BALDWIN TECHNOLOGY CO INC
Form 10-Q
November 14, 2006

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

FORM 10-Q

[Mark one]

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

For quarter ended September 30, 2006

OR

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

For the transition period from __________ to ___________

Commission file 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)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

YES [X] NO [ ]

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

Large accelerated filer [ ]   Accelerated filer [ ]   Non-accelerated filer [X]

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

YES [ ] NO [X]

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at October 31, 2006
Class A Common Stock $0.01 par value	13,908,457
Class B Common Stock $0.01 par value	1,233,411

BALDWIN TECHNOLOGY COMPANY, INC.

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BALDWIN TECHNOLOGY COMPANY, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

ASSETS

	September 30, 2006 (unaudited)	June 30, 2006
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,696	$ 14,986
Accounts receivable trade, net of allowance for doubtful accounts of $1,473 ($1,452 at June 30, 2006)	34,652	32,602
Notes receivable, trade	6,787	7,260
Inventories	23,120	22,657
Deferred taxes, net	521	475
Prepaid expenses and other	3,914	4,799
Total Current Assets	83,690	82,779
MARKETABLE SECURITIES:		
Cost $565 at September 30, 2006 ($573 at June 30, 2006)	766	760
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land and buildings	1,004	1,024
Machinery and equipment	2,785	2,674
Furniture and fixtures	4,026	4,023
Capital leases	228	287
	8,043	8,008
Less: Accumulated depreciation and amortization	(4,490)	(4,391)
Net Property, plant and equipment	3,553	3,617
PATENTS, TRADEMARKS AND ENGINEERING DRAWINGS, at cost, less accumulated amortization of $5,083 ($4,996 at June 30, 2006)	2,648	2,690
GOODWILL, less accumulated amortization of $3,336 ($3,419 at June 30, 2006)	10,896	11,059
DEFERRED TAXES, NET	7,975	8,109
OTHER ASSETS	2,261	3,749
TOTAL ASSETS	$111,789	$112,763

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

BALDWIN TECHNOLOGY COMPANY, INC.

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

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 2006 (unaudited)	June 30, 2006
CURRENT LIABILITIES:		
Loans payable	$ 3,386	$ 2,622
Current portion of long-term debt	828	853
Accounts payable, trade	16,728	16,809
Notes payable, trade	6,189	7,987
Accrued salaries, commissions, bonus and profit-sharing	6,065	7,998
Customer deposits	5,256	4,113
Accrued and withheld taxes	1,493	2,036
Income taxes payable	1,488	1,015
Other accounts payable and accrued liabilities	9,796	9,581
Total current liabilities	51,229	53,014
LONG TERM LIABILITIES:		
Long-term debt	6,912	7,080
Other long-term liabilities	6,708	6,736
Total long-term liabilities	13,620	13,816
Total liabilities	64,849	66,830
SHAREHOLDERS' EQUITY:		
Class A Common Stock, $.01 par, 45,000,000 shares authorized, 17,431,215 shares issued at September 30, 2006 and 17,376,215 shares issued at June 30, 2006	174	174
Class B Common Stock, $.01 par, 4,500,000 shares authorized, 1,527,681 shares issued at September 30, 2006 and 1,537,681 shares issued at June 30, 2006	15	15
Capital contributed in excess of par value	58,229	57,943
Accumulated deficit	(48)	(1,374)
Accumulated other comprehensive income	2,021	2,626
Less: Treasury stock, at cost:		
Class A - 3,630,202 shares at September 30, 2006 and June 30, 2005		
Class B - 294,270 shares at September 30, 2006 and June 30, 2005	(13,451)	(13,451)
Total shareholders' equity	46,940	45,933

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$111,789	$112,763

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

BALDWIN TECHNOLOGY COMPANY, INC.

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

	For the three months ended September 30,	
	2006	2005
Net Sales	$43,207	$42,645
Cost of goods sold	28,945	28,589
Gross Profit	14,262	14,056
Operating Expenses:		
General and administrative	4,879	4,688
Selling	3,291	3,434
Engineering and development	3,977	3,780
	12,147	11,902
Operating income	2,115	2,154
Other (income) expense:		
Interest expense	224	298
Interest income	(31)	(28)
Royalty income, net	--	(200)
Other (income) expense, net	(226)	67
	(33)	137
Income before income taxes	2,148	2,017
Provision for income taxes	822	824
Net income	$ 1,326	$ 1,193
Net income per share - basic and diluted		
Income per share - basic	$ 0.09	$ 0.08
Income per share - diluted	$ 0.08	$ 0.08
Weighted average shares outstanding:		
Basic	15,003	14,923
Diluted	15,726	15,474

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

BALDWIN TECHNOLOGY COMPANY, INC.

