

BALDWIN TECHNOLOGY CO INC

Form 10-Q

February 14, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

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

For the quarterly period ended **December 31, 2010**

**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.)

2 Trap Falls Road, Suite 402, Shelton, Connecticut

06484

(Address of principal executive offices)

(Zip Code)

203-402-1000

(Registrant's telephone number, including area code)

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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting

company

company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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 31, 2011 |
|---|---------------------------------|
| Class A Common Stock (\$0.01 par value) | 14,542,331                      |
| Class B Common Stock (\$0.01 par value) | 1,092,555                       |

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**BALDWIN TECHNOLOGY COMPANY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands)  
**ASSETS**

|  | December<br>31,<br>2010<br>(unaudited) | June 30,<br>2010  |
|--|--|-------------------|
| <b>CURRENT ASSETS:</b>   |  |                   |
| Cash and cash equivalents  | \$ 15,554                              | \$ 15,710         |
| Accounts receivable trade, net of allowance for doubtful accounts of \$1,299<br>(\$1,154 at June 30, 2010) | 28,299                                 | 26,340            |
| Notes receivable, trade  | 3,337                                  | 2,328             |
| Inventories, net   | 21,379                                 | 20,839            |
| Deferred taxes, net  | 1,936                                  | 1,808             |
| Prepaid expenses and other   | 3,967                                  | 4,453             |
| <b>Total current assets</b>  | <b>74,472</b>                          | <b>71,478</b>     |
| <b>MARKETABLE SECURITIES:</b>  |  |                   |
| (Cost \$879 at December 31, 2010 and \$787 at June 30, 2010)   | 622                                    | 500               |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>  |  |                   |
| Land and buildings   | 1,103                                  | 1,139             |
| Machinery and equipment  | 8,218                                  | 7,932             |
| Furniture and fixtures   | 5,625                                  | 4,804             |
| Capital leases   | 100                                    | 95                |
|  | 15,046                                 | 13,970            |
| Less: Accumulated depreciation   | (9,397)                                | (7,875)           |
| <b>Net property, plant and equipment</b>   | <b>5,649</b>                           | <b>6,095</b>      |
| INTANGIBLES, less accumulated amortization of \$11,522 (\$10,572 at June 30, 2010)                         | 11,206                                 | 11,099            |
| GOODWILL, less accumulated amortization of \$1,545 (\$1,425 at June 30, 2010)                              | 20,748                                 | 20,102            |
| DEFERRED TAXES, NET  | 9,646                                  | 6,879             |
| OTHER ASSETS   | 5,732                                  | 6,343             |
| <b>TOTAL ASSETS</b>  | <b>\$ 128,075</b>                      | <b>\$ 122,496</b> |

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

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**BALDWIN TECHNOLOGY COMPANY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(in thousands, except share and per share data)**  
**LIABILITIES AND SHAREHOLDERS EQUITY**

|   | December 31,<br>2010<br>(unaudited) | June 30,<br>2010      |
|---|-------------------------------------|-----------------------|
| <b>CURRENT LIABILITIES:</b>   |                                     |                       |
| Loans payable   | \$ 6,156                            | \$ 4,525              |
| Current portion of long-term debt   | 16,095                              | 389                   |
| Accounts payable, trade   | 14,100                              | 16,139                |
| Notes payable, trade  | 6,180                               | 4,850                 |
| Accrued salaries, commissions, bonus and profit-sharing   | 3,716                               | 3,702                 |
| Customer deposits   | 1,155                               | 1,755                 |
| Accrued and withheld taxes  | 989                                 | 1,155                 |
| Income taxes payable  | 1,794                               | 1,019                 |
| Other accounts payable and accrued liabilities  | 8,726                               | 8,720                 |
| <br>Total current liabilities   | <br>58,911                          | <br>42,254            |
| <b>LONG-TERM LIABILITIES:</b>   |                                     |                       |
| Long-term debt, net of current portion  | 2,132                               | 16,066                |
| Other long-term liabilities   | 12,070                              | 12,427                |
| <br>Total long-term liabilities   | <br>14,202                          | <br>28,493            |
| <br>Total liabilities   | <br>73,113                          | <br>70,747            |
| <br>Commitments and contingencies   |                                     |                       |
| <b>SHAREHOLDERS EQUITY:</b>   |                                     |                       |
| Class A Common Stock, \$0.01 par, 45,000,000 shares authorized,<br>14,542,331 shares issued at December 31, 2010 and 14,471,363 shares<br>issued at June 30, 2010 | 145                                 | 145                   |
| Class B Common Stock, \$0.01 par, 4,500,000 shares authorized, 1,092,555<br>shares issued at December 31, 2010 and 1,092,555 shares issued at<br>June 30, 2010    | 11                                  | 11                    |
| Capital contributed in excess of par value  | 48,562                              | 48,098                |
| Accumulated earnings  | 1,440                               | 3,170                 |
| Accumulated other comprehensive income  | 4,804                               | 325                   |
| <br>Total shareholders equity   | <br>54,962                          | <br>51,749            |
| <br><b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>  | <br><b>\$ 128,075</b>               | <br><b>\$ 122,496</b> |

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

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**BALDWIN TECHNOLOGY COMPANY, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATION**  
(in thousands, except per share data)  
(Unaudited)

|   | For the three months<br>ended<br>December 31, |           | For the six months<br>ended<br>December 31, |           |
|---|---|-----------|---|-----------|
|   | 2010  | 2009      | 2010  | 2009      |
| Net Sales                                     | \$ 42,203                                     | \$ 38,751 | \$ 80,654                                   | \$ 74,925 |
| Cost of goods sold                            | 29,764  | 27,093    | 57,402                                      | 52,847    |
| Gross Profit                                  | 12,439  | 11,658    | 23,252                                      | 22,078    |
| Operating Expenses:                           |   |           |   |           |
| General and administrative                    | 4,903   | 4,605     | 11,055                                      | 10,240    |
| Selling                                       | 3,916   | 3,443     | 7,555                                       | 6,767     |
| Engineering and development                   | 3,683   | 3,503     | 7,098                                       | 6,574     |
| Restructuring                                 | 455   |           | 647   |           |
| Total operating expenses                      | 12,957  | 11,551    | 26,355                                      | 23,581    |
| Legal settlement gain                         |   |           |   | 9,266     |
| Operating (loss) income                       | (518)   | 107       | (3,103)                                     | 7,763     |
| Other (income) expense:                       |   |           |   |           |
| Interest expense, net                         | 495   | 485       | 1,035                                       | 2,200     |
| Other (income) expense, net                   | (24)  | 26        | 148   | 202       |
|   | 471   | 511       | 1,183                                       | 2,402     |
| (Loss) income before income taxes             | (989)   | (404)     | (4,286)                                     | 5,361     |
| (Benefit) provision for income taxes          | (371)   | 12        | (2,556)                                     | 1,879     |
| Net (loss) income                             | \$ (618)                                      | \$ (416)  | \$ (1,730)                                  | \$ 3,482  |
| Net (loss) income per share basic and diluted |   |           |   |           |
| (Loss) income per share basic                 | \$ (0.04)                                     | \$ (0.03) | \$ (0.11)                                   | \$ 0.23   |
| (Loss) income per share diluted               | \$ (0.04)                                     | \$ (0.03) | \$ (0.11)                                   | \$ 0.23   |
| Weighted average shares outstanding:          |   |           |   |           |
| Basic   | 15,604  | 15,461    | 15,586                                      | 15,421    |
| Diluted                                       | 15,604  | 15,461    | 15,586                                      | 15,472    |



