BALDWIN TECHNOLOGY CO INC
Form 10-Q
November 15, 2004

Form 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

[Mark one]
[X] Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For quarter ended September 30, 2004

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	13-3258160
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Twelve Commerce Drive, Shelton, Connecticut	06484
(Address of principal executive offices)	(Zip Code)

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

(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 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 [X] NO [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

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 October 31, 2004
Class A Common Stock $0.01 par value	12,924,813
Class B Common Stock $0.01 par value	1,965,419

BALDWIN TECHNOLOGY COMPANY, INC.

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BALDWIN TECHNOLOGY COMPANY, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)
(UNAUDITED)

ASSETS

	September 30, 20
CURRENT ASSETS:	
Cash and cash equivalents	$ 11,256
Accounts receivable trade, net of allowance for doubtful accounts of $2,151 ($2,155 at June 30, 2004)	25,700
Notes receivable, trade	12,429
Inventories, net	27,750
Deferred taxes	452
Prepaid expenses and other	4,816
Total Current Assets	82,403
MARKETABLE SECURITIES:	
Cost $590 ($586 at June 30, 2004)	564
PROPERTY, PLANT AND EQUIPMENT, at cost:	
Land and buildings	1,011
Machinery and equipment	3,510
Furniture and fixtures	3,895
Leasehold improvements	408
Capital leases	379
	9,203
Less: Accumulated depreciation and amortization	(4,689)
Net Property, Plant and Equipment	4,514
PATENTS, TRADEMARKS AND ENGINEERING DRAWINGS, at cost, less accumulated amortization of $4,288 ($4,224 at June 30, 2004)	2,398
GOODWILL, less accumulated amortization of $3,500 ($3,516 at June 30, 2004)	11,118
DEFERRED TAXES	12,178
OTHER ASSETS	4,187
TOTAL ASSETS	$ 117,362

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

BALDWIN TECHNOLOGY COMPANY, INC.

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

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 20
CURRENT LIABILITIES:	
Loans payable	$ 2,727
Current portion of long-term debt	1,050
Accounts payable, trade	12,976
Notes payable, trade	11,653
Accrued salaries, commissions, bonus and profit-sharing	5,639
Customer deposits	2,839
Accrued and withheld taxes	2,084
Income taxes payable	1,982
Other accounts payable and accrued liabilities	13,073
Total current liabilities	54,023
LONG TERM LIABILITIES:	
Long-term debt	21,537
Other long-term liabilities	6,487
Total long-term liabilities	28,024
Total liabilities	82,047
SHAREHOLDERS' EQUITY:	
Class A Common Stock, $.01 par, 45,000,000 shares authorized, 16,555,015 shares issued at September 30, 2004 and 16,529,348 shares issued at June 30, 2004	166
Class B Common Stock, $.01 par, 4,500,000 shares authorized, 2,137,883 shares issued at September 30, 2004 and June 30, 2004	21
Capital contributed in excess of par value	57,045
Accumulated Deficit	(11,948)
Accumulated other comprehensive income	2,752
Less: Treasury stock, at cost:	
Class A - 3,630,202 shares at September 30, 2004 and June 30, 2004	--
Class B - 172,464 shares at September 30, 2004 and June 30, 2004	(12,721)
Total shareholders' equity	35,315
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 117,362

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 September 30, 2004	2003
Net Sales	$ 39,997	$ 34,511
Cost of goods sold	27,906	23,742
Gross Profit	12,091	10,769
Operating Expenses:		
General and administrative	3,991	3,641
Selling	3,342	2,673
Engineering and development	3,358	3,243
Restructuring charges	--	382
	10,691	9,939
Operating income	1,400	830
Other (income) expense:		
Interest expense	952	937
Interest income	(23)	(26)
Royalty income, net	(754)	(651)
Other (income) expense, net	(13)	(592)
	162	(332)
Income before income taxes	1,238	1,162
Provision for income taxes	519	483
Net income	$ 719	$ 679
Net income per share - basic and diluted		
Income per share - basic	$ 0.05	$ 0.05
Income per share - diluted	$ 0.05	$ 0.05
Weighted average shares outstanding:		
Basic	14,873	15,015
Diluted	15,351	15,015

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

BALDWIN TECHNOLOGY COMPANY, INC.