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

	Class A Common Stock		Class B Common Stock		Capital Contributed In Excess of Par	Retained Deficit	Accumulated Other Comprehensive Income	Treas
	Shares	Amount	Shares	Amount				Shares
Balance at June 30, 2006	17,376,215	$174	1,537,681	$15	$57,943	$(1,374)	$2,626	(3,924,47
Net income for the three months ended September 30, 2006						1,326		
Translation adjustment							(556)	
Unrealized gain on available-for-sale securities, net of tax							8	
Amortization stock based compensation					150			
Unrealized loss on forward contracts, net of tax							(145)	
Minimum pension liability							88	
Comprehensive income								

Shares converted Class B to Class A	10,000		(10,000)					
Shares issued under stock option plan	45,000				136			
Balance at September 30, 2006	17,431,215	$174	1,527,681	$15	$58,229	$ (48)	$2,021	(3,924,47

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

BALDWIN TECHNOLOGY COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	For the three months ended September 30, 2006	For the three months ended September 30, 2005
Cash flows from operating activities:		
Net income	$ 1,326	$ 1,193
Adjustments to reconcile net income to net cash Provided (used) by operating activities:		
Depreciation and amortization	405	349
Accrued retirement pay	94	323
Provision for losses on accounts receivable	34	30
Stock based compensation	150	41
Deferred income taxes	3	30
Changes in assets and liabilities:		
Accounts and notes receivable	(2,356)	449
Inventories	(748)	(560)
Prepaid expenses and other	763	(1,310)
Other assets	1,403	335
Customer deposits	1,250	(457)
Accrued compensation	(1,836)	(1,815)
Accounts and notes payable, trade	(1,604)	574
Income taxes payable	507	67
Accrued and withheld taxes	(543)	(31)
Other accounts payable and accrued liabilities	489	394
Interest payable	(11)	(40)
Net cash (used for) operating activities	(674)	(428)

Cash flows from investing activities:		
Additions of property, plant and equipment	(250)	(163)
Additions of patents and trademarks	(54)	(215)
Net cash (used for) investing activities	(304)	(378)
Cash flows from financing activities:		
Long-term and short-term debt borrowings	847	899
Long-term and short-term debt repayments	--	(29)
Principal payments under capital lease obligations	(36)	(28)
Proceeds of stock option exercises	136	85
Other long-term liabilities	(39)	14
Net cash provided by financing activities	908	941
Effects of exchange rate changes	(220)	(167)
Net (decrease) in cash and cash equivalents	(290)	(32)
Cash and cash equivalents at beginning of period	14,986	15,443
Cash and cash equivalents at end of period	$14,696	$15,411

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

BALDWIN TECHNOLOGY COMPANY, INC.

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

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	For the three months ended September 30,	
	2006	2005
Cash paid during the period for:		
Interest	$235	$338
Income taxes	$229	$766

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

BALDWIN TECHNOLOGY COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION:

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

The accompanying unaudited consolidated financial statements include the accounts of Baldwin and its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in compliance with the rules and regulations of the Securities and Exchange Commission. These financial statements reflect all adjustments of a normal recurring nature, which are in the opinion of management, necessary to present a fair statement of the results for the interim periods. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's latest Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

NOTE 2 - RECENTLY ISSUED ACCOUNTING STANDARDS:

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements", which established a framework for measuring fair value and will be effective beginning July 1, 2008. The Company is evaluating the impact, if any, that SFAS 157 will have on the financial statements.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". SFAS 158 requires companies to recognize the over-funded and under-funded status of defined benefit pension and other postretirement plans as assets or liabilities on their balance sheets and to recognize changes in that funded status, in the year in which changes occur, through comprehensive income in shareholders' equity. As of June 30, 2006, the unrecognized defined benefit pension plan assets, consisting primarily of unrecognized actuarial gains totaled $166,000. The Company will adopt SFAS158 as of the end of the current fiscal year.

In September 2006, the Securities and Exchange Commission staff issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 established an approach that requires quantification of financial statement errors based on the effects of an error on a company's balance sheet and income statement and related disclosures. The Company is required to apply the provisions of SAB 108 in connection with the preparation of its annual financial statement for fiscal year ended June 30, 2007.