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

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**BALDWIN TECHNOLOGY COMPANY, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(in thousands, except shares) (Unaudited)

|  | Class A      |        | Class B      |        | Capital<br>Contributed<br>in<br>Excess<br>of<br>Par<br>Value | Accumulated<br>Earnings | Other<br>Comprehensive<br>Income | Treasury<br>Stock |        | Comprehensive<br>Income for<br>the Six Months<br>ended |          |      |      |
|--|--------------|--------|--------------|--------|--|-------------------------|----------------------------------|-------------------|--------|--|----------|------|------|
|  | Common Stock |        | Common Stock |        |  |                         |                                  | Shares            | Amount | December 31,   |          | 2010 | 2009 |
|  | Shares       | Amount | Shares       | Amount |  |                         |                                  |                   |        | 2010   | 2009     |      |      |
| Balance at<br>June 30, 2010  | 14,471,363   | \$ 145 | 1,092,555    | \$ 11  | \$ 48,098  | \$ 3,170                | \$ 325                           | 0                 | 0      |  |          |      |      |
| Net loss for the<br>six months ended<br>December 31,<br>2010             |              |        |              |        |  | (1,730)                 |                                  |                   |        | \$ (1,730)   | \$ 3,482 |      |      |
| Translation<br>adjustment  |              |        |              |        |  |                         | 4,284                            |                   |        | 4,284  | 761      |      |      |
| Unrealized loss<br>on<br>available-for-sale<br>securities, net of<br>tax |              |        |              |        |  |                         | 17                               |                   |        | 17   | (52)     |      |      |
| Recognition of<br>pension funded<br>status, net of tax                   |              |        |              |        |  |                         | 178                              |                   |        | 178  | 233      |      |      |
| Comprehensive<br>income  |              |        |              |        |  |                         |                                  |                   |        |  |          |      |      |
| Amortization of<br>stock based<br>compensation                           |              |        |              |        | 501  |                         |                                  |                   |        | \$ 2,749   | \$ 4,424 |      |      |
| Shares<br>surrendered as<br>payment of tax<br>withholding                |              |        |              |        |  |                         |                                  | (29,270)          | (37)   |  |          |      |      |

|                                       |            |        |           |       |           |          |          |        |    |
|---------------------------------------|------------|--------|-----------|-------|-----------|----------|----------|--------|----|
| Retirement of treasury stock          | (29,270)   |        |           | (37)  |           |          |          | 29,270 | 37 |
| Shares issued under stock option plan | 100,238    |        |           |       |           |          |          |        |    |
| Balance at December 31, 2010          | 14,542,331 | \$ 145 | 1,092,555 | \$ 11 | \$ 48,562 | \$ 1,440 | \$ 4,804 | 0      | 0  |

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

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**BALDWIN TECHNOLOGY COMPANY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(Unaudited)

|  | For the six months ended<br>December 31, |          |
|--|--|----------|
|  | 2010                                     | 2009     |
| Cash flows from operating activities:  |  |          |
| Net (loss) income  | \$ (1,730)                               | \$ 3,482 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: |  |          |
| Depreciation and amortization  | 1,450                                    | 1,331    |
| Legal settlement gain  |  | (9,266)  |
| Deferred financing charge  | 118                                      | 1,183    |
| Proceeds from legal settlement   |  | 9,560    |
| Provision for losses on accounts receivable  | 346                                      | 404      |
| Restructuring charges  | 647                                      |          |
| Stock compensation costs   | 501                                      | 448      |
| Non-cash deferred compensation charges   | 871                                      |          |
| Deferred income taxes  | (2,751)                                  | (68)     |
| Loss on disposal of fixed assets   | 80                                       |          |
| Changes in assets and liabilities:   |  |          |
| Accounts and notes receivable, trade   | (1,040)                                  | 2,918    |
| Inventories  | 1,342                                    | 1,666    |
| Prepaid expenses and other   | 801                                      | 664      |
| Other assets   | 1,605                                    | 248      |
| Customer deposits  | (665)                                    | 1,764    |
| Accrued compensation   | (858)                                    | (1,008)  |
| Payments of restructuring charges  | (534)                                    | (1,621)  |
| Accounts and notes payable, trade  | (2,316)                                  | (3,585)  |
| Income taxes payable   | 182                                      | 1,890    |
| Accrued and withheld taxes   | (74)                                     | (250)    |
| Other accounts payable and accrued liabilities                                       | (1,169)                                  | (226)    |
| Net cash (used in) provided by operating activities                                  | (3,194)                                  | 9,534    |
| Cash flows from investing activities:  |  |          |
| Additions of property, plant and equipment   | (186)                                    | (227)    |
| Additions of patents and trademarks  | (240)                                    | (93)     |
| Net cash used in investing activities  | (426)                                    | (320)    |
| Cash flows from financing activities:  |  |          |
| Long-term and short-term debt borrowings   | 2,788                                    | 726      |
| Long-term and short-term debt repayments   |  | (9,209)  |
| Repurchase of common stock   | (37)                                     | (45)     |
| Principal payments under capital lease obligations                                   | (59)                                     | (81)     |

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|  |           |           |
|--|-----------|-----------|
| Payment of debt financing costs                      | (220)     | (685)     |
| Proceeds from stock option exercises                 |           | 12        |
| Other long-term liabilities                          | (46)      | 104       |
| Net cash provided by (used in) financing activities  | 2,426     | (9,178)   |
| Effects of exchange rate changes                     | 1,038     | 479       |
| Net (decrease) increase in cash and cash equivalents | (156)     | 515       |
| Cash and cash equivalents at beginning of period     | 15,710    | 13,806    |
| Cash and cash equivalents at end of period           | \$ 15,554 | \$ 14,321 |

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<br>ended December 31, |        |
|---|--|--------|
|   | 2010                                     | 2009   |
| Cash paid during the period for:                  |  |        |
| Interest  | \$ 600                                   | \$ 750 |
| Income taxes                                      | \$ 716                                   | \$ 76  |
| Non-cash investing and financing activities:      |  |        |
| Warrants issued in connection with debt financing | \$ 469                                   |        |

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)**

**(in thousands, except share and per share data)**

**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 press automation equipment and related parts and consumables for the printing and publishing industry.

The accompanying unaudited consolidated financial statements include the accounts of Baldwin 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 ( SEC ). These financial statements reflect all adjustments of a normal recurring nature, which are in the opinion of management, necessary to present fairly the financial position and 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, 2010.

The results of operations for the interim period presented are not necessarily indicative of trends or of results to be expected for any future period including the entire fiscal year ending June 30, 2011.

On June 30, 2010 the Company successfully completed the acquisition of Nordson UV, ( UV ), a manufacturer of ultraviolet curing systems, lamps and parts. Operating results of the acquired entities are included in the results of operations from the date of acquisition.

**Note 2 Recent Accounting Standards:**

In October 2009, the FASB issued ASC Update No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements. The consensus in Update No. 2009-13 supersedes certain guidance in Topic 605 (formerly EITF Issue No. 00-21, Multiple-Element Arrangements) and requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. The consensus eliminates the use of the residual method of allocation and requires the use of the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables subject to ASC 605-25. The Company adopted Update No. 2009-13 as of July 1, 2010.

The new guidance changes the criteria required to (1) separate deliverables into separate units of accounting when deliverables are sold in a bundled arrangement and (2) to allocate the arrangement s consideration to each unit in the arrangement (such as, equipment, installation or commissioning services). Entities are now required to determine an estimated selling price for each separate deliverable following a hierarchy of evidence Vendor-specific objective evidence ( VSOE ), Third Party Evidence ( TPE ) and, if VSOE and TPE do not exist, best estimate of selling price ( BESP ).

The Company s material revenue streams are the result of a wide range of activities, from the delivery of stand-alone equipment, parts, services, consumables and, in some instances, design, installation and commissioning of equipment. The Company enters into revenue arrangements that may consist of multiple deliverables of its product and service offerings due to the needs of its customers. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability of the sale price is reasonably assured. In addition to these general revenue recognition criteria, the following specific revenue recognition policies are followed:

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***Products and Equipment*** For product and equipment sales (one deliverable only), revenue recognition generally occurs when products or equipment have been shipped, risk of loss has transferred to the customer, objective evidence exists that customer acceptance provisions have been met, no significant obligations remain and an allowance for discounts, returns and customer incentives can be reliably estimated. Recorded revenues are reduced by these allowances. The Company bases its estimates of these allowances on historical experience taking into consideration the type of products sold, the type of customer, and the specific type of transaction in each arrangement.

***Services*** Revenue for services is generally recognized at completion of the contractually required services.

***Multiple-Element Arrangements*** Arrangements with customers may include multiple deliverables, including any combination of products, equipment and services. For the Company's multiple-element arrangements, deliverables are separated into more than one unit of accounting when (i) the delivered element(s) have value to the customer on a stand-alone basis, and (ii) delivery of the undelivered element(s) is probable and substantially in the control of the Company. Based on the new accounting guidance adopted July 1, 2010, revenue is then allocated to each unit of accounting based on the estimated selling price determined using a hierarchy of evidence based first on VSOE if it exists, based next on TPE if VSOE does not exist, and finally, if both VSOE and TPE do not exist, based on BESP.

