

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

BALDWIN TECHNOLOGY CO INC  
Form 10-Q  
February 13, 2003

Form 10-Q

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C.

[ Mark one ]

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

For quarter ended December 31, 2002

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

12-3258160

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

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

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

-----  
(Former name, former address and former fiscal year,  
if changed since last report)

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

YES

NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class -----	Outstanding at January 31, 2003 -----
Class A Common Stock \$0.01 par value	12,828,647

# Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

Class B Common Stock  
\$0.01 par value 2,185,883

BALDWIN TECHNOLOGY COMPANY, INC.

## INDEX

### Part I Financial Information

Item 1 Financial Statements

Consolidated Balance Sheets at December 31, 2002 (unaudited) and June 30, 2002

Consolidated Statements of Income for the three and six months ended December 31, 2002 (unaudited) and 2001 (unaudited)

Consolidated Statements of Changes in Shareholders' Equity for the six months ended December 31, 2002 (unaudited) and 2001 (unaudited)

Consolidated Statements of Cash Flows for the six months ended December 31, 2002 (unaudited) and 2001 (unaudited)

Notes to Consolidated Financial Statements (unaudited)

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Item 4 Controls and Procedures

### Part II Other Information

Item 4 Submission of Matters to a Vote of Security Holders

Item 6 Exhibits and Reports on Form 8-K

### Signatures

BALDWIN TECHNOLOGY COMPANY, INC.

CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

ASSETS

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

	December 31, 2002 ----- (Unaudited)	June 30, 2002 -----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,586	\$ 5,106
Accounts receivable trade, net of allowance for doubtful accounts of \$1,853 (\$1,994 at June 30, 2002)	23,608	27,262
Notes receivable, trade	13,665	13,390
Inventories, net	23,295	24,928
Deferred taxes	889	893
Prepaid expenses and other	4,948	6,581
	-----	-----
Total Current Assets	71,991	78,160
	-----	-----
MARKETABLE SECURITIES:		
Cost \$494 (\$475 at June 30, 2002)	353	430
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land and buildings	833	2,669
Machinery and equipment	2,851	5,526
Furniture and fixtures	3,652	3,716
Leasehold improvements	465	458
Capital leases	84	428
	-----	-----
	7,885	12,797
Less: Accumulated depreciation and amortization	(2,899)	(6,453)
	-----	-----
Net Property, Plant and Equipment	4,986	6,344
	-----	-----
PATENTS AND TRADEMARKS at cost, less accumulated amortization of \$3,550 (\$3,432 at June 30, 2002)	2,021	2,061
GOODWILL, net	9,917	9,618
DEFERRED TAXES	6,760	6,277
OTHER ASSETS	4,854	6,025
	-----	-----
TOTAL ASSETS	\$ 100,882	\$ 108,915
	=====	=====

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

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

	December 31, 2002	Ju
	----- (Unaudited)	-----
CURRENT LIABILITIES:		
Loans payable	\$ 5,815	\$
Current portion of long-term debt	12,780	
Accounts payable, trade	12,155	
Notes payable, trade	9,910	
Accrued salaries, commissions, bonus and profit-sharing	3,246	
Customer deposits	4,219	
Accrued and withheld taxes	1,540	
Income taxes payable	1,527	
Other accounts payable and accrued liabilities	12,802	
	-----	-----
Total current liabilities	63,994	-----
	-----	-----
LONG TERM LIABILITIES:		
Long-term debt	520	
Other long-term liabilities	6,586	
	-----	-----
Total long-term liabilities	7,106	-----
	-----	-----
Total liabilities	71,100	-----
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Class A Common Stock, \$.01 par, 45,000,000 shares authorized, 16,458,849 shares issued	165	
Class B Common Stock, \$.01 par, 4,500,000 shares authorized, 2,185,883 shares issued	21	
Capital contributed in excess of par value	56,986	
Retained Deficit	(14,030)	
Accumulated other comprehensive loss	(711)	
Less: Treasury stock, at cost:		
Class A - 3,630,202 shares	(12,199)	
Note receivable from a former executive for common stock issuance	(450)	
	-----	-----
Total shareholders' equity	29,782	-----
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 100,882	\$ 1
	=====	=====

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

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

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

	For the three months ended December 31,		For
	2002	2001	end
	----	----	----
Net Sales	\$ 35,288	\$ 34,217	\$ 68,0
Cost of goods sold	23,806	23,149	47,4
Gross Profit	11,482	11,068	20,6
Operating Expenses:			
General and administrative	3,105	3,639	7,6
Selling	2,953	3,171	5,8
Engineering and development	4,417	3,627	8,5
Provision for loss on the disposition of pre-press operations	0	(86)	
Restructuring charges	50	496	3,3
	10,525	10,847	25,3
Operating income (loss)	957	221	(4,7)
Other (income) expense:			
Interest expense	600	450	1,3
Interest income	(65)	(108)	(1)
Royalty income, net	(529)	(777)	(1,1)
Other (income) expense, net	76	442	4
	82	7	4
Income (loss) from continuing operations before income taxes	875	214	(5,1)
Provision (benefit) for income taxes	363	137	6
Income (loss) from continuing operations	512	77	(5,7)
Discontinued operations (Note 10):			
(Loss) income from operations of discontinued component (less applicable income taxes of \$0)	(65)	82	(2)
Gain on sale of discontinued component (less applicable income taxes of \$0)	543	0	5
Net income (loss)	\$ 990	\$ 159	\$ (5,5)
Net income (loss) per share - basic and diluted			
Continuing operations	\$ 0.03	\$ 0.00	\$ (0.
Discontinued operations - income (loss) from operations	0.00	0.01	(0.
Discontinued operations - gain on sale	0.04	0.00	0.
	\$ 0.07	\$ 0.01	\$ (0.
Weighted average shares outstanding:			

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

Basic and diluted	15,015	14,953	15,0
	=====	=====	=====

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

3

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	Retained
	Shares	Amount	Shares	Amount	In Excess of Par	Deficit
	-----	-----	-----	-----	-----	-----
Balance at June 30, 2002	16,458,849	\$165	2,185,883	\$21	\$56,986	\$ (8,527)
Net loss for the six months ended December 31, 2002						(5,503)
Translation adjustment						
Unrealized loss on available-for-sale securities, net of tax						
Unrealized gain on forward contracts, net of tax						
Comprehensive loss						
Note receivable from a former executive						
	-----	----	-----	---	-----	-----
Balance at December 31, 2002	16,458,849	\$165	2,185,883	\$21	\$56,986	\$ (14,030)
	=====	=====	=====	=====	=====	=====

Note  
Receivable

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

	Accumulated Other Comprehensive Loss -----	Treasury Stock ----- Shares -----	Amount -----	from a Former Executive for Common Stock Issuance -----	Compreh Lo ---
Balance at June 30, 2002	\$ (2,017)	(3,630,202)	\$ (12,199)	\$ (675)	
Net loss for the six months ended December 31, 2002					\$ (5,
Translation adjustment	1,344				1,
Unrealized loss on available-for-sale securities, net of tax	(56)				
Unrealized gain on forward contracts, net of tax	18				-----
Comprehensive loss					\$ (4, =====
Note receivable from a former executive	-----	-----	-----	225	
Balance at December 31, 2002	\$ (711) =====	(3,630,202) =====	\$ (12,199) =====	\$ (450) =====	