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

	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Capital Contributed In Excess of Par	Retaine Defici
Balance at June 30, 2004	16,529,348	$166	2,137,883	$21	$57,017	$ (12,6
Net income for the three months ended September 30, 2004						7
Translation adjustment						
Unrealized gain on available-for-sale securities, net of tax						
Unrealized loss on forward contracts, net of tax						
Comprehensive Income						
Shares issued Under Stock Option Plan	25,667				28	
Balance at September 30, 2004	16,555,015	$166	2,137,883	$21	$57,045	$ (11,9

	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount	Comprehensive Income
Balance at June 30, 2004	$ 2,651	(3,802,666)	$(12,721)	
Net income for the three months ended September 30, 2004				$ 719
Translation				

adjustment	134			134
Unrealized gain on available-for-sale securities, net of tax	(46)			(46)
Unrealized loss on forward contracts, net of tax	13			13
Comprehensive Income				$ 820
Shares issued Under Stock Option Plan				
Balance at September 30, 2004	$ 2,752	(3,802,666)	$(12,721)	

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 three mont
	September 3
	2004
Cash flows from operating activities:	
Net income	$ 719
Adjustments to reconcile net loss to net cash provided (used) by operating activities:	
Depreciation and amortization	464
Accrued retirement pay	(165)
Provision for losses on accounts receivable	13
Restructuring charges	--
Deferred income taxes	(60)
Changes in assets and liabilities	
Accounts and notes receivable	(302)
Inventories	(2,493)
Prepaid expenses and other	1,094
Other assets	(415)
Customer deposits	27
Accrued compensation	(1,279)

Payments against restructuring charges	(175)
Accounts and notes payable, trade	2,094
Income taxes payable	(1,081)
Accrued and withheld taxes	(97)
Other accounts payable and accrued liabilities	1,597
Interest payable	(229)
Net cash (used for) provided by operating activities	(288)
Cash flows from investing activities:	
Additions of property, plant and equipment	(157)
Additions of patents and trademarks	(216)
Net cash used by investing activities	(373)
Cash flows from financing activities:	
Long-term and short-term debt borrowings	--
Long-term and short-term debt repayments	(34)
Principal payments under capital lease obligations	(24)
Payment of debt financing costs	(259)
Proceeds of stock option exercise	26
Other long-term liabilities	120
Net cash used by financing activities	(171)
Effects of exchange rate changes	80
Net (decrease) increase in cash and cash equivalents	(752)
Cash and cash equivalents at beginning of period	12,008
Cash and cash equivalents at end of period	$ 11,256

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 three months ended September 30,	
	2004	2003
Cash paid during the period for:		
Interest	$1,181	$ 959
Income taxes	$1,552	$ 843

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

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 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, 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, 2004.

NOTE 2 - LONG TERM DEBT:

On September 15, 2004, the Company amended its primary source of outside financing, the revolving credit agreement with Maple Bank GmbH. The amendment increased the size of the facility to $28,000,000 from $20,000,000, extended the maturity date of the loan to October 2008, and reduced the interest rates and annual fees associated with the agreement. The credit facility is collateralized by substantially all of the accounts and notes receivable of the Company and a portion of the Company's inventory up to a maximum amount of $10,000,000. Borrowings under the credit facility are subject to a borrowing base and bear interest at a rate equal to the three-month Eurodollar rate (as defined in the Credit Agreement) plus (i) 5.125% for loans denominated in U.S. Dollars or (ii) 5.525% for loans denominated in Euros. The interest rate will be reduced by 0.50% or whole increments thereof for each whole increment of Disclosed EBITDA (as defined in the Credit Agreement) that equals or exceeds $1,250,000 for any fiscal quarter commencing with the quarter ending December 31, 2003. In no event however, may the interest rate be less than 7.625% for EURO based borrowings and 7.5% for dollar based borrowings. Additionally, the amendment granted to the lender an option to acquire a maximum of $5,000,000 of equity securities (as defined in the amendment) should the Company choose to issue any such securities. 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.