**VSOE** The price of a deliverable when the Company regularly sells it on a stand-alone basis.

Typically, the Company is unable to determine VSOE for the installation and commissioning services portion, as well as, the equipment portion of a multiple-element arrangement. Since the Company does not sell its installation and commissioning services on a stand-alone basis, the Company is not able to determine VSOE for these portions of a multiple-element arrangement. In addition, in certain instances, similar equipment included in a multiple-element arrangement is sold separately in stand-alone arrangements as customers may perform installations themselves. The Company has determined that the applicability of this stand-alone pricing is not appropriate to serve as the VSOE for equipment in multiple-element arrangements since this pricing considers the geographies in which the products or services are sold, major product and service groups, customer classification (OEM versus End User) and other marketing variables.

**TPE** Third party (competitor, subcontractors, etc) sales prices for the same or largely interchangeable products or services to similar customers in stand-alone sales. TPE can only be used if VSOE is not available.

Generally, the Company's strategy for many of its products differs from that of its peers and its offerings contain a level of customization and differentiation such that the comparable pricing of products with similar functionality sold by other companies cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, the Company is typically not able to determine TPE for the equipment portion of a multiple-element arrangement. However, there are others (subcontractors) in the industry with sufficient knowledge about the installation and commissioning process that the Company uses on occasion to perform these services. Overall, installation and commissioning services may vary, due in part, to the size and complexity of the installation and commissioning, however, these subcontractor rates may provide a basis for TPE after considering the type of services to be performed (i.e. mechanical, electrical) and negotiated subcontractor rates.



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**BESP** When the Company is unable to establish VSOE or TPE, the Company uses BESP. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis.

The Company determines BESP for a deliverable in a multiple element arrangement by first collecting all reasonably available data points including sales, cost and margin analysis of the product, and other inputs based on the Company's normal pricing practices. Second, the Company makes any reasonably required adjustments to the data based on market conditions and Company-specific factors (customer, cost structure, etc.). Third, the Company stratifies the data points, when appropriate, based on customer, magnitude of the transaction and sales volume. In addition, the Company has negotiated supply agreements, primarily with large OEM customers, for pricing some of its products and installation and commissioning services. The Company has experience selling the products and installation and commissioning services at the published price list and considers this to be BESP when contracting with customers under the supply agreements. The determination of BESP is a formal process within the Company that includes review and approval by the Company's management.

Contractually stated prices in multiple-element arrangements are not presumed to represent VSOE, TPE or BESP for an individual deliverable. An entity must develop its estimate of selling prices using the hierarchy of evidence in the new guidance.

After determination of the estimated selling price of each deliverable in a multiple-element arrangement, the arrangement consideration is then allocated using the relative selling price method. Under the relative selling price method, the estimated selling price for each deliverable is compared to the sum of the estimated selling prices for all deliverables. The percentage that is calculated for each deliverable is then multiplied by the total contractual value of the multiple-element arrangement to determine the revenue allocated to each deliverable.

The revenue allocated to each deliverable will then be recorded in accordance with existing revenue recognition guidance for stand alone product/equipment sales and unbundled services.

Based on the Company's current sales strategies, the newly adopted accounting guidance for revenue recognition has not and is not expected to have a significant effect on the timing and pattern of revenue recognition for sales in periods after the initial adoption when applied to multiple-element arrangements.

**Note 3 Long Term Debt:**

|  | <b>December 31, 2010</b> |                  | <b>June 30, 2010</b>  |                  |
|--|--------------------------|------------------|-----------------------|------------------|
|  | <b>Current</b>           | <b>Long-Term</b> | <b>Current</b>        | <b>Long-Term</b> |
|  | <b>(in thousands)</b>    |                  | <b>(in thousands)</b> |                  |
| Revolving Credit Facility due November 21, 2011, interest rate one-month LIBOR rate 0.27% plus 4.50% (a) | \$ 13,700                | \$               | \$                    | \$ 12,100        |
| Revolving Credit Facility due November 21, 2011, interest rate one-month LIBOR rate 0.73% plus 4.50% (a) | 2,006                    |                  |                       | 1,834            |
| Subordinated promissory note due June 30, 2015, interest rate one year LIBOR rate 1.2% plus 4.50% (b)    | 389                      | 2,132            | 389                   | 2,132            |
|  | \$ 16,095                | \$ 2,132         | \$ 389                | \$ 16,066        |

(a) The Company's primary source of external financing is its Credit Agreement, as amended, with certain Lenders (the Lenders) and Bank of America (BofA), as Agent for the Lenders (the Credit Agreement), which has a term that ends on November 21, 2011. The borrowings under the Credit

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Agreement are secured in the U.S. by a pledge of substantially all of the Company's domestic assets and in Europe by a pledge of the Company's European assets and the stock of the Company's European subsidiaries and certain of the Company's Asian subsidiaries (approximately \$18,000 at June 30, 2010).

On September 28 and 29, 2010, the Company entered into Amendment #8 and #9 to the Credit Agreement (Amendment #8 and Amendment #9, respectively) with BofA. Under the terms of Amendment #8, the total commitment under the Credit Agreement was reduced from \$25 million to \$20 million, certain adjustments were made to the interest payment provisions and the Company issued to the Lenders warrants with a term of 10 years to purchase 352,671 shares of common stock in the Company for \$0.01 per share (the Warrants). The Warrants also contain a put provision that enables the holders after September 28, 2012 to request a cash settlement of the then fair market value of the Warrants in an amount not to exceed \$1.50 per share. Amendment #8 sets new covenants for currency adjusted net sales, establishes minimum EBITDA levels and sets a limit on capital expenditures for the fiscal year ended June 30, 2011. Under the terms of Amendment #9, the definition of EBITDA was revised. At December 31, 2010, the Company was in compliance with all covenants, however, a decline in the Company's financial performance could have a material adverse effect on the Company, including the Company's ability to comply with the Credit Agreement covenants.

The Company incurred costs of approximately \$689 (\$220 in cash, \$469 associated with the Warrants) associated with the September 28, 2010 Amendment. Certain of these costs, together with certain legacy deferred financing costs, are required to be charged to expense, and the Company recorded a charge of approximately \$118 during the first quarter of fiscal year 2011. The balance of these costs, together with the remaining legacy deferred financing costs, aggregating approximately \$1,162, will be amortized over the remaining term of the facility under the Credit Agreement, as amended.

The Warrants were valued based on the Company's stock price at September 28, 2010 and are presented as a liability under other long-term liabilities. The value of the Warrants will mark to market at the end of each reporting period and the change in value will be recorded as interest expense. During the three months ended December 31, 2010, the value of the Warrants was increased by \$28.

The Company currently believes that its cash flows from operations, along with its available bank lines of credit, are sufficient to finance its working capital and other capital requirements through the term of the Credit Agreement. The facility under the Credit Agreement (the Credit Facility) matures November 21, 2011, and the Company may be unable to renew or replace this financing. The Company has begun preliminary discussions regarding renewal of its Credit Facility and anticipates finalizing a renewal or replacement of the Credit Agreement, although there are no assurances that such agreement will be completed by the loan maturity date.

(b) \$2,521 five year subordinated promissory note with principal and interest payments due and payable in five annual installments.

The Company maintains relationships with both foreign and domestic banks, which combined have extended short and long-term credit facilities to the Company totaling \$29,849. As of September 30, 2010, the Company had \$22,858 outstanding under these credit facilities (including Letters of Credit). The amount available under these credit facilities at December 31, 2010 was \$3,791.

**Note 4 Net income (loss) per share:**

Basic net income (loss) per share includes no dilution and is calculated by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share reflects the potential dilution of securities that could share in the earnings of an entity. For the three and six months ended December 31, 2010, the weighted average shares outstanding used to compute diluted net income (loss) per share includes potentially dilutive securities of zero and 47,000 shares, respectively. Outstanding options and warrants to purchase 845,000 and 2,025,000 shares, respectively, of the Company's common stock for the three and six months ended December 31, 2010, respectively, are not included in the calculation of diluted net income (loss) per share, because the effect would be anti-dilutive.