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

4

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

	For the six months ended December 31, -----	
	2002 -----	2001 -----
Cash flows from operating activities:		
Net loss	\$ (5,503)	\$ (957)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	966	1,124

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

Accrued retirement pay	307	224
Provision for losses on accounts receivable	154	728
(Gain) loss from disposition of businesses	(543)	8
Restructuring charges	3,337	506
Deferred income taxes	(456)	(67)
Write-off of deferred debt financing costs		255
Changes in assets and liabilities, net of businesses sold:		
Accounts and notes receivable	3,593	3,277
Inventories	542	(4,874)
Prepaid expenses and other	1,683	(1,692)
Other assets	929	602
Customer deposits	(491)	1,418
Accrued compensation	(494)	(1,653)
Payments against restructuring charges	(1,677)	(1,582)
Accounts and notes payable, trade	1,252	1,700
Income taxes payable	234	(2,106)
Accrued and withheld taxes	(194)	41
Other accounts payable and accrued liabilities	(2,159)	585
Interest payable	16	(135)
	-----	-----
Net cash provided (used) by operating activities	1,496	(2,598)
	-----	-----
Cash flows from investing activities:		
Proceeds from disposition of businesses, net	3,736	6,828
Additions of property	(413)	(599)
Additions of patents and trademarks	(153)	(310)
	-----	-----
Net cash provided by investing activities	3,170	5,919
	-----	-----
Cash flows from financing activities:		
Long-term and short-term debt borrowings	147	7,786
Long-term and short-term debt repayments	(4,021)	(9,477)
Principal payments under capital lease obligations	(3)	(17)
Payment of debt financing costs	(471)	(100)
Other long-term liabilities	14	(141)
Purchases of treasury stock	0	(39)
	-----	-----
Net cash used by financing activities	(4,334)	(1,988)
	-----	-----
Effects of exchange rate changes	148	(71)
	-----	-----
Net increase in cash and cash equivalents	480	1,262
Cash and cash equivalents at beginning of period	5,106	6,590
	-----	-----
Cash and cash equivalents at end of period	\$ 5,586	\$ 7,852
	=====	=====

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



# Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	For the six months ended December 31,	
	2002	2001
	----	----
Cash paid during the period for:		
Interest	\$ 1,334	\$ 1,061
Income taxes	\$ 1,133	\$ 2,075

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

6

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 controls and accessories equipment for the printing industry.

The Company has experienced operating losses, negative cash flows and debt covenant violations over the past two fiscal years. As more fully discussed in these notes to the consolidated financial statements, the Company has embarked on restructuring plans (see Note 9) and undertaken other actions aimed at improving the Company's competitiveness, operating results and cash flow. These actions have included the sale of certain non-core operating units (see Note 10), the consolidation of manufacturing facilities and headcount reductions reflecting weak market conditions. As a result of these actions, combined with the renegotiation of certain of the Company's debt obligations (see Note 3), management believes that the Company's cash flows from operations, along with available bank lines of credit and alternative sources of borrowing are sufficient to finance its working capital and other capital requirements for the near and long-term future. Management further believes that alternative sources of financing are available to finance the existing facilities beyond July 1, 2003, which the Company is currently pursuing. If the loans become payable on demand and alternative financing sources are not available, management will be required to take additional actions to reduce operating expenses or sell assets in an effort to meet liquidity needs. There can be no assurances however, that such actions will be sufficient to meet liquidity needs in the event the loans become payable on demand.

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. Accordingly, they do not

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements reflect all adjustments, which are in the opinion of management, necessary to present a fair statement of the results for the interim periods. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's latest Annual Report on Form 10-K for the fiscal year ended June 30, 2002. Operating results for the three and six months ended December 31, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2003. All significant intercompany transactions have been eliminated in consolidation.

### NOTE 2 - RECENTLY ISSUED ACCOUNTING STANDARDS:

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123" ("SFAS 148"). SFAS 148 amends FASB Statement No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation prescribed by SFAS 123. SFAS 148 also amends the disclosure provisions of SFAS 123 to require prominent disclosure in both annual and interim financial statements about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based

7

employee compensation. The amendment relating to the additional disclosure requirements in the interim financial statements are effective for interim periods beginning after December 14, 2002. SFAS 148 is not expected to have a material impact on the operations or cash flows of the Company. However, additional disclosures will be incorporated into the Company's interim consolidated financial statements beginning with the quarter ending March 31, 2003.

In November 2002, the FASB issued Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, (an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB interpretation No. 34)" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for interim and annual financial statements for periods ending after December 15, 2002. The initial recognition and initial measurement provisions are not expected to have a material impact on the operations or cash flows of the Company. See Note 15 regarding disclosures about the Company's warranty costs.

### RECLASSIFICATIONS:

Certain prior year items have been reclassified to conform to the current period's presentation.

### NOTE 3 - REVOLVING CREDIT FACILITY:

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

On October 31, 2000, the Company entered into a \$35,000,000 revolving credit facility (the "Credit Facility") with Fleet National Bank and First Union National Bank (collectively the "Banks"), which had an original scheduled maturity date of October 31, 2003. The Credit Facility consisted of a \$25,000,000 revolving credit line (the "Revolver") and a \$10,000,000 credit line to be utilized for acquisitions, (the "Acquisition Line"). On January 28, 2002, the Credit Facility was amended (the "Amended Credit Facility"), to among other things, remove the Acquisition Line, reduce the Revolver to \$21,000,000 (subject to a borrowing base), and change the maturity date to October 1, 2002. In addition, \$4,000,000 of the existing Revolver was converted into a term loan (the "Term Loan"), which matured on June 28, 2002, resulting in available borrowings under the Revolver from July 1, 2002 to October 1, 2002 of \$17,000,000. The Amended Credit Facility required the Company to maintain certain financial covenants including minimum operating income covenants. The Revolver has associated commitment fees, which are calculated quarterly, at a rate of one-half of one percent per annum of the unused portion of the Revolver.