	JUNE 30, 2004		SEPTE
	CURRENT	LONG-TERM	CURRENT
Revolving Credit Facility due October 1, 2008, interest rate 5.525% plus three-month Eurodollar rate	$ --	$ --	$ -
Revolving Credit Facility due August 15, 2005, interest rate 10.00% plus three-month Eurodollar rate	18,497,000	--	-
Revolving Credit Facility due August 15, 2005, interest rate 11.50% plus three-month Eurodollar rate	970,000	--	-
Term Loan payable by foreign subsidiary due December 8, 2006, interest rate 1.5%	919,000	1,379,000	909,00
Note payable by foreign subsidiary through 2008, interest rate 5.95%	120,000	389,000	124,00
Notes payable by foreign subsidiary through February 2007, interest rates ranging from 4.58% to 4.67%	17,000	26,000	17,00
	$20,523,000	$ 1,794,000	$ 1,050,00

The Company maintains relationships with both foreign and domestic banks, which combined have extended short and long term credit facilities to the Company totaling $34,443,000, including $28,000,000 available under the Maple GmbH Credit Agreement. As of September 30, 2004, the Company had $25,315,000 outstanding under these credit facilities including $19,781,000 under the Maple GmbH Credit Agreement.

NOTE 3 - NET INCOME 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 478,000 and zero additional shares issued under the Company's stock option plan, respectively for the three months ended September 30, 2004 and 2003, which represent potentially dilutive securities. Outstanding options to purchase 640,000 and 1,038,000 shares, respectively, of the Company's common stock for the three months ended September 30, 2004 and 2003, respectively, are not included in the above calculation to compute diluted net income per share as their exercise price exceeded their current market value of these shares.

NOTE 4 - OTHER COMPREHENSIVE INCOME (LOSS):

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

	September 30, 2004	June 30, 2004
	(Unaudited)	
Cumulative translation adjustments	$ 2,859,000	$ 2,725,000
Unrealized gain on investments, net of deferred taxes of $11,000 ($22,000 at June 30, 2004)	(15,000)	31,000
Unrealized gain (loss) on forward Contracts, net of tax	8,000	(5,000)
Minimum pension liability, net of tax	(100,000)	(100,000)
	$ 2,752,000	$ 2,651,000

NOTE 5 - INVENTORIES:

Inventories consist of the following:

	September 30, 2004	June 30, 2004
	(Unaudited)	
Raw materials	$12,981,000	$12,309,000
In process	5,406,000	4,130,000
Finished goods	9,363,000	8,559,000
	$27,750,000	$24,998,000

Foreign currency translation effects increased inventories by $259,000 from June 30, 2004 to September 30, 2004.

NOTE 6 - DERIVATIVES:

During the three months ended September 30, 2004 and 2003, the Company had currency futures contracts that qualified as cash flow hedges. The gain or loss on these cash flow hedges was recorded in AOCI and will be recognized when the hedged items affect earnings.

Unrealized net gains (losses) included in AOCI are as follows:

	September 30, 2004	September 30, 2003
Balance at beginning of period	$ (5,000)	$ (4,000)
Additional gains (losses), net	8,000	(13,000)
Amounts reclassified to earnings, net	5,000	6,000
Balance at end of period	$ 8,000	$(11,000)

Additionally, during the quarter ended September 30, 2003, the effects of an interest rate swap, then in effect, to convert variable rate debt into fixed rate debt, increased interest expense $148,000 and the adjustment to fair value of the ineffective portion of the swap resulting in a gain of $149,000 was recorded in other income and expense. The swap matured in October 2003.

The unrealized net gain of $8000 at September 30, 2004 is comprised of net gains on currency futures contracts, which expire at various times through the year, and are expected to be reclassified to earnings during the year.

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NOTE 7 -- GOODWILL AND OTHER INTANGIBLE ASSETS:

The changes in the carrying amount of goodwill for the three months ended September 30, 2004 are as follows:

	Accessories and Controls	
	Gross Carrying Amount	Accumulated Amortization
Balance as of July 1, 2004	$ 14,620,000	$ 3,516,000
Effects of currency translation	(2,000)	(16,000)
Balance as of September 30, 2004	$ 14,618,000	$ 3,500,000

Intangible assets subject to amortization are comprised of the following:

	As of September 30, 2004		As o
Intangible Assets:	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount
Patents and trademarks	$6,686,000	$4,288,000	$6,483,000
Other	916,000	705,000	923,000
Total	$7,602,000	$4,993,000	$7,406,000

Amortization expense associated with these intangible assets was $161,000 and $164,000, respectively, for the three months ended September 30, 2004 and 2003. The other category is included in "Other assets" on the accompanying consolidated balance sheets.