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For the three and six months ended December 31, 2009, the weighted average shares outstanding used to compute diluted net income (loss) per share includes potentially dilutive securities of zero and 51,000 shares, respectively. Outstanding options to purchase 57,000 and 1,065,000 shares, respectively, of the Company's common stock for the three and six months ended December 31, 2009, respectively, are not included in the calculation of diluted net income (loss) per share, because the effect would be anti-dilutive.

**Note 5 Accumulated 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:

|   | December<br>31,<br>2010 | June 30, 2010 |
|---|-------------------------|---------------|
|   | (in thousands)          |               |
| Cumulative translation adjustments  | \$ 5,768                | \$ 1,484      |
| Unrealized gain on investments, net of tax benefit of \$108 (benefit of \$121 at June 30, 2010) | (149)                   | (166)         |
| Pension and other, net of tax benefit of \$640 (benefit of \$768 at June 30, 2010)              | (815)                   | (993)         |
|   | \$ 4,804                | \$ 325        |

**Note 6 Inventories:**

Inventories consist of the following:

|                | December<br>31,<br>2010 | June 30, 2010 |
|----------------|-------------------------|---------------|
|                | (in thousands)          |               |
| Raw materials  | \$ 12,601               | \$ 11,574     |
| In process     | 4,124                   | 4,528         |
| Finished goods | 4,654                   | 4,737         |
|                | \$ 21,379               | \$ 20,839     |

Foreign currency translation effects increased inventories by \$1,636 from June 30, 2010 to December 31, 2010.

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The changes in the carrying amount of goodwill for the six months ended December 31, 2010 were as follows:

|                                 | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization<br>(in thousands) | Net<br>Book<br>Value |
|---------------------------------|-----------------------------|---|----------------------|
| Balance as of June 30, 2010     | \$ 21,527                   | \$ 1,425                                      | \$ 20,102            |
| Effects of currency translation | 766                         | 120   | 643                  |
| Balance as of December 31, 2010 | \$ 22,293                   | \$ 1,545                                      | \$ 20,748            |

Intangible assets subject to amortization were comprised of the following:

| Intangible Assets:                  | Amortization<br>Period | As of December 31, 2010                       |                             | As of June 30, 2010                           |                             |
|-------------------------------------|------------------------|---|-----------------------------|---|-----------------------------|
|                                     |                        | Gross<br>Carrying<br>Amount<br>(in thousands) | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount<br>(in thousands) | Accumulated<br>Amortization |
| Patents and trademarks              | 12-20                  | \$ 11,715                                     | \$ 7,527                    | \$ 11,372                                     | \$ 7,155                    |
| Customer relationships              | 2-13                   | 1,098   | 267                         | 1,066   | 204                         |
| Trademarks                          | 30                     | 1,458   | 198                         | 1,368   | 163                         |
| Existing product technology         | 15                     | 6,042   | 1,393                       | 5,605   | 1,135                       |
| Non-compete/solicitation Agreements | 5                      | 135   | 108                         | 95  | 67                          |
| Other                               | 5-30                   | 2,280   | 2,029                       | 2,165   | 1,848                       |
| Total                               |                        | \$ 22,728                                     | \$ 11,522                   | \$ 21,671                                     | \$ 10,572                   |

Amortization expense associated with these intangible assets was \$375 and \$723, respectively, for the three and six months ended December 30, 2010 and \$319 and \$640, respectively, for the three and six months ended December 30, 2009.

**Note 8 Supplemental Compensation:**

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, 2010 and 2009:

|                                    | For the three months<br>ended December 31,<br>2010 |        | For the six months<br>ended December 31,<br>2010 |        |
|------------------------------------|--|--------|--|--------|
|                                    | 2010   | 2009   | 2010   | 2009   |
|                                    | (in thousands)                                     |        |  |        |
| Service cost                       | \$ 100   | \$ 100 | \$ 200   | \$ 200 |
| Interest cost                      | 79   | 84     | 158  | 168    |
| Expected return on plan assets     | (7)  | (4)    | (14)   | (8)    |
| Amortization of net actuarial gain | 18   | (3)    | 36   | (6)    |
| Net periodic benefit cost          | \$ 190   | \$ 177 | \$ 380   | \$ 354 |

During the three and six months ended December 31, 2010, respectively, the Company made contributions to the plans of \$78 and \$166, respectively. During the three and six months ended December 31, 2009, respectively, the

Company made contributions to the plans of \$170 and \$170, respectively.

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During each of the three and six months ended December 31, 2010, and 2009, one customer accounted for more than 10% of the Company's net sales. Koenig and Bauer Aktiengesellschaft ( KBA ) accounted for approximately 14% of the Company's net sales for the three and six months ended December 31, 2010, and 18% and 16% of the Company's net sales for the three and six months ended December 31, 2009, respectively.

**Note 10 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. Hence, the Company accrues estimated warranty costs reported in other accounts payable and accrued liabilities, 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.

|                                       | For the six months ended<br>December 31, |          |
|---------------------------------------|--|----------|
|                                       | 2010                                     | 2009     |
|                                       | (in thousands)                           |          |
| Warranty reserve at June 30           | \$ 1,999                                 | \$ 2,626 |
| Additional warranty expense accruals  | 1,058                                    | 1,487    |
| Payments against reserve              | (1,116)                                  | (1,754)  |
| Effects of currency rate fluctuations | 223                                      | 123      |
| Warranty reserve at December 31       | \$ 2,164                                 | \$ 2,482 |

**Note 11 Share Based Payments:**

Total share-based compensation for the three and six months ended December 31, 2010 and 2009 are summarized in the following table:

|                                | For the three months<br>ended December 31, |        | For the six months<br>ended December 31, |        |
|--------------------------------|--|--------|--|--------|
|                                | 2010                                       | 2009   | 2010                                     | 2009   |
|                                | (in thousands)                             |        |  |        |
| Share based compensation       |  |        |  |        |
| Stock options                  | \$ 195                                     | \$ 48  | \$ 429                                   | \$ 102 |
| Restricted stock               | 78   | 151    | 72                                       | 346    |
| Performance shares (a)         |  |        |  |        |
| Total share-based compensation | \$ 273                                     | \$ 199 | \$ 501                                   | \$ 448 |

(a) No compensation expense was recorded in any period presented related to performance shares, based on assessment of probability of achievement.

During the quarter ended September 30, 2010, the Company entered into an advisory agreement (the Advisory Agreement ) with OBX Partners LLC ( OBX ), under which OBX acted as a financial advisor and strategic consultant. As part of the consideration for the services rendered, the Company granted to OBX an option (the OBX Option ) to purchase 300,000 shares of the Company's Class A Common Stock (the Shares ) at an exercise price per share of \$1.26, exercisable on or after October 1, 2011. The Option would have terminated on November 16, 2010 if OBX had not substantially completed the engagement, which OBX completed during the second quarter. If not previously exercised, the OBX



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Option shall terminate on September 30, 2020. The fair value of the OBX Option on the date of grant was \$167. The Company recomputed the fair value of the OBX Option as of December 31, 2010 and recorded an adjustment to the fair value of \$31, resulting in a fair value of \$198 at December 31, 2010.

In order to induce Mark Becker, President and Chief Executive Officer of the Company, to enter into an employment agreement with the Company, the Company granted, effective October 1, 2010, to Mr. Becker the following options:

(i) An option to purchase 200,000 shares of Class A Common Stock of the Company, at an exercise price of \$1.20 per share, pursuant to the Company's 2005 Equity Compensation Plan (the Plan Option). The Plan Option vested and became exercisable on October 1, 2010. The Plan Option shall expire, if not sooner exercised, as of the close of business on September 30, 2020.

(ii) An option to purchase 200,000 shares of Class A Common Stock of the Company, at an exercise price of \$1.20 per share (the Non-Plan Option). The Non-Plan Option shall vest and become exercisable on October 1, 2011.

The aggregate fair value of the Plan Option and the Non-Plan Option on the date of grant was \$220.