During the quarters ended March 31, 2002 and June 30, 2002, the Company did not meet its minimum operating income covenants contained in the Amended Credit Facility, and further the Company did not make the required \$4,000,000 principal payment on the Term Loan on June 28, 2002. The Banks granted a forbearance of the collection of the indebtedness until October 1, 2002 and on October 30, 2002, the Company and the Banks entered into an amendment to further amend and extend the Amended Credit Facility and waive the covenant violations and Term Loan default (the "Extended Credit Facility"). The Extended Credit Facility, totaling \$20,900,000, consists of a \$17,000,000 revolving credit line (the "Extended Revolver") and a \$3,900,000 term loan each due July 1, 2003 (the "Extended Term Loan"). The Extended Credit Facility required the Company to utilize the net proceeds of \$3,736,000 from the sale of certain assets of its wholly-owned subsidiary Baldwin Kansa Corporation ("BKA") (see Note 10) to reduce outstanding borrowings under the Extended Revolver before October 30, 2002, of which \$2,700,000 permanently reduced the Extended Revolver and \$1,036,000 became available for future borrowings. At December 31, 2002, the Company had outstanding borrowings of

8

\$12,689,000 under the Extended Revolver and Extended Term Loan, plus outstanding letters of credit of \$3,150,000. Additionally, beginning in December 2002 and extending through June 2003, the Company is required to permanently reduce the Extended Revolver by making monthly principal payments of \$125,000. The Company was also required to permanently reduce the Extended Revolver by \$5,000,000 on December 30, 2002 and further is required to permanently reduce the Extended Revolver by \$5,000,000 on March 30, 2003, but only if the Company generates non-operating alternative sources of financing. As the Company did not generate any alternative sources of financing since entering into the Extended Credit Facility on October 30, 2002, the Company was not required to make, and did not make, the \$5,000,000 payment on December 30, 2002. The entire outstanding balance of \$12,689,000 due under the Extended Revolver and Extended Term Loan has been classified as current as of December 31, 2002 (of which \$250,000 was paid through February 13, 2003).

Interest on the Extended Revolver and the Extended Term Loan is charged at prime plus 2.00% per annum. The Extended Credit Facility is collateralized by a pledge of the capital stock and certain domestic assets of the Company's subsidiaries. The Extended Credit Facility includes certain restrictions, which limit the incurrence of debt and prohibit dividend payments among other things, and require the Company to satisfy certain financial covenants. These financial covenants, as defined in the Extended Credit Facility, require the Company to achieve minimum operating income of \$945,000 for the quarter ended December 31,

**Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q**

2002, \$844,000 for the quarter ending March 31, 2003 and \$732,000 for the quarter ending June 30, 2003. While the Company did meet the above minimum operating covenant of \$945,000 for the quarter ended December 31, 2002, the ability to satisfy future covenants depends in part on management's successful execution of the restructuring plans discussed in Note 9 and other business factors outside of the control of management. There can be no guarantee that such covenants will be met. If the covenants are not met, amounts outstanding under the Extended Credit Facility would become payable on demand. Management believes that alternative sources of financing are available to finance the existing facilities on a long-term basis, which the Company is currently pursuing. However, if the loans become payable on demand and alternative financing sources are not available, management will be required to take additional actions to reduce operating expenses or sell assets to meet liquidity needs.

The Company maintains relationships with both foreign and domestic banks, which combined have extended credit facilities to the Company totaling \$21,303,000, including amounts available under the Extended Revolver and the Extended Term Loan. As of December 31, 2002, the Company had \$18,504,000 outstanding under these credit facilities including \$12,689,000 under the Extended Revolver and the Extended Term Loan. Total debt levels as reported on the balance sheet at December 31, 2002 are \$328,000 higher than they would have been if June 30, 2002 exchange rates had been used.

**NOTE 4 - NET INCOME (LOSS) PER SHARE:**

Basic net income (loss) per share includes no dilution and is computed 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. The weighted average shares outstanding used to compute diluted net income (loss) per share include zero additional shares for each of the three and six months ended December 31, 2002 and 2001, which represent potentially dilutive securities. Outstanding options to purchase 1,589,000 and 1,606,000 shares of the Company's common stock for the three and six months ended December 31, 2002 and 2001, respectively, are not included in the above calculation to compute diluted net income (loss) per share as they have an anti-dilutive effect.

**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 and consists of cumulative translation adjustments, unrealized gains and losses on available-for-sale securities and unrealized gains and losses on derivative instruments. AOCI consists of the following:

	December 31, 2002	June 30, 2002
	-----	-----
	(Unaudited)	
Cumulative translation adjustments	\$ (615,000)	\$ (1,959,000)
Unrealized loss on investments, net of deferred taxes of \$59,000		

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

(\$19,000 at June 30, 2002)	(82,000)	(26,000)
Unrealized loss on derivatives, net of deferred taxes of \$7,000		
(\$10,000 at June 30, 2002)	(14,000)	(32,000)
	-----	-----
	\$ (711,000)	\$ (2,017,000)
	=====	=====

NOTE 6 - INVENTORIES:

Inventories consist of the following:

	December 31, 2002	June 30, 2002
	-----	-----
	(Unaudited)	
Raw materials	\$ 11,058,000	\$ 12,690,000
In process	7,304,000	6,081,000
Finished goods	4,933,000	6,157,000
	-----	-----
	\$ 23,295,000	\$ 24,928,000
	=====	=====

Foreign currency translation effects increased inventories by \$772,000 from June 30, 2002 to December 31, 2002.

NOTE 7 - DERIVATIVES:

During the six months ended December 31, 2002, the Company had currency futures contracts and an interest rate swap agreement that qualified as cash flow hedges; accordingly, the gain or loss on these cash flow hedges was recorded in AOCI and will be recognized when the hedged items affect earnings. On April 27, 2001, the Company entered into an interest rate swap agreement (the "Swap") with Fleet National Bank. The effect of this agreement was to convert \$15,000,000 of the Company's variable rate debt into fixed rate debt with an interest rate of 4.98% with the maturity the same as the then existing credit facility. Included in interest expense was \$126,000 and \$249,000, respectively, for the three and six months ended December 31, 2002 and \$102,000 and \$151,000, respectively, for the three and six months ended December 31, 2001 associated with this Swap.

As a result of entering into the Extended Credit Facility on October 30, 2002, as defined in Note 3, which changed various provisions of the Amended Credit Agreement, also defined in Note 3, including the maturity date, the Swap no longer qualified as an effective cash flow hedge. Future changes in the fair value of the Swap are and will be recorded in earnings through its maturity date of October 30, 2003. The adjustment to the fair value of this portion of the Swap at December 31, 2002 resulted in a gain (loss) for the three and six months ended December 31, 2002 of \$91,000 and \$(65,000), respectively, which was recorded in "Other income and expense" in the accompanying consolidated statement of income.

Except for the Swap, hedge ineffectiveness had no material impact on earnings for the three and six months ended December 31, 2002 and 2001.

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

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

	December 31, 2002	December 31, 2001
	-----	-----
Balance at beginning of period	\$ (32,000)	\$ (299,000)
Additional gains (losses), net	28,000	(453,000)
Amounts reclassified to earnings, net	(10,000)	522,000
	-----	-----
Balance at end of period	\$ (14,000)	\$ (230,000)
	=====	=====

The unrealized net loss of \$14,000 at December 31, 2002 is comprised of net losses on currency futures contracts, which expire at various times through March 20, 2003, and are expected to be reclassified to earnings during that period.

