisable at December 31, 2005.....	86,000	0	\$3.00-\$5.62	\$3.00		5,361	63,000

THE 1996 PLAN							
	CLASS A	CLASS B	OPTION PRICE RANGE	WEIGHTED AVERAGE PRICE		CLASS A	CLASS B
				A	B		
Outstanding at June 30, 2005.....	1,275,667		\$0.58-\$5.50	\$2.36		39,000	
Granted.....	105,000		\$4.49	\$4.49			
Exercised.....	(37,500)		\$1.05-\$3.19	\$1.86			
Outstanding at December 31, 2005.....	1,343,167		\$0.58-\$5.50	\$2.54		39,000	
Exercisable at December 31, 2005.....	603,319		\$0.58-\$5.50	\$2.01		39,000	

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The total intrinsic value of options exercised during the three and six months ended December 31, 2005 was \$0 and \$103,000 respectively.

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The shares under option at December 31, 2005 were in the following price ranges:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
	NUMBER OF OUTSTANDING OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF EXERCISABLE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE
\$0.58 -- \$3.75	1,292,170	6.8 years	\$2.24	657,322	\$1.78	5.3 years
\$3.88 -- \$6.88	181,997	6.9 years	\$4.91	76,997	\$5.49	2.9 years

The aggregate intrinsic value of outstanding and exercisable options at December 31, 2005 was \$2,183,000 and \$1,381,000, respectively.

Restricted Stock:

During the quarter ended December 31, 2005, the Company granted 143,666 restricted shares/units of common stock, which are restricted for three years from date of grant. The market value of the common stock at the date of grant was \$3.79 per share. Compensation expense of approximately \$30,000 was recognized during the quarter and six months ended December 31, 2005.

In November 2005, shareholders approved the Company's 2005 Equity Compensation Plan which allows for the granting, at fair market value on the date of grant, of incentive stock options, non-qualified stock options, tandem stock appreciation rights, restricted stock and restricted stock units for up to 1,200,000 shares of Class A common stock.

At December 31, 2005, the aggregate number of shares available for future grants under all the Company's share-based compensation plans is 1,485,167.

NOTE 10 - CUSTOMERS:

During the three and six months ended December 31, 2005, one customer accounted for more than 10% of the Company's net sales. Koenig and Bauer Aktiengesellschaft ("KBA") accounted for approximately 17% of the Company's net sales for each of the three and six months ended December 31, 2005 and approximately 18% of the Company's net sales for each of the three and six months ended December 31, 2004.

NOTE 11 - WARRANTY COSTS:

The Company's standard contractual warranty provisions are to repair or replace, at the Company's option, product that is proven to be defective. The Company estimates its warranty costs as a percentage of revenues on a product by product basis, based on actual historical experience within the Company. Hence, the Company accrues estimated warranty costs at the time of sale. In addition, should the Company become aware of a specific potential warranty claim, a

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specific charge is recorded and accounted for separate from the percent of revenue discussed above.

	(in thousands)	
	Warranty Amount	
	2005	2004
Warranty reserve at June 30	\$ 2,840	\$ 2,714
Additional warranty expense accruals	1,732	2,171
Payments against reserve	(1,823)	(2,128)
Effects of currency rate fluctuations	(68)	303
Warranty reserve at December 31	\$ 2,681	\$ 3,060

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BALDWIN TECHNOLOGY COMPANY, INC.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Except for the historical information contained herein, the following statements and certain other statements contained herein are based on current expectations. Such statements are forward-looking statements that involve a number of risks and uncertainties. The Company cautions investors that any such forward-looking statements made by the Company are not guarantees of future performance and that actual results may differ materially from those in the forward-looking statements. Some of the factors that could cause actual results to differ materially include, but are not limited to the following: (i) the ability to obtain, maintain and defend challenges against valid patent protection on certain technology, primarily as it relates to the Company's cleaning systems, (ii) material changes in foreign currency exchange rates versus the U.S. Dollar, (iii) changes in the mix of products and services comprising revenues, (iv) a decline in the rate of growth of the installed base of printing press units and the timing of new press orders, (v) general economic conditions, either domestically or in foreign locations, (vi) the ultimate realization of certain trade receivables and the status of ongoing business levels with the Company's large OEM customers, and (vii) competitive market influences. Additional factors are set forth in Exhibit 99 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2005 which should be read in conjunction herewith.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

For further information regarding the Company's critical accounting policies, please refer to the Management's Discussion and Analysis section of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2005. There have been no material changes during the six months ended December 31, 2005.