Effective November 18, 2010, the Company granted to each non-employee director of the Company (i) either a Restricted Stock Award or a Restricted Stock Unit with respect to 9,524 shares (a total of 57,144 shares for all non-employee directors) of the Company's Class A Common Stock, the restrictions on which will lapse on November 18, 2011, having an aggregate grant date fair value of \$72 and (ii) a non-qualified option (a Non-Employee Director Option) to purchase 9,524 shares (a total of 57,144 shares for all non-employee directors) of the Company's Class A Common Stock, which shall vest in three equal annual installments commencing on the second anniversary of the date of grant, having an aggregated grant date fair value of \$34.

**Note 12 Restructuring:****Quarter 3 FY 2009 Plan:**

In January and March 2009, the Company committed to the principal features of plans to restructure some of its existing operations. These plans included the consolidation of production facilities in Germany, as well as employment reductions in Germany, Sweden, Italy and the U.S. The actions were taken in response to sustained weak market conditions. Actions under the plan commenced during the Company's third quarter of Fiscal 2009; and the Company substantially completed the actions by June 30, 2009. Nearly all the costs associated with the plans are cash costs, payment of which will continue through Fiscal 2011.

|                            | Initial Reserve | Payments against Reserve | Balance at June 30, 2010<br>(in thousands) | Payments against Reserve | Balance at December 31, 2010 |
|----------------------------|-----------------|--------------------------|--|--------------------------|------------------------------|
| Restructuring costs:       |                 |                          |  |                          |                              |
| Employee termination costs | \$ 3,836        | \$ (3,570)               | \$ 266                                     | \$ (160)                 | \$ 106                       |
| Other                      | 230             | (101)                    | 129  |                          | 129                          |
| Total restructuring costs  | \$ 4,066        | \$ (3,671)               | \$ 395                                     | \$ (160)                 | \$ 235                       |

**Quarter 4 FY 2010 Plan:**

In June 2010 the Company committed to the principal features of a plan to additionally restructure its operation in Germany. Actions under the plan commenced and were completed by June 30, 2010. All



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costs associated with the plan are cash payments related to employee reductions.

|                            | Initial<br>Reserve | Payments<br>against<br>Reserve | Balance<br>at<br>June 30,<br>2010<br>(in thousands) | Payments<br>against<br>Reserve | Balance<br>at<br>December<br>31, 2010 |
|----------------------------|--------------------|--------------------------------|---|--------------------------------|---------------------------------------|
| Restructuring costs:       |                    |                                |   |                                |                                       |
| Employee termination costs | \$ 540             | \$ (38)                        | \$ 502  | \$ (230)                       | \$ 272                                |
| Total restructuring costs  | \$ 540             | \$ (38)                        | \$ 502  | \$ (230)                       | \$ 272                                |

**Quarter 1 FY 2011 Plan:**

In September 2010 the Company committed to the principle features of a plan to restructure its operations in the UK and Japan. Actions under the plan to consolidate facilities in the UK and to reduce employment levels in Japan commenced in September and were concluded in the UK. Additional actions will continue in Japan through the second quarter of Fiscal 2011. Costs associated with the current plan are primarily cash payments related to employee reductions. Payments will continue through the fiscal year.

|                            | Initial<br>Reserve | Payments<br>against<br>Reserve<br>(in thousands) | Balance<br>at<br>December<br>31, 2010 |
|----------------------------|--------------------|--|---------------------------------------|
| Restructuring costs:       |                    |  |                                       |
| Employee termination costs | \$ 145             | \$ (137)   | \$ 8                                  |
| Other                      | 47                 |  | 47                                    |
| Total restructuring costs  | \$ 192             | \$ (137)   | \$ 55                                 |

**Quarter 2 FY 2011 Plan:**

In December 2010 the Company committed to the principle features of a plan to restructure its operations in Japan, Germany and the U.S. Actions under the plan to reduce employment levels commenced in December. Costs associated with the current plan are primarily cash payments related to employee reductions. Payments will continue through the fiscal year.

|                            | Initial<br>Reserve | Payments<br>against<br>Reserve<br>(in thousands) | Balance at<br>December<br>31, 2010 |
|----------------------------|--------------------|--|------------------------------------|
| Restructuring costs:       |                    |  |                                    |
| Employee termination costs | \$ 455             | \$   | \$ 455                             |
| Other                      |                    |  |                                    |
| Total restructuring costs  | \$ 455             | \$   | \$ 455                             |

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**Note 13 Legal Proceedings:**

Baldwin is involved in various legal proceedings from time to time, including actions with respect to commercial, intellectual property and employment matters. The Company believes that it has meritorious defenses against the claims currently asserted against it and intends to defend them vigorously. However, the outcome of litigation is inherently uncertain, and the Company cannot be sure that it will prevail in any of the cases currently in litigation. The Company believes that the ultimate outcome of any such cases will not have a material adverse effect on its results of operations, financial position or cash flows; however, there can be no assurances that an adverse determination would not have a material adverse effect on the Company.

On September 24, 2009, the Company and technotrans AG ( technotrans ) agreed to an out-of-court settlement to terminate all proceedings that had continued for a number of years in connection with the infringement of a Baldwin patent. Under the agreement, technotrans paid to the Company Euro 6.5 million (approximately \$9.6 million) and the Company agreed to dismiss its claim for damages.

**Note 14 Income Taxes:**

The Company's effective tax rate is impacted by several factors including but not limited to (i) having significant operations outside the United States, which are taxed at rates different than the U.S. statutory rate, (ii) no tax benefit being recognized for losses incurred in certain countries as the realization of such benefits is not more likely than not, (iii) certain foreign and domestic permanent items, and (iv) adjustments to the Company's valuation allowances and FIN 48 reserve.

**Note 15 Fair Value Measurements:**

ASC Topic 820, Fair Value Measurements and Disclosures, requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs consist of market data obtained from independent sources while unobservable inputs reflect the Company's own market assumptions. These inputs create the following fair value hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Valuations based on quoted prices in markets that are not active, quoted prices for similar assets or liabilities or all other inputs that are observable

Level 3 Unobservable inputs for which there is little or no market data which require the Company to develop its own assumptions

If the inputs used to measure the fair value of a financial instrument fall within different levels of the hierarchy, the financial instrument is categorized based upon the lowest level input that is significant to the fair value measurement.

Whenever possible, the Company uses quoted market prices to determine fair value. In the absence of quoted market prices, the Company uses independent sources and data to determine fair value.

At December 31, 2010, the Company's financial assets and financial liabilities that are measured at fair value on a recurring basis, consistent with the fair value hierarchy provision and valued as Level 1 are comprised of marketable securities and warrants. At December 31, 2010, the Company did not have any assets or liabilities at fair value on a recurring basis using significant unobservable inputs (Level 3) in the Consolidated Financial Statements.

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There has been no change in the Company's valuation technique during the quarter ended December 31, 2010.

**ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (IN THOUSANDS)**

The following is management's discussion and analysis of certain factors, which have affected the consolidated financial statements of Baldwin.

**Forward-looking Statements**

Except for the historical information contained herein, the following statements and certain other statements contained herein are based on current expectations. Similarly, the press releases issued by the Company and other public statements made by the Company from time to time may contain language that is forward-looking. These forward-looking statements may be identified by the use of forward-looking words or phrases such as "forecast," "believe," "expect," "intend," "anticipate," "should," "plan," "estimate," and "potential," among others. 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 comply with requirements of credit agreements; the availability of funding under such agreements; the ability to maintain adequate liquidity in declining and challenging economic conditions impacting the Company as well as customers, (ii) general economic conditions in the U.S. and other foreign locations, (iii) the ability to obtain, maintain and defend challenges against valid patent protection of certain technology, primarily as it relates to the Company's cleaning systems, (iv) material changes in foreign currency exchange rates versus the U.S. Dollar, (v) changes in the mix of products and services comprising revenues, (vi) a decline in the rate of growth of the installed base of printing press units and the timing of new press orders, (vii) the ultimate realization of certain trade receivables and the status of ongoing business levels with the Company's large OEM customers, (viii) competitive market influences, and (ix) the possibility of future cost reduction efforts, including potential restructurings. Additional factors are set forth in Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2010, 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, 2010. Other than the adoption of ASC Update No. 2009-13, "Revenue Recognition Topic 605: Multiple-Deliverable Revenue Arrangements," which is discussed in Note 2 of the financial statements, there have been no material changes during the six months ended December 31, 2010.