NOTE 8 -- RESTRUCTURING CHARGES AND RELATED RESERVES:

The following table details the components of the restructuring charges and the remaining reserve balances as of September 30, 2004 and June 30, 2004 related to the March 2000 Plan.

Activity related to the March 2000 Plan in the three months ended

September 30, 2004 was as follows:

	Remaining Reserve June 30, 2004	Payments Against Reserve	R R Septe
Facility lease termination costs......	$ 792,000	$(113,000)	$
Total program........................	$ 792,000	$(113,000)	$

Facility lease termination costs will be paid through April 2006.

The following table details the components of the restructuring charges and the remaining reserve balances as of September 30, 2004 and June 30, 2004 related to the August 2002 Plan.

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Activity related to the August 2002 Plan in the three months ended September 30, 2004 was as follows:

	Remaining Reserve June 30, 2004	Payments Against Reserve	Remai Rese September
Severance............................	$151,000	$(19,000)	$13
Facility lease termination costs.......	158,000	(43,000)	11
Other costs..........................	32,000	--	3
Total program........................	$341,000	$(62,000)	$27

Severance and lease termination costs will be paid through October 2006.

NOTE 9 - 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 months ended September 30, 2004 and 2003:

	Pension Benefits For the three months Ended September 30,	
	2004	2003
Service cost	$ 67,000	$ 66,000
Interest cost	15,000	15,000

Expected return on plan assets	(1,000)	(1,000)
Amortization of transition obligation	3,000	3,000
Amortization of net actuarial gain	-	(8,000)
Net periodic benefit cost	$ 84,000	$ 75,000

During the three months ended September 30, 2004 and 2003 the Company made no contributions to the plans.

NOTE 10 - BUSINESS SEGMENT INFORMATION:

Operating segments are defined as material components of an enterprise about which separate information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and assess performance.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2004. An operating segment's financial performance is primarily evaluated based on operating profit.

The tables below present information about reported segments for the three months ended September 30, 2004 and 2003 (in thousands).

	Three months ended September 30, (Unaudited)	
	2004	2003
Net Sales:		
Accessories and Controls	$ 39,997	$ 34,511
Total Net Sales	$ 39,997	$ 34,511

Foreign currency translation effects increased net sales by $2,593,000 for the three months ended September 30, 2004.

	Three months ended September 30, (Unaudited)	
	2004	2003
Operating income (loss):		
Accessories and Controls	$ 3,299	$ 2,504

Corporate	(1,899)	(1,674)
Total operating income (loss)	1,400	830
Interest expense, net	(929)	(911)
Royalty income, net	754	651
Other income (expense), net	13	592
Income (loss) from continuing operations before income taxes	$ 1,238	$ 1,162

Included in operating income for the three months ended September 30, 2003 are restructuring charges of $379,000 related to accessories and controls and $3,000 related to corporate.

	September 30, 2004 (Unaudited)	June 30, 2004
Identifiable assets:		
Accessories and Controls	$ 103,766	$ 100,956
Corporate	13,596	14,315
Total identifiable assets	$ 117,362	$ 115,271

NOTE 11 - STOCK OPTIONS:

On January 1, 2003, the Company adopted the disclosure provisions of Financial Accounting Standards Board ("FASB") Statement No. 148, "Accounting for Stock-Based Compensation - transition and disclosure" ("SFAS 148"), which amended FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation, effective as of the beginning of the fiscal year. Baldwin continues to apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") in accounting for stock-based compensation. In accordance with APB No. 25, compensation costs for stock options is recognized in income based on the excess, if any, of the quoted market price over the exercise price of the stock on

the date of grant. The exercise price for all stock option grants equals the fair market value on the date of grant, therefore no compensation expense is recorded.

The pro forma net income (loss) and income (loss) per share information have been determined for employee stock plans under the fair value method using the Black-Scholes option-pricing model at the date of grant. The following table illustrates the effect on net income (loss) and income (loss) per share if the Company had applied the fair value recognition provisions of SFAS 123 for the three months ended September 30, 2004 and 2003 (in thousands):

	Three Months Ended September 30, (Unaudited) 2004	2003
Net income (loss), as reported	$ 719	$ 679
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(13)	(26
Pro forma net income (loss)	$ 706	$ 653
Income (loss) per share:		
Basic and diluted - as reported	$ 0.05	$ 0.05
Basic and diluted - pro forma	$ 0.05	$ 0.04

On August 17, 2004, the Compensation and Stock Option Committee and, for options granted to the Chief Executive Officer, the Independent Directors, of the Board of Directors of the Company granted non-qualified options to purchase 360,000 shares of Class A common stock to certain executives and key employees under the Company's 1996 Stock Option Plan (the "1996 Plan") at an exercise price of $3.41 per share, the fair market value on the date of grant.