NOTE 3 - LONG TERM DEBT:

	(IN THOUSANDS)			
	SEPTEMBER 30, 2006		JUNE 30, 2006	
	CURRENT	LONG-TERM	CURRENT	LONG-TERM

Revolving Credit Facility due October 1, 2008, interest rate 3.775% plus three-month euribor rate 3.253% (at September 30)	--	6,507	--	6,560
Term loan payable by foreign subsidiary due September 2008, interest rate 1.81%	282	282	291	364
Term Loan payable by foreign subsidiary due December 8, 2006, interest rate 1.5%	423	--	437	--
Note payable by foreign subsidiary through 2008, interest rate 6.70%	123	123	125	156
	$828	$6,912	$853	$7,080

The Company maintains relationships with both foreign and domestic banks, which combined have extended short and long term credit facilities to the Company totaling $35,466 including $30,000 available under the Maple GmbH Credit Agreement. As of September 30, 2006, the Company had $13,715 outstanding (including letters of credit) under these credit facilities, including $9,095 under the Maple GmbH Credit Agreement.

NOTE 4 - NET INCOME PER SHARE:

Basic net income per share includes no dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution of securities that could share in the earnings of an entity. For the three months ended September 30, 2006 and 2005, the weighted average shares outstanding used to compute diluted net income per share include potentially dilutive securities of 723,000 and 551,000 shares, respectively. Outstanding options to purchase 69,000 and 197,000 shares, respectively, of the Company's common stock for the three months ended September 30, 2006 and 2005, respectively, are not included in the above calculation to compute diluted net income per share as their exercise prices exceeded their current market value of these shares.

NOTE 5 -OTHER COMPREHENSIVE INCOME (LOSS):

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

	(in thousands)	
	September 30, 2006	June 30, 2006
Cumulative translation adjustments	$2,032	$ 2,588
Unrealized gain on investments, net of tax	117	109
Unrealized gain (loss) on forward contracts, net of tax	(106)	39
Minimum pension liability, net of tax	(22)	(110)
	$2,021	$ 2,626

NOTE 6 - INVENTORIES:

Inventories consist of the following:

	(in thousands) September 30, 2006	June 30, 2006
Raw materials	$11,025	$11,285
In process	4,184	4,236
Finished goods	7,911	7,136
	$23,120	$22,657

Foreign currency translation effects decreased inventories by $285 from June 30, 2006 to September 30, 2006.

NOTE 7 -- GOODWILL AND OTHER INTANGIBLE ASSETS:

The changes in the carrying amount of goodwill for the three months ended September 30, 2006 are as follows:

	(in thousands)		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Balance as of July 1, 2006	$14,478	$3,419	$11,059
Effects of currency translation	(246)	(83)	(163)
Balance as of September 30, 2006	$14,232	$3,336	$10,896

Intangible assets subject to amortization are comprised of the following:

	(in thousands)			
	As of September 30, 2006		As of June 30, 2006	
Intangible Assets:	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization

Patents and trademarks	$7,731	$5,083	$7,686	$4,996
Other	1,596	820	1,397	778
Total	$9,327	$5,903	$9,083	$5,774

Amortization expense associated with these intangible assets was $144 and $121, respectively, for the three months ended September 30, 2006 and 2005. The other category is included in "Other assets" on the accompanying consolidated balance sheets.

NOTE 8 - PENSION AND OTHER POST-RETIREMENT BENEFITS:

The following table sets forth the components of net periodic benefit costs for the Company's defined benefit plans for the three months ended September 30, 2006 and 2005:

	(in thousands) Pension Benefits For the three months Ended September 30,	
	2006	2005
Service cost	$71	$64
Interest cost	12	12
Expected return on plan assets	(4)	(4)
Amortization of transition obligation	(1)	3
Amortization of net actuarial gain	(1)	(3)
Net periodic benefit cost	$77	$72

During the three months ended September 30, 2006 and 2005 the Company made no contributions to the plans. During the quarter ended September 30, 2006, the Company recognized $147,000 of income before tax, in other income, related to the cancellation of an insurance contract in Japan, used to fund a supplemental retirement obligation. Of the $147,000 of income before tax recognized, $143,000 ($83,000 after tax) is related to income earned in prior periods.