NOTE 8 -- GOODWILL AND OTHER INTANGIBLE ASSETS:

The changes in the carrying amount of goodwill for the six months ended December 31, 2002 are as follows (in thousands):

	Gross	Accessories and Controls	
	Carrying	Accumulated	Net
	Amount	Amortization	Book Value
	-----	-----	-----
Balance as of July 1, 2002	\$ 12,760	\$ 3,142	\$ 9,618
Effects of currency translation	351	52	299
	-----	-----	-----
Balance as of December 31, 2002	\$ 13,111	\$ 3,194	\$ 9,917
	=====	=====	=====

Intangible assets subject to amortization are comprised of the following:

	As of December 31, 2002		As of June 30, 2002	
	Gross	Accumulated	Gross	Accumulated
	Carrying	Amortization	Carrying	Amortization
	Amount	-----	Amount	-----
Intangible Assets:	-----	-----	-----	-----
Patents and trademarks	\$5,571,000	\$3,550,000	\$5,493,000	\$3,493,000
Other	925,000	688,000	1,021,000	700,000
	-----	-----	-----	-----
Total	\$6,496,000	\$4,238,000	\$6,514,000	\$4,193,000
	=====	=====	=====	=====

Amortization expense associated with these intangible assets was \$206,000

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

and \$397,000, respectively, for the three and six months ended December 31, 2002 and \$160,000 and \$364,000, respectively, for the three and six months ended December 31, 2001. The other category is included in "Other assets" on the accompanying consolidated balance sheets.

### NOTE 9 -- RESTRUCTURING CHARGES AND RELATED RESERVES:

During March 2000, the Company initiated a restructuring plan (the "March 2000 Plan") that included the consolidation of production into certain facilities, and a reduction in total employment, primarily in the United States. The March 2000 Plan was expanded during the fourth quarter of the fiscal year ended June 30, 2001. The Company recorded restructuring charges in the amounts of \$55,000 and \$506,000 for the six months ended December 31, 2002 and 2001, respectively, related to the March 2000 Plan. These charges relate primarily to additional exit costs, which are expensed as incurred. The March 2000 Plan reduced the Company's worldwide cost base and strengthened its competitive position as a leading global

11

supplier of auxiliary equipment to the printing and publishing industry. Prior to the March 2000 Plan, the Company was managed in a decentralized manner through geographically dispersed autonomous business units. Given that many of the Company's significant customers have been reorganizing on a global basis, management decided to restructure the Company along functional lines on a global basis. Rather than have sales, product development and production activities at each decentralized business unit, the restructuring plan included the centralization of these activities.

Activity in the six months ended December 31, 2002 under the March 2000 Plan was as follows:

	Remaining Reserve June 30, 2002 -----	Additional Restructuring Charges -----
Severance.....	\$ 557	\$ 15
Facility lease termination costs.....	1,678	33
Other costs.....	0	7
	-----	-----
Total program.....	\$ 2,235 =====	\$ 55 =====

(in

Severance costs will be paid through the balance of the current fiscal year ending June 30, 2003. Facility lease termination costs will be paid through April 2006. As of December 31, 2002, \$843,000 is included in "Other accounts payable and accrued liabilities" and \$856,000 is included in "Other long-term liabilities."

In August 2002, the Company announced additional restructuring activities (the "August 2002 Plan") primarily in response to weak market conditions. The August 2002 Plan includes a reduction in employment by approximately 90 people worldwide as well as plant consolidations. As a result, the Company recorded an initial restructuring charge of \$3,241,000 during the six months ended December 31, 2002. The initial charge for the August 2002 Plan was recorded to account

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

for the estimated employee severance and benefit costs of approximately \$2,757,000, lease termination costs of approximately \$437,000 and approximately \$47,000 in incremental costs associated with product discontinuance. The additional charges of \$41,000 recorded during the six months ended December 31, 2002 related primarily to product transfer costs, which are being expensed as incurred.

Activity in the six months ended December 31, 2002 under the August 2002 Plan was as follows:

	Initial Reserve -----	Additional Restructuring Charges -----	
Severance.....	\$ 2,757	\$ 0	(in
Facility lease termination costs.....	437	0	
Other costs.....	47	41	
	-----	-----	
Total program.....	\$ 3,241 =====	\$ 41 =====	

Severance and other costs will be paid through September 2003, and facility lease termination costs will be paid through December 2004. As of December 31, 2002, \$2,017,000 is included in "Other accounts payable and accrued liabilities" and \$178,000 is included in "Other long-term liabilities."

12

### NOTE 10 - SALE OF BUSINESSES:

During the first quarter of fiscal 2003, the Company committed to a plan to dispose of substantially all of the assets of BKA; the transaction closed on October 10, 2002. Under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS 144") BKA qualified as a component and therefore the results of BKA's operations are required to be reported as discontinued operations in the accompanying consolidated statements of income. Accordingly, BKA's results for each of the six months ended December 31, 2002 and 2001 have been aggregated and reported as a single amount in each quarter (2001 amounts have been reclassified to conform to the 2002 presentation). BKA's net sales were \$141,000 and \$978,000, respectively for the three and six months ended December 31, 2002 and \$1,958,000 and \$3,022,000, respectively, for the three and six months ended December 31, 2001. The consideration received for the transaction, after certain post-closing adjustments, was approximately \$3,736,000 and resulted in a gain on the sale of discontinued operations of approximately \$543,000 (net of \$80,000 in transaction costs), which was recognized in the second quarter of the fiscal year ending June 30, 2003. During the fourth quarter of fiscal 2002, the Company recorded an impairment charge of \$5,434,000 as a result of a write-off of goodwill associated with this business.

Net assets sold on October 10, 2002 and net assets held for disposal related to BKA at June 30, 2002 are included in the following categories:

October 10, 2002



Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

Accounts receivable, net of allowance of \$5,000.....	\$ 394,000
Inventory.....	1,863,000
Prepaid expenses and other current assets.....	29,000
Property, plant and equipment, net of accumulated depreciation.....	1,236,000
Accounts payable.....	(169,000)
Accrued salaries, commissions, bonus and profit-sharing.....	(61,000)
Customer deposits.....	(145,000)
Accrued and withheld taxes.....	0
Other accounts payable and accrued liabilities.....	(34,000)
	-----
Net assets held for disposal.....	\$ 3,113,000
	=====

On September 26, 2001, the Company sold substantially all of the assets of its Roll Handling Group ("RHG") business. The consideration received for the transaction, subject to certain post-closing adjustments, was approximately \$6,800,000. The Company received \$1,808,000 at closing and \$4,992,000 in October 2001. Accordingly, during the fourth quarter of fiscal 2001, the Company recorded an impairment charge of approximately \$14,831,000 relating primarily to goodwill and certain assets of the RHG, including \$961,000 of cumulative translation adjustments related to the foreign operations of the RHG, which were reclassified and reflected as part of the impairment charge. During the fourth quarter of the fiscal year ended June 30, 2002, the Company recognized an additional \$250,000 loss on the sale of the RHG, and in the six months ended December 31, 2002 recognized a further loss of approximately \$211,000 upon finalization of adjustments with the purchaser. The losses are recorded in other expense.

Also during the fourth quarter of fiscal 2001, the Company decided to exit its Print on Demand ("POD") business, which resulted in the write-off of \$687,000 of goodwill during the fourth quarter of the fiscal year ended June 30, 2001. The remaining assets of the POD business were not material.