OVERVIEW

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Baldwin Technology Company, Inc. is a leading global manufacturer of press accessories and controls for the commercial and newspaper printing industries. Baldwin offers its customers a broad range of market-leading technologies, products and systems that enhance the quality of printed products and improve the economic and environmental efficiency of printing presses. Headquartered in Shelton, CT, the Company has sales and service centers and product development and manufacturing operations in the Americas, Asia and Europe. Baldwin's technology and products include cleaning systems, fluid management and ink control systems, web press protection systems and drying systems.

The Company manages its business as one reportable business segment built around its core competency in accessories and controls.

For the three and six months ended December 31, 2005 net sales were \$43,826,000 and \$86,471,000, respectively, representing approximately a 6% improvement over the previous year's corresponding period as reported. During the three and six month periods, increases in revenue are attributable to the steady and stable growth in worldwide printing markets, particularly the commercial printing markets increasing demand for the products supplied by the Company.

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For the three and six months ended December 31, 2005 gross margins improved approximately 3% versus the prior year's corresponding periods. The increase in gross profit margins is attributable to the increased sales volume noted above, favorable overhead absorption, and lower technical service and warranty costs.

Operating income increased to 5% of sales for the three and six months ended December 31, 2005 versus 3% for the three and six month period ended December 31, 2004, primarily as a result of the increased revenue and improved gross margins.

In addition, the Company reduced its interest expense in both the three and six months ended December 31, 2005 versus the previous year's corresponding periods as a result of lower average debt levels and reduced interest rates, while recording lower royalty income.

SIX MONTHS ENDED DECEMBER 31, 2005 VS. SIX MONTHS ENDED DECEMBER 31, 2004

CONSOLIDATED RESULTS

NET SALES

Net sales for the six months ended December 31, 2005 increased by \$5,242,000, or 6%, to \$86,471,000 from \$81,229,000 for the six months ended December 31, 2004. Currency rate fluctuations attributable to the Company's overseas operations decreased net sales by \$3,773,000 in the current period, otherwise, net sales would have increased by \$9,015,000 or 11%.

The net sales increase reflects higher sales volumes in Europe, \$7,218,000. Increasing demand, fueled by increased penetration into selected OEM's and improving market conditions, particularly in Germany, has resulted in higher shipments of the Company's cleaning systems, spray dampening systems, water systems and web controls into the commercial market. In addition, higher shipments of cleaning systems into the newspaper market serviced by Sweden added to the increased revenues in Europe. In the Americas, particularly the U.S., sales increased \$2,625,000. This increase was primarily driven by increased

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demand in the commercial market for cleaning systems and web controls. In Asia, sales declined \$828,000 as softness in the Japanese markets was partially offset by increases in the markets served by the Company's Australian subsidiary.

GROSS PROFIT

Gross profit for the six months ended December 31, 2005 was \$28,842,000 (33.4% of net sales) as compared to \$24,797,000 (30.5% of net sales) for the six months ended December 31, 2004, an increase of \$4,045,000 or 16.0%. Currency rate fluctuations decreased gross profit by \$1,451,000 in the current period. Excluding the effects of currency rate fluctuation, gross profit would have increased by \$5,496,000. Gross profit as a percentage of net sales increased primarily due to the higher sales volume noted above, favorable sales mix and favorable cost absorption associated with the higher sales and lower service, warranty and material costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses amounted to \$16,725,000 (19.3% of net sales) for the six months ended December 31, 2005 as compared to \$14,915,000 (18.4% of net sales) for the same period in the prior fiscal year, an increase of \$1,810,000 or 12.2%. Currency rate fluctuations decreased these expenses by \$573,000 in the current period. Otherwise, selling, general and administrative expenses would have increased, \$2,381,000 or 16%. Selling expenses increased by \$452,000. The increase is primarily driven by increased business activity and reflects increased compensation and travel associated costs, and increased commission costs. General and administrative expenses increased \$1,929,000 primarily due to

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increased incentive compensation accruals, vesting associated with deferred compensation plans and higher outside consulting services primarily for the Sarbanes-Oxley Act of 2002 implementation, tax, audit and other financial services.

ENGINEERING AND DEVELOPMENT EXPENSES

Engineering and development expenses increased \$376,000 over the same period in the prior fiscal year. Currency rate fluctuations decreased these expenses by \$374,000 in the current period. Excluding the effects of currency rate fluctuations, engineering and development expenses would have increased by \$750,000 in the current period. This increase primarily relates to planned investment and increased activity in product development management in Europe and Japan. As a percentage of net sales, engineering and development expenses was approximately 9% for the six months ended December 31, 2005 and 2004.