NOTE 9 - CUSTOMERS:

During the three months ended September 30, 2006, one customer accounted for more than 10% of the Company's net sales. Koenig and Bauer Aktiengesellschaft ("KBA") accounted for approximately 21% and 17% of the Company's net sales for the three months ended September 30, 2006 and 2005, 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 within the Company. Hence, the Company accrues estimated warranty costs at the time of sale. In addition, should the Company become aware of a specific potential warranty claim, a specific charge is recorded and accounted for separate from the percent of revenue discussed above.

	(in thousands) Warranty Amount	
	2006	2005
Warranty reserve at June 30, 2006 and 2005	$3,049	$ 2,840
Additional warranty expense accruals	629	943
Payments against reserve	(731)	(1,005)
Effects of currency rate fluctuations	(44)	(7)
Warranty reserve at September 30, 2006 and 2005	$2,903	$ 2,771

NOTE 11 - ACQUISITION:

On October 4, 2006 the Company announced that it had signed a definitive agreement to acquire Oxy-Dry Corporation. Oxy-Dry Corporation, a privately held company with annual sales of approximately $38,000,000 produces accessories and controls for the printing industry. The purchase price, subject to post closing adjustments is $25,000,000 in cash. The acquisition is expected to close in mid November subject to customary closing conditions. In conjunction with the proposed transaction, the Company is in the process of negotiating a new credit facility consisting of a term loan of $15,000,000 and a $35,000,000 revolving line of credit at interest rates which approximate market interest rates. The proceeds of the new credit facility will be used to finance the acquisition and extinguish the Company's current revolving credit facility due October 1, 2008.

NOTE 12 - STOCK BASED COMPENSATION:

Pursuant to SFAS123(R) "Share-Based Payment", companies must recognize the cost of employee services received in exchange for awards of equity instruments based on the grant date fair value of those awards.

Total share-based compensation for the three months ended September 30, 2006 and 2005 are summarized in the following table:

	(in thousands) For the three months ended September 30,	
	2006	2005
Share based compensation		

Stock options	$ 91	$41
Restricted stock	59	--
Total share-based compensation	$150	$41

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

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. Such statements are forward-looking statements that involve a number of risks and uncertainties. The Company cautions investors that any such forward-looking statements made by the Company are not guarantees of future performance and that actual results may differ materially from those in the forward-looking statements. Some of the factors that could cause actual results to differ materially include, but are not limited to the following: (i) the ability to obtain, maintain and defend challenges against valid patent protection on certain technology, primarily as it relates to the Company's cleaning systems, (ii) material changes in foreign currency exchange rates versus the U.S. Dollar, (iii) changes in the mix of products and services comprising revenues, (iv) a decline in the rate of growth of the installed base of printing press units and the timing of new press orders, (v) general economic conditions, either domestically or in foreign locations, (vi) the ultimate realization of certain trade receivables and the status of ongoing business levels with the Company's large OEM customers, (vii) competitive market influences. Additional factors are set forth in Item 1A "Risk Factors" and Exhibit 99 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2006 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, 2006. There have been no material changes during the three months ended September 30, 2006.

OVERVIEW

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

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

Net sales as reported for the three months ended September 30, 2006 increased by $562,000, or 1.3%, to $43,207,000 from $42,645,000 for the three months ended September 30, 2005. The increase in revenue is attributable to increases in the European markets, offset by a decline in demand in Asia, most notably in Japan.

Gross profit for the three months ended September 30, 2006 was $14,262,000 (33.0% of net sales) as compared to $14,056,000 (33.0% of net sales) for the three months ended September 30, 2005, an increase of $206,000 or 1.5%.

Operating income was unchanged from prior year at approximately 5% of sales for the three months ended September 30, primarily as a result of the consistent revenue, gross margins and operating expenses.

In addition, the Company reduced its interest expense in the three months ended September 30, 2006 versus the previous year's corresponding periods as a result of lower average debt levels.

THREE MONTHS ENDED SEPTEMBER 30, 2006 VS. THREE MONTHS ENDED SEPTEMBER 30, 2005

CONSOLIDATED RESULTS

NET SALES

Net sales for the three months ended September 30, 2006 increased by $562,000, or 1.3%, to $43,207,000 from $42,645,000 for the three months ended September 30, 2005. Currency rate fluctuations attributable to the Company's overseas operations decreased net sales by $556,000 in the current period. Excluding the effects of currency translation net sales were essentially unchanged.