13

NOTE 11 - BUSINESS SEGMENT INFORMATION:

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

On October 10, 2002, the Company sold substantially all of the assets of BKA. BKA is accounted for as a discontinued operation in accordance with SFAS 144.

On September 26, 2001, the Company sold substantially all of the assets of the RHG. The Company also completed the sale of the POD business in November 2001. Together the RHG and the POD business are included in divested operations.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002. An operating segment's financial performance is primarily evaluated based on operating profit.

The tables below present information about reported segments for the three and six months ended December 31, 2002 and 2001 (in thousands). All prior

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

periods have been restated to conform to the current period's presentation. The results for BKA are reported as discontinued operations for all periods and therefore are excluded from segment operating results. (In thousands)

	Three months ended December 31, ----- (Unaudited) -----		Six months December ----- (Unaudited) -----	
	2002 ----	2001 ----	2002 ----	2002 ----
Net Sales:				
Accessories and Controls	\$ 35,288	\$ 34,217	\$ 68,092	
Divested operations	0	0	0	
	-----	-----	-----	
Total Net Sales	\$ 35,288	\$ 34,217	\$ 68,092	
	=====	=====	=====	

Foreign currency translation effects increased net sales by \$3,136,000 (\$0 related to the divested operations) for the six months ended December 31, 2002.

	Three months ended December 31, ----- (Unaudited) -----		Six months ended December 31, ----- (Unaudited) -----	
	2002 ----	2001 ----	2002 ----	2002 ----
Operating income (loss):				
Accessories and Controls	\$ 1,658	\$ 1,848	\$ (346)	\$ 3,2
Corporate	(701)	(1,793)	(4,374)	(4,3
Divested operations	0	166	0	(7
	-----	-----	-----	-----
Total operating income (loss)	957	221	(4,720)	(1,8
Interest expense, net	(535)	(342)	(1,177)	(7
Royalty income, net	529	777	1,158	2,0
Other income (expense), net	(76)	(442)	(432)	(3
	-----	-----	-----	-----
Income (loss) from continuing operations before income taxes	\$ 875	\$ 214	\$ (5,171)	\$ (9
	=====	=====	=====	=====

Included in operating income (loss) are restructuring charges of \$50,000 and \$2,662,000, respectively, for the three and six months ended December 31, 2002 and \$350,000

and \$360,000, respectively, for the three and six months ended December 31, 2001 related to accessories and controls and zero and \$675,000, respectively, for the three and six months ended December 31, 2002 and \$146,000 and \$146,000,

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

respectively, for the three and six months ended December 31, 2001 related to corporate.

	December 31, 2002 ---- (Unaudited)	June 30, 2002 ----
Identifiable assets:		
Accessories and Controls	\$ 95,735	\$ 94,079
Corporate	5,113	14,443
Divested operations	34	393
	-----	-----
Total identifiable assets	\$100,882 =====	\$108,915 =====

NOTE 12 - COMMON STOCK:

On August 13, 2002, the Compensation and Stock Option Committee of the Board of Directors granted non-qualified options to purchase 154,500 shares of the Company's Class A Common Stock ("Class A") to certain executives and key personnel under the Company's 1996 Stock Option Plan (the "1996 Plan") at an exercise price of \$0.82 per share, the fair market value on the date of the grant.

In August 2002, the Board of Directors approved an amendment to the 1996 Plan to: (a) increase the total number of shares of Class A that may be issued pursuant to Options (as defined in the 1996 Plan) from 875,000 shares to 1,875,000 shares; (b) prohibit the granting of Options to purchase any shares of the Company's Class B Common Stock ("Class B") under the 1996 Plan after the date of the next annual meeting of the Company's stockholders, (c) provide that Non-Employee Directors shall be eligible to receive Options under the 1996 Plan and (d) make certain other technical and clarifying amendments. The stockholders approved the amendment to the 1996 Plan on November 21, 2002.

Also in August 2002, the Board of Directors authorized the grant under the 1996 Plan, on the day after the next annual meeting of the Company's stockholders and on the day after each succeeding annual meeting of the Company's stockholders, to each Non-Employee Director, of an Option to purchase 5,000 shares of Class A of the Company at an exercise price per share equal to 100% of the fair market value of a share of Class A on the date such Option is granted.

In August 2002, the Board of Directors also amended, subject to stockholder approval of the amendments to the 1996 Plan set forth above, the 1998 Non-Employee Directors' Stock Option Plan to prohibit the granting of any further options thereunder.

On November 22, 2002, the Compensation and Stock Option Committee of the Board of Directors granted non-qualified options to purchase 25,000 shares of Class A under the 1996 Plan at an exercise of price of \$0.58 per share, the fair market value on the date of the grant.

NOTE 13 - RELATED PARTIES:

On October 25, 2002, John T. Heald, Jr. resigned as President, Chief Executive Officer and a Director of the Company. Mr. Heald was employed by the Company from March 21, 2001 to November 21, 2002. In accordance with Mr. Heald's employment agreement, the Company sold 375,000 shares of Class B to Mr. Heald in

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

October 2001 at \$1.80 per share in exchange for a recourse demand promissory note in the amount of \$675,000. The promissory note bears interest, payable annually, at a rate of 5% per annum. Of the 375,000 shares issued, 189,117 shares were treasury shares and the balance of 185,883 shares were newly issued shares. The

15

promissory note is collateralized by the shares, pursuant to a loan and pledge agreement between Mr. Heald and the Company dated October 17, 2001. If at any time, Mr. Heald sells any of these shares, he is to pay the Company \$1.80 times the number of shares sold within five days of receipt of the funds from such sale. In November 2002, the Company amended the loan and pledge agreement, and the promissory note, to evidence a reduction of the outstanding principal due from Mr. Heald on the loan by \$225,000 in exchange for a reduction in deferred compensation payments to be made by the Company to Mr. Heald and further, the Company will not demand payment of the of the promissory note for a period of two years following Mr. Heald's termination. The reduction represented the then present value of Mr. Heald's deferred compensation benefit that accrued to Mr. Heald. The balance of the loan, including interest, was \$489,000 and \$699,000 at December 31, 2002 and June 30, 2002, respectively.

In accordance with the terms of the employment agreement between the Company and Gerald A. Nathe, Chairman, President and Chief Executive Officer of the Company, the Company loaned Mr. Nathe \$1,817,000 to enable Mr. Nathe to purchase 315,144 shares of Class B from a non-employee shareholder in November 1993 in exchange for a recourse demand promissory note for said amount. The note bore interest, payable on the anniversary dates of the loan, at LIBOR rates plus 1.25%, reset on the first day of each succeeding January, April, July and October. The note was collateralized by the shares, pursuant to a loan and pledge agreement between Mr. Nathe and the Company dated November 30, 1993, as amended and restated on November 25, 1997. Upon termination of Mr. Nathe's employment, the Company has agreed not to demand payment for a period of six months following termination, or twelve months following termination if Mr. Nathe's employment terminates by reason of death. Notwithstanding the foregoing, if at any time Mr. Nathe sells any of these shares, he is to pay the Company \$5.77 times the number of shares sold within five days of receipt of the funds from such sale. The Board of Directors of the Company forgave the interest payment due on the loan from Mr. Nathe during the second quarter of the fiscal year ended June 30, 2002 in the amount of \$112,000. Such amount was recorded as compensation expense to Mr. Nathe, and included in "General and administrative expenses."