INTEREST AND OTHER

Interest expense for the six months ended December 31, 2005 was \$547,000 as compared to \$1,523,000 for the six months ended December 31, 2004. Currency rate fluctuations decreased interest expense by \$36,000 in the current period, otherwise, interest expense decreased by \$940,000. This decrease reflects the lower average debt level of approximately \$9.6 million versus the period ended December 31, 2004 coupled with lower interest rates in effect for the six months ended December 31, 2005 as a result of the amended loan agreement with Maple GmbH and lower amortization of debt financing costs. Interest income amounted to \$61,000 and \$53,000 for the six months ended December 31, 2005 and 2004, respectively.

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Net royalty income for the six months ended December 31, 2005 was \$200,000 as compared to \$1,517,000 for the six months ended December 31, 2004. This decrease reflects the expiration in February 2005 of a group of patents which were the source of the royalty income.

Other (income) expense, net amounted to expense of \$79,000 for the six months ended December 31, 2005 compared to expense of \$124,000 for the six months ended December 31, 2004. Other income (expense), net includes net foreign currency transaction (losses) of \$120,000 and \$107,000 for the six months ended December 31, 2005 and 2004, respectively.

INCOME TAXES

The Company recorded an income tax provision of \$1,578,000 for the six months ended December 31, 2005 as compared to \$1,077,000 for the six months ended December 31, 2004. The effective tax rate of 38.0% for the six months ended December 31, 2005 is reflective of greater taxable income in higher tax jurisdictions for which tax loss carryforwards are not available. Partially offsetting the increased tax expense is a reversal of a previously established contingent tax liability of \$75,000 which is no longer deemed probable. In addition the effective tax rate for the six months ended December 31, 2005 differs from the statutory rate as no benefit was recognized for losses incurred in certain countries as the realization of such benefits was not more likely than not. The Company continues to assess the need for its deferred tax asset valuation allowance in the jurisdictions in which it operates. Any adjustments to the deferred tax asset valuation allowance either positive or negative would be recorded in the income statement of the period that the adjustment was determined to be required. In particular, the Company is monitoring positive earnings trends and other positive evidence in the U.S., U.K, and France to determine if such trends could possibly require a reversal of valuation allowances.

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NET INCOME

The Company's net income amounted to \$2,576,000 for the six months ended December 31, 2005, compared to a net income of \$1,507,000 for the six months ended December 31, 2004. Currency rate fluctuations decreased net income by \$213,000 in the current period. Net income per share amounted to \$0.17 basic and diluted for the six months ended December 31, 2005, as compared to net income per share of \$0.10 basic and diluted for the six months ended December 31, 2004.

THREE MONTHS ENDED DECEMBER 31, 2005 VS. THREE MONTHS ENDED DECEMBER 31, 2004

CONSOLIDATED RESULTS

NET SALES

Net sales for the three months ended December 31, 2005 increased by \$2,594,000, or 6%, to \$43,826,000 from \$41,232,000 for the three months ended December 31, 2004. Currency rate fluctuations attributable to the Company's overseas operations decreased net sales by \$3,524,000 in the current period, otherwise, net sales would have increased by \$6,118,000 or 15%.

The net sales increase reflects higher sales volumes in Europe, \$5,140,000. Increasing demand, particularly in Germany, has resulted in higher shipments of the Company's cleaning systems, spray dampening systems, water systems and web

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controls into the commercial market. In addition, higher shipments of cleaning systems into the newspaper market serviced by Sweden added to the increased revenues in Europe. In the Americas, particularly the U.S., sales increased \$1,699,000. This increase was primarily driven by increased demand in the commercial market for cleaning systems web controls and dryers. In Asia, sales declined \$721,000 as softness in the Japanese markets was partially offset by increases in the markets served by the Company's Australian subsidiary.

GROSS PROFIT

Gross profit for the three months ended December 31, 2005 was \$14,786,000 (33.7% of net sales) as compared to \$12,707,000 (30.8% of net sales) for the three months ended December 31, 2004, an increase of \$2,079,000. Currency rate fluctuations decreased gross profit by \$1,336,000 in the current period. Excluding the effects of currency rate fluctuation, gross profit would have increased by \$3,415,000. Favorable sales volume coupled with favorable cost absorption and lower technical service, warranty and material costs primarily accounts for the improvement in gross margin.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses amounted to \$8,603,000 (19.6% of net sales) for the three months ended December 31, 2005 as compared to \$7,582,000 (18.4% of net sales) for the same period in the prior fiscal year, an increase of \$1,021,000 or 13%. Currency rate fluctuations decreased these expenses by \$530,000 in the current period. Otherwise, selling, general and administrative expenses would have increased by \$1,551,000. Selling expenses increased by \$342,000, reflecting the higher level of business activity as the increase primarily relates to increased compensation, travel costs and commissions. General and administrative expenses increased by \$1,209,000 primarily due to higher accruals related to incentive compensation, stock option/restricted stock plans, tax, audit and other financial services.