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**Overview**

Baldwin Technology Company, Inc. is a leading global supplier of process automation equipment and related parts and consumables for the printing and publishing 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 production facilities in the Americas, Asia and Europe. Baldwin's technology and products include cleaning systems and related consumables, fluid management and ink control systems, web press protection systems, drying and curing systems, blending and packaging services and related services and parts.

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

The market for printing equipment continues to face significant challenges. These challenges have translated into a lower level of business activity for the Company.

**Highlights for Six and Three Months Ended December 31, 2010**

Revenues, as reported, increased 8% and 9% for the six and three months ended December 31, 2010, respectively, versus the year ago comparable periods.

Backlog of \$33,599 at December 31, 2010, increased 12% compared to June 30, 2010.

For the six and three month periods ended December 31, 2010, order intake was up 23% and 28%, respectively, versus the comparable year ago periods.

On June 30, 2010 the Company successfully completed the acquisition of Nordson UV, ( UV ), a manufacturer of ultraviolet curing systems, lamps and parts. Operating results of the acquired entities are included in the results of operations from the date of acquisition.

In September 2010, the Company concluded an amendment to its Credit Agreement with its lenders covering the period through November 21, 2011, the end of the term of the Agreement.

See discussion below related to consolidated results of operations, liquidity and capital resources.

**Six Months Ended December 31, 2010 vs. Six Months Ended December 31, 2009**

**Consolidated Results**

**Net Sales**

Net sales for the six months ended December 31, 2010 increased by \$5,729 or 8%, to \$80,654 from \$74,925 for the six months ended December 31, 2009. Currency rate fluctuations attributable to the Company's overseas operations decreased net sales by \$470 in the current period.

The net sales increase reflects higher sales in Europe of \$1,160, including \$2,074 of unfavorable effects from exchange rate fluctuations. The increase in net sales primarily reflects the additional revenue associated with the UV business acquisition partially offset by lower order and sales activity by OEM press manufacturers, primarily in Germany, for new printing equipment and lower level demand from end user customers.

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In Asia, net sales increased approximately \$2,346, including \$1,604 of favorable effects from exchange rate fluctuations. The increase in net sales reflects the impact of UV shipments and other increases of products sold in China and India, partially offset by the slowing in the newspaper market for the Company's cleaning equipment in Japan.

Net sales in the Americas increased \$2,224, primarily reflecting additional sales from the UV business acquisition partially offset by a lower volume in the blending and packaging services market.

### **Gross Profit**

Gross profit for the six months ended December 31, 2010 was \$23,252 (28.8% of net sales) compared to \$22,078 (29.50% of net sales) for the six months ended December 31, 2009, an increase of \$1,174. Currency rate fluctuations had virtually no impact on gross profit in the current period. The increase in gross profit primarily relates to the additional sales volume and higher gross margins associated with the UV business. Partially offsetting these increases were continued pricing pressure from OEM and end users and unfavorable overhead absorption related to reduced volumes.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses (SG&A) amounted to \$18,610 (23% of net sales) for the six months ended December 31, 2010 compared to \$17,007 (22.6% of net sales) for the same period in the prior fiscal year, an increase of \$1,603 or 9%. Currency rate fluctuations increased SG&A \$113 during the six month period. G&A expenses increased \$815. The increase primarily reflects additional G&A expenses associated with the UV business of \$744 and costs associated with the termination agreement with the Company's former CEO of \$878. Partially offsetting these increases were lower professional fees of \$911 incurred in fiscal year 2010 related to an investigation into internal control matters. Selling expenses increased \$790. The increase primarily reflects additional selling expenses associated with the UV business of \$754.

### **Engineering and Development Expenses**

Engineering and development expenses amounted to \$7,098 for the six months ended December 31, 2010, compared to \$6,574 for the same period in the prior fiscal year, an increase of \$524 or 8%. Currency rate fluctuations decreased expenses \$183 for the current period. The increase primarily reflects additional expenses associated with the UV business of \$346. As a percentage of net sales, engineering and development expenses were approximately 8.8% of sales for each of the six months ended December 31, 2010 and 2009.

### **Restructuring**

The Company recorded \$647 of restructuring costs during the six months ended December 31, 2010 versus \$0 in the comparable prior year period. The restructuring plans commenced in FY 2011 are designed to achieve operational efficiencies in Japan, the UK and the U.S. and consist primarily of employee terminations.

### **Legal Settlement**

During the six months ended December 31, 2009, the Company recorded a gain on the settlement of a patent infringement lawsuit of \$9,266.

### **Interest and Other**

Interest expense, net, for the six months ended December 31, 2010 was \$1,035 compared to \$2,200 for the six months ended December 31, 2009. Currency rate fluctuations had no impact on interest expense in the current period. During the quarter ended September 30, 2010, the Company concluded an amendment to its credit agreement with its Lenders. Legacy deferred financing costs totaling approximately \$118 were charged to interest expense during the quarter ended September 30, 2010.

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During the quarter ended September 30, 2009, the Company concluded an amendment to its credit agreement with its Lenders. Certain costs associated with the amendment, together with legacy deferred financing costs totaling approximately \$1,183, were charged to expense during the quarter ended September 30, 2009. After giving effect to these expenses, interest expense decreased \$100.

Other (income) expense, net, was an expense of \$148 for the six months ended December 31, 2010 compared to income of \$202 for the six months ended December 31, 2009. These amounts are primarily comprised of net foreign exchange losses.

**Income Taxes**

The Company recorded an income tax benefit of \$2,556, for the six months ended December 31, 2010, compared to a provision of \$1,879, for the six months ended December 31, 2009. The effective tax rate for fiscal 2010 of 59.6% differs from the U.S. statutory rate and reflects a) foreign income taxed at rates different than the U.S. statutory rate, (b) no benefits being recognized for losses incurred in certain countries, as the realization of such benefits is not more likely than not, (c) the impact of foreign and domestic permanent items, and (d) reversal of previously recorded reserves associated with unrecognized tax benefits (FIN 48 Liabilities ) upon finalization of a German tax audit for years 2000-2004, of \$777 and a reversal of a valuation allowance in the U.K.

The effective tax rate for fiscal 2009, differs from the statutory rate and reflect (a) foreign income taxed at rates different than the U.S. statutory rate, (b) no benefits recognized for losses incurred in certain countries, as the realization of such benefits is not more likely than not, and (c) the impact of foreign and domestic permanent items. The Company continues to assess the need for its deferred tax asset valuation allowances in the jurisdictions in which it operates. Any adjustments to the deferred tax asset valuation allowances would be recorded in the income statement for the periods that the adjustments were determined to be required.

**Net Income**

The Company's net loss was \$1,730 for the six months ended December 31, 2010, compared to net income of \$3,482 for the six months ended December 31, 2009. Net loss per basic and diluted share was \$0.11 for the six months ended December 31, 2010, compared to net income of \$0.23 per basic and diluted share for the six months ended December 31, 2009.

**Three Months Ended December 31, 2010 vs. Three Months Ended December 31, 2009**

**Consolidated Results**

**Net Sales**

Net sales for the three months ended December 31, 2010 increased \$3,452 or 9%, to \$42,203 from \$38,751 for the three months ended December 31, 2009. Currency rate fluctuations attributable to the Company's overseas operations had virtually no impact on net sales. The UV business acquisition contributed net sales of approximately \$4,064 during the quarter ended December 31, 2010.

Net sales reflects decreased sales in Europe of \$307, including \$931 of unfavorable effects from exchange rate fluctuations. The decrease was attributable to the continued weakening of global demand for the Company's equipment reflecting reduced order and sales activity for new printing equipment partially offset by the additional revenue from the UV business.

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In Asia, net sales increased \$2,045, including \$920 of favorable effects from exchange rate fluctuations. The increase reflects the impact from shipments of UV products and other increases in sales of products sold in China and India.

Net Sales in the Americas increased \$1,714, primarily reflecting additional sales of products acquired in the UV business acquisition partially offset by lower volume in the blending and packaging services market.