In February 2002, the Company amended Mr. Nathe's employment agreement and loan and pledge agreement, reflecting a repayment by Mr. Nathe of a portion of the principal on the loan, Mr. Nathe issued a substitute recourse demand promissory note for \$1,500,000, the outstanding principal balance on the date thereof, with interest payable annually at an annual rate of 5%.

In August 2002, the Company amended Mr. Nathe's employment agreement, the loan and pledge agreement, and the promissory note, to evidence a reduction of the outstanding principal due from Mr. Nathe on the loan by \$750,000 in exchange for a reduction in deferred compensation payments to be made by the Company to Mr. Nathe. The reduction represented the then present value of a portion of Mr. Nathe's deferred compensation benefit that had accrued to Mr. Nathe. The balance of the loan, including interest, was \$817,000 and \$1,544,000 at December 31, 2002 and June 30, 2002, respectively.

NOTE 14 - CUSTOMERS:

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

During the current period, two customers each accounted for more than 10% of the Company's net sales. Koenig and Bauer Aktiengesellschaft ("KBA") accounted for approximately 10.6% and 11.0%, respectively, and Mitsubishi accounted for approximately 10.2% and 10.6%, respectively, of the Company's net sales for the three and six months ended December 31, 2002.

On September 10, 2001, one large OEM customer, Goss Graphic Systems, Inc. ("Goss") filed for bankruptcy protection under a prearranged Chapter 11 proceeding in the U.S. Bankruptcy Court. Goss' European and Asian subsidiaries are not included in this proceeding.

16

The Company received timely payments, on a post petition basis, from the foreign subsidiaries of Goss, and continues to monitor the status of all Goss payments. At December 31, 2002, the Company's consolidated balance sheet included approximately \$1,039,000 of trade receivables from Goss, of which approximately \$318,000 relates to Goss' European and Asian subsidiaries, which are not included in the bankruptcy proceeding. The balance of \$721,000 is fully reserved. As a result of this bankruptcy filing, the Company increased its bad debt reserve related to Goss by \$0 and \$634,000 during the six months ended December 31, 2002 and 2001, respectively.

NOTE: 15 - WARRANTY COSTS:

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

	Warranty Amount
Warranty reserve at June 30, 2002	\$ 1,516,000
Additional warranty expense accruals	2,366,000
Payments against reserve	(1,755,000)
Settled obligation (a)	(691,000)
Effects of currency rate fluctuations	71,000
	-----
Warranty reserve at December 31, 2002	\$ 1,507,000
	=====

(a) Amount was reclassified to accounts payable and will be paid over a two-month period beginning February 2003.

NOTE 16 - LEGAL PROCEEDINGS:

On November 14, 2002, the Dusseldorf Higher Regional Court announced its judgment in favor of Baldwin in the patent infringement dispute against its competitor, technotrans AG ("Technotrans"). The Company is in the process of determining the amount of compensation to which it is entitled. Technotrans has filed documents indicating its objection to the ruling and has requested an extension of time within which to file an appeal. No amounts have been recorded

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

in the consolidated financial statements with regard to this contingent gain.

### NOTE 17 - SUBSEQUENT EVENT:

In February 2002, Epic Products International ("EPIC"), a licensee of one of the Company's subsidiaries, filed a demand for arbitration with the American Arbitration Association in Dallas, Texas claiming breach of the license agreement and demanding, among other things, damages in an unspecified amount alleging that Baldwin failed to make royalty payments to EPIC as and when due. In October 2002, EPIC amended its arbitration claim to add additional damages, alleging, among other things, that Baldwin failed to implement an increase in royalties beginning in 1999 to its licensees, thus increasing the amount of royalties allegedly due and payable to EPIC. In January 2003, EPIC and the Company agreed to settle their dispute for a net payment of \$737,000, representing the settlement of all existing claims and an amendment to a license agreement on a prospective basis, which is to be paid by the Company over the next five months. The consolidated financial statements at December 31, 2002 include an accrual for this settlement amount.

17

### BALDWIN TECHNOLOGY COMPANY, INC.

#### 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 Technology Company, Inc. ("Baldwin" or the "Company").

During the first quarter of the fiscal year ending June 30, 2003, the Company committed to a plan to dispose of certain assets of its wholly-owned subsidiary, Baldwin Kansa Corporation ("BKA"); the transaction closed on October 10, 2002. The consideration received for the transaction, after certain post-closing adjustments, was approximately \$3,736,000, which resulted in the recognition of a gain on the sale of discontinued operations of approximately \$543,000 in the second quarter of the fiscal year ending June 30, 2003. During the fourth quarter of the fiscal year ended June 30, 2002, the Company recorded an impairment charge of \$5,434,000 related to the goodwill associated with this business as the recorded value of this goodwill exceeded the assessment of its fair value made by the Company. For a further discussion, see Note 10 to the consolidated financial statements. The effects of this transaction on the consolidated financial statements are discussed below where significant.

On September 26, 2001, the Company sold substantially all of the assets of its Roll Handling Group ("RHG"). The Company recorded an impairment charge during the fiscal year ended June 30, 2001 of approximately \$14,831,000 as a result of the write-off of assets, primarily patents and goodwill, associated with this business. The Company recorded a similar write-off of goodwill of approximately \$687,000 in the fourth quarter of the fiscal year ended June 30, 2001, associated with the Company's Print on Demand ("POD") business as the Company also exited this business. As a result, the revenues and corresponding expenses attributable to the RHG and the POD business are included in these consolidated financial statements only for the periods owned by the Company. The effects of these transactions on the consolidated financial statements are discussed below where significant.

#### FORWARD-LOOKING STATEMENTS

Except for the historical information contained herein, the following

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

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 and (viii) the ability to successfully implement the Company's restructuring initiatives. Additional factors are set forth in Exhibit 99 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002 which should be read in conjunction herewith.

18

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 provides new guidance on the recognition of impairment losses on long-lived assets, excluding goodwill, to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS 144 also requires long-lived assets that are to be abandoned, be treated as held for use and depreciated over their remaining expected lives and broadens the presentation of discontinued operations in the income statement to a component of an entity rather than a segment of a business. SFAS 144 was effective for the Company beginning July 1, 2002 and has not materially changed the methods used by the Company to measure impairment losses on long-lived assets, but as a result of the adoption of SFAS 144, BKA has been included as a discontinued operation in the consolidated statements of income for the three and six months ended December 31, 2002 and the corresponding amounts for the prior periods ended December 31, 2001 have been reclassified to conform to this presentation.

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, 2002.