NOTE 12 - CUSTOMERS:

During the three months ended September 30, 2004, two customers each accounted for more than 10% of the Company's net sales. Koenig and Bauer Aktiengesellschaft ("KBA") accounted for approximately 18% and 16% of the Company's net sales for the three months ended September 30, 2004 and 2003, respectively, and Mitsubishi accounted for approximately 10% for the three months ended September 30, 2004 and 2003.

NOTE 13 - 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 specific charge is recorded and accounted for separate from the percent of revenue discussed above.

	Warranty Amount 2004	
Warranty reserve at June 30, 2004 and 2003	$ 2,714,000	$
Additional warranty expense accruals	987,000	

Payments against reserve	(888,000)	
Effects of currency rate fluctuations	56,000	
Warranty reserve at September 30, 2004 and 2003	$ 2,869,000	$

NOTE 14 - LEGAL PROCEEDINGS AND SETTLEMENTS:

On November 14, 2002, the Dusseldorf Higher Regional Court ("DHRC") announced its judgment in favor of Baldwin in a patent infringement dispute against its competitor, technotrans AG ("Technotrans"). Subsequent to November 14, 2002, Technotrans filed an appeal of the DHRC ruling with the German Supreme Court in Karlsruhe. That court has not yet reached a decision on the appeal. Technotrans also filed to revoke the Company's patent with the Federal Patent Court in Munich, Germany. On July 21, 2004, the German Federal Patent Court upheld the validity of the Company's patent. Technotrans has appealed that judgment. No amounts have been recorded in the consolidated financial statements with regard to the potential contingent gain resulting from the DHRC judgment; however, the Company is considering a claim for damages based on the favorable rulings in both the patent infringement case and the patent validity confirmation.

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, (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, 2004 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, 2004. There have been no material changes during the three months ended September 30, 2004.

THREE MONTHS ENDED SEPTEMBER 30, 2004 VS. THREE MONTHS ENDED SEPTEMBER 30, 2003

CONSOLIDATED RESULTS

Net sales for the three months ended September 30, 2004 increased by $5,486,000, or 16%, to $39,997,000 from $34,511,000 for the three months ended September 30, 2003. Currency rate fluctuations attributable to the Company's overseas operations increased net sales by $2,593,000 in the current period. Excluding the effects of currency translation net sales increased $2,893,000 or 8%.

The net sales increase reflects increased sales in Europe, $2,100,000 in the commercial cleaning systems market, particularly in Germany, and the newspaper cleaning systems market in Sweden. In Asia, particularly Japan, net sales increased approximately $600,000. Increased sheeter sales in the commercial market, related to timing of customer orders were partially offset by lower revenue in the newspaper market. In the Americas, particularly the U.S., sales were relatively flat.

Gross profit for the three months ended September 30, 2004 was $12,091,000 (30.2% of net sales) as compared to $10,769,000 (31.2% of net sales) for the three months ended September 30, 2003, an increase of $1,322,000 or 12.2%. Currency rate fluctuations increased gross profit by $824,000 in the current period. Excluding the effects of currency rate fluctuation, gross profit would have increased by $498,000. Gross profit as a percentage of net

sales decreased primarily due to an unfavorable mix of products particularly in Japan, higher material costs for imported products in the U.S. as a result of the declining U.S. dollar coupled with unfavorable absorption in the U.S., partially offset by improved volume in Germany.

Selling, general and administrative expenses amounted to $7,333,000 for the three months ended September 30, 2004 as compared to $6,314,000 for the same period in the prior fiscal year, (both amounts representing 18.3% of respective period sales) a increase of $1,019,000 or 16.1%. Currency rate fluctuations increased these expenses by $369,000 in the current period. Otherwise, selling, general and administrative expenses would have increased by $650,000. Selling expenses increased by $460,000, which primarily relates to increased compensation costs in Germany and higher test installation costs in Sweden. General and administrative expenses increased by $190,000 primarily in the U.S. due to increased compensation and consulting costs in the period.