**Gross Profit**

Gross profit for the three months ended December 31, 2010 was \$12,439 (29.5% of net sales), compared to \$11,658 (30.0% of net sales) for the three months ended December 31, 2009, an increase of \$781 or 7%. Currency rate fluctuations increased gross profit by \$104 in the current period. The increase in gross profit primarily relates to the additional sales volume and higher gross margin associated with the UV business. Partially offsetting these increases were continued pricing pressure from OEM and end users and unfavorable overhead absorption related to reduced volumes.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses (SG&A) were \$8,819 (20.9% of net sales) for the three months ended December 31, 2010, compared to \$8,048 (20.8% of net sales) for the same period in the prior fiscal year, an increase of \$771 or 9%. Foreign currency translations increased SG&A \$86. G&A expenses increased \$298. The increase primarily reflects additional G&A expenses associated with the UV business of \$382. Selling expenses increased \$474. The increase primarily reflects additional selling expenses associated with the UV business of \$345.

**Engineering and Development Expenses**

Engineering and development expenses were \$3,683 (8.7% of net sales) for the three months ended December 31, 2010, compared to \$3,503 (9.0% of net sales) for the same period of the prior fiscal year, an increase of \$180. Currency rate fluctuations of \$73 decreased engineering and development expenses. The increase primarily reflects additional expenses associated with the UV business of \$168.

**Restructuring**

The Company recorded \$455 of restructuring costs during the three months ended December 31, 2010 versus \$0 in the comparable prior year period. The restructuring plan was designed to achieve operational efficiencies in Germany, Japan and the U.S. and consists entirely of employee terminations.

**Interest and Other**

Interest expense, net for the three months ended December 31, 2010 was \$495 compared to \$485 for the three months ended December 31, 2009. Currency rate fluctuations had virtually no impact on interest expense in the current period.

Other (income) expense, net, amounted to expense of \$26 for the three months ended December 31, 2009 compared to income of \$24 for the three months ended December 31, 2010. Other income (expense), net, primarily includes net foreign currency transaction gains for the three months ended December 31, 2010 and 2009.

**Income Taxes**

The Company recorded an income tax benefit of \$371 on a loss before tax of \$989 for the three months ended December 31, 2010, compared to a tax expense of \$12 for the three months ended December 31, 2009 on a loss before tax of \$404. The effective tax rate for the three months ended December 31, 2010 differs from the statutory rate and reflects a) foreign income taxed at rates different than the U.S. statutory rate, (b) no benefits being recognized for losses incurred in certain countries, as the realization of such

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benefits is not more likely than not, (c) the impact of foreign and domestic permanent items, and (d) the reversal of previously recorded reserves associated with unrecognized tax benefits (FIN 48 Liabilities ) upon finalization of a German tax audit for years 2000-2004, of \$777.

The effective tax rate for the three months ended December 31, 2009 differs from the statutory rate and reflects a) foreign income taxed at rates different than the U.S. statutory rate, (b) no benefits being recognized for losses incurred in certain countries, as the realization of such benefits is not more likely than not, and (c) the impact of foreign and domestic permanent items. The Company continues to assess the need for its deferred tax asset valuation allowances in the jurisdictions in which it operates. Any adjustments to the deferred tax asset valuation allowances would be recorded in the income statement of the periods that the adjustments were determined to be required.

**Net Income**

The Company's net loss was \$618 for the three months ended December 31, 2010, compared to a net loss of \$416 for the three months ended December 31, 2009. Net income (loss) per basic and diluted share amounted to \$(0.04) for the three months ended December 31, 2010, compared to \$(0.03) per basic and diluted share for the three months ended December 31, 2009.

**Non-GAAP Financial Measures**

Consolidated EBITDA and adjusted EBITDA are non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission. These non-GAAP measures are provided because management of the Company uses these financial measures as an indicator of business performance in maintaining and evaluating the Company's on-going financial results and trends. The Company believes that both management and investors benefit from referring to these non-GAAP measures in assessing the performance of the Company's ongoing operations and liquidity and when planning and forecasting future periods. These non-GAAP measures also facilitate management's internal comparisons to the Company's historical operating results and liquidity. The following is a reconciliation of the net income (loss) as reported to EBITDA.

|  | For the three months<br>ended<br>December 31, |               | For the six months<br>ended<br>December 31, |                 |
|--|---|---------------|---|-----------------|
|  | 2010  | 2009          | 2010  | 2009            |
|  | (in thousands)                                |               | (in thousands)                              |                 |
| Net income (loss) as reported            | \$ (618)                                      | \$ (416)      | \$ (1,730)                                  | \$ 3,482        |
| (Benefit) provision for income taxes     | (371)   | 12            | (2,556)                                     | 1,879           |
| Interest expense, net                    | 495   | 485           | 1,035                                       | 2,200           |
| Depreciation and amortization            | 786   | 672           | 1,450                                       | 1,331           |
| <b>EBITDA</b>                            | <b>\$ 292</b>                                 | <b>\$ 753</b> | <b>\$ (1,801)</b>                           | <b>\$ 8,892</b> |
| Expenses related to inventory step up    |   |               | 243   |                 |
| Expenses related to Pres/CEO termination |   |               | 878   |                 |
| Restructuring                            | 455   |               | 647   |                 |
| Legal settlement gain                    |   |               |   | (9,266)         |
| Internal control investigation costs     |   |               |   | 911             |
| <b>Adjusted EBITDA</b>                   | <b>\$ 747</b>                                 | <b>\$ 753</b> | <b>\$ (276)</b>                             | <b>\$ 537</b>   |



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

|  | Six Months ended December,<br>31 |          |
|--|----------------------------------|----------|
|  | 2010                             | 2009     |
| Cash provided by (used in):                          |                                  |          |
| Operating activities                                 | \$ (3,194)                       | \$ 9,534 |
| Investing activities                                 | (426)                            | (320)    |
| Financing activities                                 | 2,426                            | (9,178)  |
| Effect of exchange rate changes on cash              | 1,038                            | 479      |
| Net (decrease) increase in cash and cash equivalents | \$ (156)                         | \$ 515   |

Cash from operating activities decreased \$12,728 during the six months ended December 31, 2010 versus the comparable prior year period. This decrease in cash from operating activities primarily reflects receipt of the proceeds from the legal settlement with a German competitor in fiscal year 2010 of \$9,560. In addition cash from operating activities was negatively impacted by lower receipts from accounts and notes receivable, customer deposits and tax payments associated with the legal settlement. Partially offsetting these decreases were lower restructuring payments and lower payments on accounts and notes payable.

Cash utilized for investing during the six months ending December 31, 2010 and 2009 includes additions to property, plant and equipment and patents and trademarks of \$426 and \$320, respectively.

Cash flow from financing activities primarily reflects borrowings in fiscal year 2010 in excess of payments. On September 28 and 29, 2010, the Company entered into Amendment #8 and #9 to the Credit Agreement ( Amendment #8 and Amendment #9 , respectively) with its Lenders and BofA as agent for its Lenders (the Credit Agreement ). Under the terms of Amendment #8, the total commitment under the Credit Agreement was reduced from \$25 million to \$20 million, certain adjustments were made to the interest payment provisions and the Company issued to the Lenders warrants with a term of 10 years to purchase 352,671 shares of common stock in the Company for \$0.01 per share (the Warrants ). The Warrants also contain a put provision that enables the holders after September 28, 2012 to request a cash settlement of the then fair market value of the Warrants in an amount not to exceed \$1.50 per share. Amendment #8 sets new covenants for currency adjusted net sales, establishes minimum EBITDA levels and sets a limit on capital expenditures for the fiscal year ending June 30, 2011. Under the terms of Amendment #9, the definition of EBITDA was revised.

Cash (used) by financing activities of \$9,178 for the period ended December 31, 2009 reflects the use of the net cash proceeds from the gain on the legal settlement of approximately \$7,700 to repay the term loan in accordance with the provisions of the July 31, 2009 Credit Agreement amendment. In addition, cash used for financing activities reflected scheduled term loan payments of approximately \$1,500 and payment of debt financing costs of \$685. These payments were partially offset by borrowings under the Credit Agreement of \$726.

The Company maintains relationships with both foreign and domestic banks, which combined have extended credit facilities to the Company totaling \$29,849. As of December 31, 2010, the Company had \$22,858 (including letters of credit) outstanding under these Credit Facilities.