SIX MONTHS ENDED DECEMBER 31, 2002 VS. SIX MONTHS ENDED DECEMBER 31, 2001

### CONSOLIDATED RESULTS

Net sales for the six months ended December 31, 2002 decreased by \$3,600,000, or 5.0%, to \$68,092,000 from \$71,692,000 for the six months ended December 31, 2001. Currency rate fluctuations attributable to the Company's overseas operations increased net sales by \$3,136,000 in the current period. Excluding the effects of currency rate fluctuations and the previously noted divestitures of the RHG and the POD business, net sales would have decreased by \$1,945,000.

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

Gross profit for the six months ended December 31, 2002 was \$20,670,000 (30.4% of net sales) as compared to \$21,890,000 (30.5% of net sales) for the six months ended December 31, 2001, a decrease of \$1,220,000 or 5.6%. Currency rate fluctuations attributable to the Company's overseas operations increased gross profit by \$1,106,000 in the current period, while the previously noted divestitures of the RHG and the POD businesses decreased gross profit by \$1,048,000. Excluding the effects of currency rate fluctuations and the divestitures of the RHG and the POD businesses, gross profit would have decreased by \$1,278,000. Gross profit as a percentage of net sales decreased slightly primarily due to additional warranty costs associated with two customers in the current period.

Selling, general and administrative expenses amounted to \$13,545,000 (19.9% of net sales) for the six months ended December 31, 2002 as compared to \$15,830,000 (22.1% of net sales) for the same period in the prior fiscal year, a decrease of \$2,285,000 or 14.4%. Currency rate fluctuations increased these expenses by \$474,000 in the current period while the previously noted divestitures of the RHG and the POD businesses decreased selling, general and administrative expenses by \$1,143,000. Excluding the effects of currency rate fluctuations and the divestitures of the RHG and the POD businesses, selling, general and administrative expenses would have decreased by \$1,616,000. Selling expenses decreased by \$817,000, which primarily relates to decreased travel and advertising costs, and to decreased compensation and commission expenses associated with reduced sales, partially offset by increased subcontracting costs. General and administrative expenses decreased by \$799,000 primarily due to decreased compensation costs primarily as a result of the Company's restructuring efforts and to decreased depreciation expense. The prior year period included a

19

\$439,000 bad debt charge related to accounts receivable from a major OEM customer, interest forgiveness of \$112,000 related to a loan to an officer of the Company partially offset by a reversal of approximately \$300,000 of previous accruals associated with the Company's profit-sharing contribution.

Engineering and development expenses increased by \$1,025,000 over the same period in the prior fiscal year. Currency rate fluctuations increased these expenses by \$557,000 in the current period, while the previously noted divestitures of the RHG and the POD businesses further reduced these expenses by \$659,000. Excluding the effects of currency rate fluctuations and the previously noted divestitures of the RHG and the POD business, engineering and development expenses would have increased by \$1,127,000 in the current period. This increase relates primarily to increased research and development labor and project costs and to increased travel and subcontracting costs. As a percentage of net sales, engineering and development expenses increased by 2.1% to 12.5% for the six months ended December 31, 2002 compared to 10.4% for the same period in the prior fiscal year.

The Company recorded a restructuring charge of \$3,337,000 for the six months ended December 31, 2002. This restructuring charge is comprised of \$3,282,000 related to the restructuring plan initiated in August 2002 (the "August 2002 Plan") and \$55,000 in additional exit costs, which are expensed as incurred and related to the restructuring plan announced in March 2000 (the "March 2000 Plan"). The initial charge for the August 2002 Plan of \$3,241,000 was recorded to account for the estimated costs of employee severance and benefit costs of approximately \$2,757,000, approximately \$437,000 in lease termination costs and approximately \$47,000 in incremental costs associated with product discontinuance. The additional charges of \$41,000 recorded during the six months ended December 31, 2002, relate primarily to product transfer costs,



## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

which are being expensed as incurred. The August 2002 Plan includes the closing of one domestic facility, with the related production being shifted to another domestic facility, which was completed in January 2003. The workforce reduction consists of approximately 90 employees in various employee groups worldwide, including production, sales, engineering and administration. The August 2002 Plan is expected to reduce operating costs by approximately \$4,700,000 annually after full implementation, which is expected to occur by the end of the current fiscal year ending June 30, 2003.

Interest expense for the six months ended December 31, 2002 was \$1,318,000 as compared to \$860,000 for the six months ended December 31, 2001. Currency rate fluctuations increased interest expense by \$55,000 in the current period while the previously noted divestitures of the RHG and the POD businesses further reduced interest expense by \$40,000. Excluding the effects of currency rate fluctuations and the divestitures of the RHG and the POD businesses, interest expense would have increased by \$443,000. This increase was primarily due to both higher interest rates in effect for the six months ended December 31, 2002, primarily as a result of the October 30, 2002 credit facility amendment and deferred debt financing cost amortization during the period. Interest income amounted to \$141,000 and \$147,000 for the six months ended December 31, 2002 and 2001, respectively. Currency rate fluctuations decreased interest income by \$10,000 in the current period.

Net royalty income for the six months ended December 31, 2002 was \$1,158,000 as compared to \$2,016,000 for the six months ended December 31, 2001. The decrease in royalty income is primarily due to a decrease in the number of units sold in the current period by two of the Company's licensees.

Other income (expense), net amounted to an expense of \$432,000 for the six months ended December 31, 2002 compared to \$386,000 for the six months ended December 31, 2001. Other income (expense), net includes net foreign currency transaction losses of \$183,000 and \$55,000 for the six months ended December 31, 2002 and 2001, respectively, of which losses of \$91,000 and \$38,000, respectively, resulted from the ineffective portions of derivative financial

20

instruments, which qualify as cash flow hedges. Net foreign currency transaction losses in the prior year period included losses of \$206,000 associated with certain derivative financial instruments which ceased to qualify as hedges pursuant to SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities ("SFAS 133") and as a result of the RHG divestiture. Other income and expense in the prior year period also included a \$170,000 charge for an interest rate swap which no longer qualified as a hedge pursuant to SFAS 133 and a \$255,000 write-down of deferred financing costs; both were recorded as a result of the renegotiation of the Amended Credit Facility. Other expense, net for the six months ended December 31, 2002 includes an additional loss on the sale of the RHG of approximately \$211,000 as a result of finalizing certain adjustments with the buyer. Currency rate fluctuations decreased other expenses by \$8,000 in the current fiscal year period.

The Company recorded income tax expense of \$622,000 for the six months ended December 31, 2002 as compared to an income tax benefit of \$196,000 for the six months ended December 31, 2001. The effective tax rate for the six months ended December 31, 2002 differs from the statutory rate as no benefit was recognized for losses incurred in certain countries as the realization of such benefits was not more likely than not. Currency rate fluctuations increased the provision for income taxes by \$31,000 in the current period.

Loss from operations of discontinued operations for the six months ended

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

December 31, 2002 was \$253,000 as compared to \$227,000 for the six months ended December 31, 2001. The increase in the loss is primarily the result of reduced revenues and gross profit margins offset by decreased operating expenses in the current period, as a result of the sale of the entity being completed on October 10, 2002. A gain on the sale of \$543,000 was recorded in the current period.