Engineering and development expenses increased by $115,000 over the same period in the prior fiscal year. Currency rate fluctuations increased these expenses by $217,000 in the current period. Excluding the effects of currency rate fluctuations, engineering and development expenses would have decreased by $102,000 in the current period. This decrease relates primarily to decreased employee compensation and related costs. As a percentage of net sales, engineering and development expenses decreased to 8.3% for the three months ended September 30, 2003 compared to 9.4% for the same period in the prior fiscal year.

The Company recorded restructuring charges of $0 for the three months ended September 30, 2004 compared to $382,000 for the same period in the prior fiscal year. The restructuring charge in the prior fiscal year period primarily represented employment reductions in the United States and the United Kingdom announced in August 2003 associated with the restructuring activities initiated in August 2002 (the "August 2002 Plan").

Interest expense for the three months ended September 30, 2004 was $952,000 as compared to $937,000 for the three months ended September 30, 2003. Currency rate fluctuations increased interest expense by $85,000 in the current period. Otherwise, interest expense would have decreased by $70,000. This decrease reflects the maturity of a swap arrangement in October 2003, which increased interest expense $148,000 for the quarter ended September 30, 2003. Interest income remained generally flat and amounted to $23,000 and $26,000 for the three months ended September 30, 2004 and 2003, respectively.

Net royalty income for the three months ended September 30, 2004 was $754,000 as compared to $651,000 for the three months ended September 30, 2003.

Other income (expense), net amounted to income of $13,000 for the three months ended September 30, 2004 compared to income of $592,000 for the three months ended September 30, 2003. Other income (expense), net includes net foreign currency transaction gains of $13,000 and $518,000 for the three months ended September 30, 2004 and 2003, respectively. The decrease is primarily attributable to prior year currency fluctuations associated with the Company's then outstanding loan from Maple Bank GmbH. During fiscal year 2004 the loan was a dollar based loan recorded on the books of the Company's Netherland subsidiary and subject to foreign currency fluctuations. During the quarter ended September 30, 2004 the loan was converted from a dollar based loan to euro based loan. Additionally, included in other income and (expense) for the three months ended September 30, 2003 is income resulting from the ineffective portions of derivative financial instruments which qualify as cash flow hedge gains of $151,000 and expenses of ($186,000) related to the write off of deferred alternative financing costs.

The Company recorded an income tax provision of $519,000 for the three months ended September 30, 2004 as compared to $483,000 for the three months ended September 30, 2003.

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The effective tax rate of 41.9% (41.6% for the quarter ended September 30, 2003) for the three months ended September 30, 2004, reflects taxable income in the higher tax jurisdictions in which tax loss carryforwards are not available or are subject to limitations. The effective tax rate for the three months ended September 30, 2004 differs from the statutory rate as no benefit is recognized for losses incurred in certain countries as the realization of such benefits was not more likely than not.

The Company's net income amounted to $719,000 for the three months ended September 30, 2004, compared to net income of $679,000 for the three months ended September 30, 2003. Currency rate fluctuations increased net income by $75,000 in the current period. Net income per share amounted to $0.05 basic and diluted for the three months ended September 30, 2004 and for the three months ended September 30, 2003.

SEGMENT RESULTS

ACCESSORIES AND CONTROLS GROUP

Net sales for the three months ended September 30, 2004 increased by $5,486,000, or 16%, to $39,997,000 from $34,511,000 for the three months ended September 30, 2003. Currency rate fluctuations attributable to the Company's overseas operations increased net sales for the current period by $2,593,000; otherwise, net sales would have increased by $2,893,000 in the current period.

Operating income amounted to $3,299,000 (8.2% of net sales) for the three months ended September 30, 2004, as compared to an operating income of

$2,504,000 (7.3% of net sales) for the same period in the prior fiscal year, an increase of $795,000. Currency rate fluctuations increased the current fiscal year's operating income by $255,000 otherwise operating income would have increased by $540,000. This increase is primarily the result of the improved sales volume noted above coupled with zero restructuring expense in the quarter ended September 30, 2004 versus $379,000 of restructuring expense recorded in the period ended September 30, 2003.