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

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The facility under the Credit Agreement (the Credit Facility) matures November 21, 2011, and the Company may be unable to renew or replace this financing. The Company has begun preliminary discussions regarding renewal of its Credit Facility and anticipates finalizing a renewal or replacement of the Credit Agreement, although there are no assurances that such agreement will be completed by the loan maturity date.

At December 31, 2010 and June 30, 2009, 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 December 31, 2010 and the effect such obligations are expected to have on its liquidity and cash flow in future periods (in thousands):

|  | Total at<br>December<br>31,<br>2010 | Fiscal Years Ending June 30, |           |          |          |          | 2016 and<br>thereafter |
|--|-------------------------------------|------------------------------|-----------|----------|----------|----------|------------------------|
|  |                                     | 2011*                        | 2012      | 2013     | 2014     | 2015     |                        |
| Contractual obligations:                         |                                     |                              |           |          |          |          |                        |
| Loans payable                                    | \$ 6,156                            | \$ 2,462                     | \$ 3,694  | \$       | \$       | \$       | \$                     |
| Capital lease obligations                        | 49                                  | 31                           | 18        |          |          |          |                        |
| Debt   | 18,227                              | 389                          | 16,148    | 499      | 561      | 630      |                        |
| Non-cancelable<br>operating lease<br>obligations | 20,897                              | 3,362                        | 5,011     | 3,071    | 2,471    | 2,122    | 4,860                  |
| Purchase commitments<br>(materials)              | 12,024                              | 9,592                        | 2,351     | 81       |          |          |                        |
| Supplemental<br>compensation                     | 8,855                               | 1,222                        | 804       | 1,030    | 813      | 613      | 4,373                  |
| Restructuring payments                           | 1,010                               | 492                          | 518       |          |          |          |                        |
| Interest expense <sup>(1)</sup>                  | 1,022                               | 548                          | 274       | 96       | 68       | 36       |                        |
| Total contractual cash<br>obligations            | \$ 68,240                           | \$ 18,098                    | \$ 28,818 | \$ 4,777 | \$ 3,913 | \$ 3,401 | \$ 9,233               |

\* Includes only the remaining six months of the fiscal year ending June 30, 2011.

<sup>(1)</sup> the anticipated future interest payments are based on the Company's current indebtedness and interest rates at December 31, 2010, with consideration given to debt reduction as the result of expected payments.

**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, 2010. There has been no material change during the three months ended December 31, 2010.

**ITEM 4: Controls and Procedures:**Evaluation of Disclosure Controls and Procedures:

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports it files or submits under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and



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communicated to its management, including the Chief Executive officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act, as of the end of the period covered by this Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's controls and procedures were effective as of the end of the period covered by this report.

**Changes in Internal Control Over Financial Reporting:**

During the quarter ended December 31, 2010, the Company has not made any changes in the internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company continues to review, document and test its internal controls over financial reporting, and may from time to time make changes aimed at enhancing its effectiveness and to ensure that its systems evolve with the Company's business. These efforts may lead to various changes in its internal control over reporting.

**Part II: Other Information**

**ITEM 1A. Risk Factors**

The following is an update to Item 1A Risk Factors contained in the Company's Annual Report on Form 10-K for its Fiscal Year ended June 30, 2010. For additional risk factors that could cause actual results to differ materially from those anticipated, please refer to the Company's Form 10-K.

**Risks associated with indebtedness.**

The Company has indebtedness. As of December 31, 2010, the Company's total indebtedness was \$24,383, including \$15,706 under its secured credit facility (the Credit Facility). Borrowings under the Credit Facility are secured by the assets of the Company. Under the terms of the Credit Facility, the Company is required to satisfy certain financial covenants.

A decline in the Company's financial performance could have a material adverse effect on the Company, including the Company's ability to comply with the Credit Agreement covenants to retain its existing financing or obtain additional financing; or any such financing may not be available on terms favorable to the Company. The Company's ability to make expected repayments of borrowings under its Credit Facility and to meet its other debt or contractual obligations (including compliance with applicable financial covenants) will depend upon the Company's future performance and its cash flows from operations, both of which are subject to prevailing economic conditions and financial, business, and other known and unknown risks and uncertainties, certain of which are beyond the Company's control.

The Company's Credit Facility matures November 21, 2011, and the Company may be unable to renew or replace this financing. The Company has begun preliminary discussions regarding renewal of its Credit Facility and anticipates finalizing a renewal or replacement Credit Agreement although there are no assurances that such agreement will be completed by the loan maturity date.

**Current economic conditions and market disruptions adversely affect the Company's business and results of operations.**

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A substantial portion of the Company's business depends on customers' demand for its products and services, the overall economic health of current and prospective customers, and general economic conditions. The general economic downturn has and will continue to adversely impact the Company's business and financial condition in a number of ways, including impacts beyond those typically associated with previous economic contractions in the U.S. and other locations. The economic slowdown is leading to reduced capital spending by OEM and end users, which has already adversely affected and will continue to adversely affect the Company's product sales. The slowdown could necessitate further testing for impairment of goodwill, other intangible assets, and long-lived assets and may negatively impact the valuation allowance with respect to deferred tax assets. In addition, further cost reduction actions may be necessary which would lead to additional restructuring charges. The Company's ability to collect its accounts receivable on a timely basis could result in additional reserves for uncollectible accounts receivable being required, and in the event of continued contraction in the Company's sales, could lead to dated inventory and require additional reserves for obsolescence.

The Company is unable to predict the duration and severity of the economic downturn and disruption in financial markets or their effects on the Company's business and results of operations; but the consequences may be materially adverse and more severe than other recent economic slowdowns.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

There has been no activity under the Company's stock repurchase program for the quarter ended December 31, 2010.

**ITEM 5. Other Events**

On February 10, 2011, the Company reported its results of operations for the three and six month period ended December 31, 2010. Details of this announcement are contained in the press release of the Company dated February 10, 2011, and furnished with this quarterly report on Form 10-Q as Exhibit 99.1.

**ITEM 6. Exhibits**

- 10.1 Termination Agreement between Baldwin Technology Company, Inc. and Karl S. Puehringer dated September 30, 2010, filed as Exhibit 10.1 to the Company's Report on Form 8-K dated October 5, 2010, and incorporated herein by reference.
- 10.2 Employment Agreement between Baldwin Technology Company, Inc. and Mark T. Becker dated January 5, 2011, filed as Exhibit 10.1 to the Company's Report on Form 8-K dated January 10, 2011, and incorporated herein by reference.
- 10.3 Plan Option Grant Certificate to Mark Becker, filed as Exhibit 10.2 to the Company's Report on Form 8-K dated January 10, 2011, and incorporated herein by reference.
- 10.4 Non-Plan Option Grant Certificate to Mark Becker, filed as Exhibit 10.3 to the Company's Report on Form 8-K dated January 10, 2011, and incorporated herein by reference.

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- 10.5 Amendment to Employment Agreement between Baldwin Technology Company, Inc. and John P. Jordan dated January 3, 2011, filed as Exhibit 10.4 to the Company's Report on Form 8-K dated January 10, 2011, and incorporated herein by reference.
- 10.6 Amendment to Employment Agreement between Baldwin Jimek AB and Peter Hultberg dated January 3, 2011, filed as Exhibit 10.5 to the Company's Report on Form 8-K dated January 10, 2011, and incorporated herein by reference.
- 10.7 Amendment to Employment Agreement between Baldwin Germany GmbH and Steffen Weisser dated January 3, 2011, filed as Exhibit 10.6 to the Company's Report on Form 8-K dated January 10, 2011, and incorporated herein by reference.
- 10.8 Employment Agreement between Baldwin Jimek AB and Birger Hansson dated January 12, 2006, filed as Exhibit 10.7 to the Company's Report on Form 8-K dated January 10, 2011, and incorporated herein by reference.
- 10.9 Amendment to Employment Agreement between Baldwin Jimek AB and Birger Hansson dated January 3, 2011, filed as Exhibit 10.8 to the Company's Report on Form 8-K dated January 10, 2011, and incorporated herein by reference.
- 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 (furnished herewith).
- 32.02 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (furnished herewith).
- 99.1 Company Press Release entitled "Baldwin Announces Results for Second Quarter FY2011" dated February 10, 2011 (furnished 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/ John P. Jordan  
John P. Jordan  
Vice President, Chief Financial Officer and  
Treasurer

Dated: February 14, 2011

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