The net sales increase reflects increased sales in Europe of $2,619,000. The increase is primarily attributable to increase in demand for the Company's cleaning systems and spray dampening systems. Net Sales in the Americas increased $348,000 due to higher shipments in the US commercial markets. Asia's net sales decreased $2,405,000 as the result of lower sales in the commercial market, primarily in cleaning systems. In Asia, sales were down to a lesser extent in the newspaper market, where higher demand for the Company's cleaning systems partially offset a decline in spray dampening systems.

GROSS PROFIT

Gross profit for the three months ended September 30, 2006 was $14,262,000 (33.0% of net sales) as compared to $14,056,000 (33.0% of net sales) for the three months ended September 30, 2005, an increase of $206,000 or 1.5%. Currency rate fluctuations increased gross profit by $312,000 in the current period. Excluding the effects of currency rate fluctuation, gross profit would have decreased by $106,000. Gross margin is favorably impacted by lower material costs resulting from purchasing efficiencies, offset by higher installation and technical service costs.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses amounted to $8,170,000 for the three months ended September 30, 2006 as compared to $8,122,000 for the same period in the prior fiscal year, (amounts representing 18.9% and 19.0% of respective period sales) an increase of $48,000. Currency rate fluctuations increased these expenses by $107,000 in the current period. Otherwise, selling, general and administrative expenses would have decreased by $59,000. Selling expenses decreased by $143,000, which is primarily the result non-recurring trade show expense in the prior fiscal year. General and administrative expenses increased by $191,000 primarily due to higher accruals for stock based compensation, audit and compliance costs partially offset by lower deferred compensation expense.

ENGINEERING AND DEVELOPMENT EXPENSES

Engineering and development expenses increased by $197,000 over the same period in the prior fiscal year. Currency rate fluctuations increased these expenses by $84,000 in the current period. Excluding the effects of currency rate fluctuations, engineering and

development expenses would have increased by $113,000 in the current period. This increase relates primarily to planned investment and increased activity in product development in Europe, offset by lower spending in Japan. As a percentage of net sales, engineering and development expenses increased to 9.2% for the three months ended September 30, 2006 compared to 8.9% for the same period in the prior fiscal year.

INTEREST AND OTHER

Interest expense for the three months ended September 30, 2006 was $224,000 as compared to $298,000 for the three months ended September 30, 2005. Currency rate fluctuations had a negligible effect in the current period. This decrease reflects the lower debt level of approximately $5.0 million versus the period ended September 30, 2005. Interest income remained generally flat and amounted to $31,000 and $28,000 for the three months ended September 30, 2006 and 2005, respectively.

Net royalty income for the three months ended September 30, 2006 was zero as compared to $200,000 for the three months ended September 30, 2005. The decline in royalty income relates to the expiration of a group of patents, which were the source of the royalty income stream, in February 2005.

Other income (expense), net amounted to income of $226,000 for the three months ended September 30, 2006 compared to expense of $67,000 for the three months ended September 30, 2005.

Other income for the quarter ended September 30, 2006 reflects $147,000 of income related to the cancellation of an insurance contract in Japan. Of the $147,000, $143,000 ($83,000 after tax) is related to income earned in prior periods.

INCOME TAXES

The Company recorded an income tax provision of $822,000 for the three months ended September 30, 2006 as compared to $824,000 for the three months ended September 30, 2005. The effective tax rate of 38.3% (40.9% for the quarter ended September 30, 2005) for the three months ended September 30, 2006, reflects taxable income in the higher tax jurisdictions in which tax loss carryforwards are not available or are subject to limitations. The effective tax rate for the three months ended September 30, 2006 differs from the statutory rate as no benefit is recognized for losses incurred in certain countries as the realization of such benefits was not more likely than not. The Company 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 allowance either positive or negative would be recorded in the income statement of the period that the adjustment was determined to be required. In particular, the Company is monitoring positive earnings trends and other positive evidence in the U.S., U.K. and France to determine if such trends could possibly require a reversal of valuation allowances related to those countries.

NET INCOME

The Company's net income amounted to $1,326,000 for the three months ended September 30, 2006, compared to net income of $1,193,000 for the three months ended September 30, 2005. Net income per share amounted to $0.09 basic and $0.08 diluted for the three months ended September 30, 2006 as compared to net income per share of $0.08 basic and diluted for the three months ended September 30, 2005.