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LIQUIDITY AND CAPITAL RESOURCES AT SEPTEMBER 30, 2004

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

	2004	2003
Cash provided by (used for):		
Operating activities	$ (288,000)	$ 2,556,
Investing activities	(373,000)	(178,
Financing activities	(171,000)	(207,
Effect of exchange rate changes on cash	80,000	427,
Net (decrease) increase in cash and cash equivalents	$ (752,000)	$ 2,598,

Cash provided by operating activities decreased $2,844,000 during the quarter ended September 30, 2004 versus the prior year period. Management incentive compensation plan payments, commensurate with fiscal year 2004 results, of $1,700,000, higher income tax payments of $700,000 particularly in Japan, coupled with a build up in inventory in anticipation of second quarter shipments primarily account for the change.

The Company utilized $373,000 and $178,000 for investing activities for the three months ended September 30, 2004 and 2003 respectively, for additions to property, plant and equipment and patents and trademarks.

On September 15, 2004, the Company amended its primary source of outside financing, the revolving credit agreement with Maple Bank GmBH. The amendment increased the size of the facility to $28,000,000 from $20,000,000, extended the maturity date of the loan to October 2008, and reduced the interest rates and annual fees associated with the agreement. The credit facility is collateralized by substantially all of the accounts and notes receivable of the Company and a portion of the Company's inventory up to a maximum amount of $10,000,000. Borrowings under the credit facility are subject to a borrowing base and bear interest at a rate equal to the three-month Eurodollar rate (as defined in the Credit Agreement) plus (i) 5.125% for loans denominated in U.S. Dollars or (ii) 5.525% for loans denominated in Euros. The interest rate will be reduced by 0.50% or whole increments thereof for each whole increment of Disclosed EBITDA (as defined in the Credit Agreement) that equals or exceeds $1,250,000 for any fiscal quarter commencing with the quarter ending December 31, 2003. In no event however, may the interest rate be less than 7.625% for EURO based borrowings and 7.5% for dollar based borrowings. Additionally, the agreement granted to the lender an option to acquire a maximum of $5,000,000 of equity securities (as defined in the amendment) should the Company choose to issue any such securities. 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 fiscal year 2004 debt financing costs that reported interest expense for the full year ending June 30, 2005 will be approximately $2,000,000 lower than fiscal year ended June 30, 2004.

The Company maintains relationships with both foreign and domestic banks, which combined have extended credit facilities to the Company totaling $34,443,000, including $28,000,000 available under the Maple GmbH Credit Agreement. As of September 30, 2004, the Company had $25,315,000 outstanding under these credit facilities including $19,781,000 under the Maple GmbH Credit Agreement.

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 credit agreement with Maple.

At September 30, 2004 and June 30, 2004, 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 had engaged in such relationships.

The following summarizes the Company's contractual obligations at September 30, 2004 and the effect such obligations are expected to have on its liquidity and cash flow in future periods (in thousands):

		Fiscal Years ending June 30,			
	Total at September 30, 2004	2005*	2006	2007	2008
Contractual Obligations:					
Loans payable	$ 2,727	$ 2,727	$ -	$ -	$
Capital lease obligations	229	77	85	35	
Long-term debt	22,588	1,031	1,043	578	
Non-cancelable operating lease obligations	11,015	3,346	3,742	2,012	1,
Total contractual cash obligations	$ 36,559	$ 7,181	$ 4,870	$ 2,625	$ 1,

*Includes only the remaining nine months of the fiscal year ending June 30, 2005.

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, 2004. There have been no material changes during the three months ended September 30, 2004.

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.

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 our fiscal quarter September 30,2004, the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial

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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 September 30, 2004, 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. PURCHASES OF EQUITY SECURITIES BY ISSUER AND AFFILIATED PURCHASES

There has been no activity under the Company's stock repurchase program for the quarter ended September 30, 2004.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Annual Meeting of Stockholders was held on November 9, 2004.

(b) A brief description of matters voted upon and the results of the voting follows:

Proposal 1 - To elect two Class II Directors to serve for three-year terms or until their respective successors are elected and qualify.

SCHEDULE OF VOTES CAST FOR EACH DIRECTOR

	Total Vote for	Total Vote Withheld

	Each Director	from Each Director
Class A		
Mark T. Becker	12,022,778	87,390
Class B		
Gerald A. Nathe	13,808,160	0

ITEM 6. EXHIBITS

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).

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 Officer and Treasurer

Dated: November 15, 2004