ENGINEERING AND DEVELOPMENT EXPENSES

Engineering and development expenses remained virtually flat at \$3,818,000 over the same period in the prior fiscal year. Currency rate fluctuations decreased these expenses by \$343,000 in the current period. Excluding the effects of currency rate fluctuations, engineering

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and development expenses would have increased by \$299,000 in the current period. This increase relates primarily to planned investment in product development. As percentage of net sales, engineering and development expenses remained at approximately 9% for the three months ended December 31, 2005 and 2004.

INTEREST AND OTHER

Interest expense for the three months ended December 31, 2005 was \$249,000 as compared to \$571,000 for the three months ended December 31, 2004. Currency rate fluctuations decreased interest expense by \$33,000 in the current period, otherwise, interest expense decreased by \$289,000. This decrease was primarily due to lower interest rates in effect for the three months ended December 31, 2005 as a result of the amended credit agreement with Maple Bank GmbH, and lower overall debt levels for the current period versus the same period a year ago. Interest income amounted to \$33,000 and \$30,000 for the three months ended December 31, 2005 and 2004, respectively.

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Net royalty income for the three months ended December 31, 2005 was \$0 as compared to \$763,000 for the three months ended December 31, 2004. This decrease reflects the expiration in February 2005 of a group of patents which were the source of the royalty income.

Other (income) expense, net amounted to expense of \$12,000 for the three months ended December 31, 2005 compared to expense of \$137,000 for the three months ended December 31, 2004. Other income (expense), net includes net foreign currency transaction losses of \$9,000 and of \$119,000 for the three months ended December 31, 2005 and 2004, respectively.

INCOME TAXES

The Company recorded an income tax provision of \$754,000 for the three months ended December 31, 2005 as compared to \$558,000 for the three months ended December 31, 2004. The effective tax rate of 35.3% for the three months ended December 31, 2005 is primarily due to greater taxable income in higher tax jurisdictions and in which tax loss carryforwards are not available partially offset by the reversal of a previously established contingency reserve of \$75,000 which was determined during the quarter to no longer be a probable exposure. In addition the effective tax rate for the three months ended December 31, 2005 differs from the statutory rate as no benefit was recognized for losses incurred in certain countries as the realization of such benefits was not more likely than not.

NET INCOME

The Company's net income amounted to \$1,383,000 for the three months ended December 31, 2005, compared to \$788,000 for the three months ended December 31, 2004. Currency rate fluctuations decreased net income by \$208,000 in the current period. Net income per share amounted to \$0.09 basic and diluted for the three months ended December 31, 2005, as compared to \$0.05 basic and diluted for the three months ended December 31, 2004.

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LIQUIDITY AND CAPITAL RESOURCES AT DECEMBER 31, 2005

Cash flows from operating, investing and financing activities, as reflected in the six months ended December 31 in the Consolidated Statement of Cash Flows, are summarized as follows:

	2005	2004
	-----	-----
Cash provided by (used for):		
Operating activities	\$2,323,000	\$1,206,000
Investing activities	(618,000)	(629,000)
Financing activities	374,000	(729,000)
Effect of exchange rate changes on cash	(573,000)	811,000
	-----	-----
Net increase in cash and cash equivalents	\$1,506,000	\$ 659,000
	=====	=====

Cash provided by operating activities increased \$1,117,000 during the six months ended December 31, 2005 versus the prior year period. Higher revenues and

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improved profitability has led to higher cash receipts from sales during the six months ended December 31, 2005. Asset management additionally led to a decline in accounts receivable days sales outstanding (52 days in FY 2006 vs. 58 days in FY 2005) an increase in inventory turns (5.3 x in FY 2006 vs. 4.1 x in FY 2005) while days payable outstanding has remained relatively flat at 44 days.

The Company utilized \$618,000 and \$692,000 for investing activities for the six months ended December 31, 2005 and 2004 respectively, for additions to property, plant and equipment and patents and trademarks.

During the quarter ended September 30, 2005 the Company obtained a three-year term loan with Mizuho Bank of YEN 100,000,000, approximately \$882,000 U.S. dollars which matures in September 2008. This term loan is subject to quarterly principal payments of YEN 8,333,000 and bears interest at the Tokyo Inter Bank Offered Rate ("TIBOR") plus 0.75%. Concurrently, the Company entered into an interest swap agreement with maturity the same as the credit facility with Mizuhao Bank which effectively converted the variable rate debt into fixed rate with an interest rate of 1.81%.