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LIQUIDITY AND CAPITAL RESOURCES AT SEPTEMBER 30, 2006

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

	2006	2005
Cash provided by (used for):		
Operating activities	$(674,000)	$(428,000)
Investing activities	(304,000)	(378,000)
Financing activities	908,000	941,000
Effect of exchange rate changes on cash	(220,000)	(167,000)
Net (decrease) in cash and cash equivalents	$(290,000)	$ (32,000)

Cash used for operating activities increased $246,000 during the quarter ended September 30, 2006 versus the prior year period. The decrease is the result of an increase in accounts receivable and timing of payments for accounts payable, offset by collection of non-trade receivables and higher customer deposits. Days sales outstanding increased to 72 days at September 30, 2006, compared to 52 days in the prior year period. The increase is partially due to timing of shipments in the current period being weighted towards the end of the quarter, while approximately 50% of the increase in DSO is due to the reclassification in the current year of certain notes receivable to accounts receivable. Management is working to return the DSO to expected levels. Inventory turns are 5.0 times in FY 2007, which is essentially the same as in FY 2006 levels.

The Company utilized $304,000 and $378,000 for investing activities for the three months ended September 30, 2006 and 2005 respectively, for additions to property, plant and equipment and patents and trademarks.

The Company maintains relationships with both foreign and domestic banks, which combined have extended credit facilities to the Company totaling $35,466,000, including $30,000,000 available under the Maple GmbH Credit

Agreement. As of September 30, 2006, the Company had $13,715,000 outstanding under these credit facilities including $9,095,000 under the Maple GmbH Credit Agreement.

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

At September 30, 2006 and June 30, 2006, 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.

On October 4, 2006 the Company announced that it had signed a definitive agreement to acquire Oxy-Dry Corporation. Oxy-Dry Corporation, a privately held company with annual sales of approximately $38,000,000 produces accessories and controls for the printing industry. The purchase price, subject to post closing adjustments is $25,000,000 in cash. The acquisition is expected to close in mid November subject to customary closing conditions. In conjunction with the proposed transaction, the company is in the process of negotiating a new credit facility consisting of a term loan of $15,000,000 and $35,000,000 revolving line of credit at interest rates, which

approximate market interest rates. The proceeds of the new credit facility will be used to finance the acquisition and extinguish the Company's current revolving credit facility due October 1, 2008.

The following summarizes the Company's contractual obligations at September 30, 2006 and the effect such obligations are expected to have on its liquidity and cash flow in future periods (in thousands):

	Fiscal Years ending June 30,					
	Total at September 30, 2006	2007*	2008	2009	2010	201
Contractual Obligations:						
Loans payable	$ 3,386	$3,386	$ --	$ --	$ --	$
Capital lease obligations	492	99	121	114	99	
Long-term debt	7,740	798	334	6,608	--	
Non-cancelable operating lease obligations	24,134	5,157	3,682	2,904	1,907	1,6
Interest expense (1)	1,223	490	604	129	--	
Total contractual cash obligations	$36,975	$9,930	$4,741	$9,755	$2,006	$1,7

* Includes only the remaining nine months of the fiscal year ending June 30, 2007.

(1) the anticipated future interest payments are based on the Company's current indebtedness and interest rates at September 30, 2006, with consideration given to debt reduction as the result of expected payments.

IMPACT OF INFLATION

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK:

A discussion of market risk exposures is included in Part II Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2006. There have been no material changes during the three months ended September 30, 2006.

ITEM 4: CONTROLS AND PROCEDURES:

The Company maintains disclosure controls and procedures designed to ensure that the information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of these disclosure controls and procedures as of the end of our fiscal quarter September 30, 2006, the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to achieve their stated purpose. However, there is no assurance that the Company's disclosure controls and procedures will operate effectively under all circumstances. No changes were

made to the Company's internal control over financial reporting during the fiscal quarter ended September 30, 2006, that have materially affected, or are reasonably likely to materially effect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1A. RISK FACTORS

Information regarding risk factors is contained in Item 1A "Risk Factors" and Exhibit 99 filed with the Company's Report on Form 10-K for the fiscal year ended June 30, 2006. There have been no material changes in the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

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 September 30, 2006.

ITEM 6. EXHIBITS

21 List of Subsidiaries of Registrant (filed herewith)

31.01 Certification of the Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

31.02 Certification of the Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32.01 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith).

32.02 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 (filed herewith).

SIGNATURES

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

BALDWIN TECHNOLOGY COMPANY, INC.

BY /s/ Vijay C. Tharani

Vice President, Chief Financial Officer and Treasurer

Dated: November 14, 2006