Effective July 1, 2005, the Company amended its primary source of outside financing, the revolving credit agreement with Maple Bank GmbH. Borrowings under the amended credit facility are subject to a borrowing base and bear interest at a rate equal to the three-month Euribor rate (as defined in the Credit Agreement) plus (i) 3.375% (5.125% for the period ended December 31, 2004) for loans denominated in U.S. Dollars or (ii) 3.775% (5.525% for the period ended December 31, 2004) for loans denominated in Euros. The amended credit agreement does not require the Company to meet any financial covenants, except for the limitation on annual capital expenditures; however, it contains a material adverse effect clause, which provides that Maple would not be obligated to fund any loan, convert or continue any loan as a LIBOR loan or issue any new letters of credit in the event of a material adverse effect. Management does not anticipate that such an event will occur; however, there can be no assurance that such an event will not occur. Management also expects that as a result of the aforementioned amendment and full amortization of debt financing costs during fiscal year 2005 interest expense for the full year ending June 30, 2006 will be approximately \$1,300,000 lower than for fiscal year ended June 30, 2005.

The Company maintains relationships with both foreign and domestic banks, which combined have extended credit facilities to the Company totaling \$35,824,000, including \$30,000,000 available under the Maple Credit Agreement. As of December 31, 2005, the Company had \$17,251,000 outstanding under these credit facilities with \$12,771,000 (including letters of credit) under the Maple Credit Agreement. Additionally, in January 2006 the Company further reduced its debt with Maple with a payment of approximately \$1,500,000.

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The Company believes that its cash flows from operations, along with the available bank lines of credit and alternative sources of borrowings, if necessary, are sufficient to finance its working capital and other capital requirements through the term of the Maple Credit Agreement.

At December 31, 2005 and June 30, 2005, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance entities, special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, the Company is not exposed to any financing, liquidity, market or credit risk that could arise if the Company

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had engaged in such relationships.

The following summarizes the Company's contractual obligations at December 31, 2005 and the effect such obligations are expected to have on its liquidity and cash flow in future periods (in thousands):

	Total at December 30, 2005	Fiscal Years ending June 30				
		2006*	2007	2008	2009	2010
Contractual Obligations:						
Loans payable	\$ 2,544	\$2,544	\$ --	\$ --	\$ --	\$ --
Capital lease obligations	116	33	42	25	15	--
Long-term debt	13,191	615	824	398	11,354	--
Non-cancelable operating lease obligations	24,641	2,176	5,837	3,209	2,366	1,400
Interest expense (1)	2,646	514	958	958	216	--
	-----	-----	-----	-----	-----	-----
Total contractual cash obligations	\$43,138	\$5,882	\$7,661	\$4,590	\$13,951	\$1,400
	=====	=====	=====	=====	=====	=====

* Includes only the remaining six months of the fiscal year ending June 30, 2006.

(1) the anticipated future interest payments are based on the Company's current indebtedness and interest rates at December 31, 2005, with consideration given to debt reduction as the result of expected payments.

IMPACT OF INFLATION

The Company's results are affected by the impact of inflation on manufacturing and operating costs. Historically, the Company has used selling price adjustments, cost containment programs and improved operating efficiencies to offset the otherwise negative impact of inflation on its operations.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:

A discussion of market risk exposures is included in Part II Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2005. There have been no material changes during the three and six months ended December 31, 2005.

ITEM 4: CONTROLS AND PROCEDURES:

The Company maintains disclosure controls and procedures designed to ensure that the information required to be disclosed in the reports that the Company files or submits under the

Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

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The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of these disclosure controls and procedures as of the end of the Company's fiscal quarter December 31, 2005, the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to achieve their stated purpose. However, there is no assurance that the Company's disclosure controls and procedures will operate effectively under all circumstances. No changes were made to the Company's internal control over financial reporting during the fiscal quarter ended December 31, 2005, that have materially affected, or are reasonably likely to materially effect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There was no activity under the Company's stock repurchase program for the period ended December 31, 2005.

ITEM 6. EXHIBITS

(a) Exhibits

- 10.75* Retirement Allowance Plan for Representative Directors and Directors of Baldwin-Japan Ltd. (filed herewith).
- 31.01 Certification of the Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.02 Certification of the Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.01 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith).
- 32.02 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith).

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SIGNATURES

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

BALDWIN TECHNOLOGY COMPANY, INC.

BY /s/ Vijay C. Tharani

Vice President, Chief Financial

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Officer and Treasurer

Dated: February 10, 2006

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