The Company's net loss amounted to \$5,503,000 for the six months ended December 31, 2002, compared to \$957,000 for the six months ended December 31, 2001. Currency rate fluctuations decreased the net loss by \$7,000 in the current period. Net loss per share amounted to \$0.37 basic and diluted for the six months ended December 31, 2002, as compared to \$0.06 basic and diluted for the six months ended December 31, 2001.

### SEGMENT RESULTS

#### ACCESSORIES AND CONTROLS GROUP

Net sales for the six months ended December 31, 2002 increased by \$1,191,000, or 1.8%, to \$68,092,000 from \$66,901,000 for the six months ended December 31, 2001. Currency rate fluctuations attributable to the Company's overseas operations increased net sales for the current period by \$3,136,000; otherwise, net sales would have decreased by \$1,945,000 in the current period.

Operating loss amounted to \$346,000 (0.5% of net sales) for the six months ended December 31, 2002, as compared to operating income of \$3,226,000 (4.8% of net sales) for the same period in the prior fiscal year, a decrease of \$3,572,000. Currency rate fluctuations increased the current fiscal year's operating income by \$57,000. Otherwise, operating income would have decreased by \$3,629,000 in the current period. This decrease is primarily the result of the overall decrease in sales discussed above, and to increased restructuring charges, consulting costs, and engineering and development project costs in the current fiscal year period offset by a \$251,000 bad debt charge related to a major OEM customer in the prior fiscal year period. Operating income for the six months ended December 31, 2002 and 2001, includes restructuring charges of \$2,662,000 and \$360,000, respectively, associated with both the March 2000 Plan and the August 2002 Plan.

21

#### THREE MONTHS ENDED DECEMBER 31, 2002 VS. THREE MONTHS ENDED DECEMBER 31, 2001

#### CONSOLIDATED RESULTS

Net sales for the three months ended December 31, 2002 increased by \$1,071,000, or 3.1%, to \$35,288,000 from \$34,217,000 for the three months ended December 31, 2001. Currency rate fluctuations attributable to the Company's overseas operations increased net sales by \$1,619,000 in the current period, otherwise, net sales would have decreased by \$548,000.

Gross profit for the three months ended December 31, 2002 was \$11,482,000 (32.5% of net sales) as compared to \$11,068,000 (32.3% of net sales) for the three months ended December 31, 2001, an increase of \$414,000 or 3.7%. Currency rate fluctuations increased gross profit by \$559,000 in the current period, while the previously noted divestitures of the RHG and POD businesses decreased gross profit by \$281,000. Excluding the effects of currency rate fluctuation and the previously noted divestitures of the RHG and the POD business, gross profit would have increased by \$136,000.

Selling, general and administrative expenses amounted to \$6,058,000 (17.2% of net sales) for the three months ended December 31, 2002 as compared to

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

\$6,810,000 (19.9% of net sales) for the same period in the prior fiscal year, a decrease of \$752,000 or 11.0%. Currency rate fluctuations increased these expenses by \$256,000 in the current period, while the previously noted divestitures of the RHG and the POD businesses decreased these expenses by \$32,000. Otherwise, selling, general and administrative expenses would have decreased by \$976,000. Selling expenses decreased by \$378,000, which primarily relates to decreased advertising and travel costs, and to decreased compensation and commission expenses associated with reduced sales. General and administrative expenses decreased by \$598,000 primarily due to reduced compensation costs primarily as a result of the Company's restructuring efforts and to decreased depreciation expense in the current year period. These decreases were partially offset by a reversal of approximately \$300,000 of previous accruals associated with the Company's profit-sharing contribution, and to a \$195,000 partial recovery of a previously recorded bad debt of a major OEM customer in the prior year period.

Engineering and development expenses increased by \$790,000 over the same period in the prior fiscal year. Currency rate fluctuations increased these expenses by \$318,000 in the current period, while the previously noted divestitures of the RHG and POD businesses decreased these expenses by \$83,000. Excluding the effects of currency rate fluctuations and the previously noted divestitures of the RHG and the POD business, engineering and development expenses would have increased by \$555,000 in the current period. This increase relates primarily to increased research and development labor and project costs and to increased travel and subcontracting costs. As a percentage of net sales, engineering and development expenses increased by 1.9% to 12.5% for the three months ended December 31, 2002 compared to 10.6% for the same period in the prior fiscal year.

The Company recorded a restructuring charge of \$50,000 for the three months ended December 31, 2002. This restructuring charge represents \$9,000 in additional exit costs, which were related to the March 2000 Plan and \$41,000 in product transfer costs related to the August 2002 Plan as these costs are expensed as incurred.

Interest expense for the three months ended December 31, 2002 was \$600,000 as compared to \$450,000 for the three months ended December 31, 2001. Currency rate fluctuations increased interest expense by \$32,000 in the current period. Otherwise, interest expense would have increased by \$118,000. This increase was primarily due to both higher interest rates in effect for the three months ended December 31, 2002 as a result of the October 30, 2002 credit facility amendment and deferred debt financing cost amortization

22

during the period. Interest income amounted to \$65,000 and \$108,000 for the three months ended December 31, 2002 and 2001, respectively. This decrease in interest income is primarily due to decreased funds available for investment. Currency rate fluctuations increased interest income by \$5,000 in the current period.

Net royalty income for the three months ended December 31, 2002 was \$529,000 as compared to \$777,000 for the three months ended December 31, 2001. The decrease in royalty income is primarily due to a decrease in the number of units sold in the current period by one of the Company's licensees.

Other income (expense), net amounted to expense of \$76,000 for the three months ended December 31, 2002 compared to \$442,000 for the three months ended December 31, 2001. Other income (expense), net includes net foreign currency transaction losses of \$185,000 and \$5,000 for the three months ended December

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

31, 2002 and 2001, respectively. Currency rate fluctuations decreased other expenses by \$16,000 in the current fiscal year period. Other income and expense in the prior year period also included a \$170,000 charge for an interest rate swap which no longer qualified as a hedge pursuant to SFAS 133 and a \$255,000 write-down of deferred financing costs; both were recorded as a result of the renegotiation of the Amended Credit Facility. Other expense, net for the three months ended December 31, 2002 includes a \$91,000 gain related to an adjustment in a portion of the fair value of the Swap which no longer qualified as a hedge.

The Company recorded income tax expense of \$363,000 for the three months ended December 31, 2002 as compared to \$137,000 for the three months ended December 31, 2001. The effective tax rate for the three months ended December 31, 2002 differs from the statutory rate as no benefit was recognized for losses incurred in certain countries as the realization of such benefits was not more likely than not. Currency rate fluctuations increased the provision for income taxes by \$17,000 in the current period.

Loss from operations of discontinued operations for the three months ended December 31, 2002 was \$65,000 as compared to \$82,000 for the three months ended December 31, 2001. The increase in the loss is primarily the result of reduced revenues and operating margins, offset by decreased operating expenses in the current period. A gain on sale of \$543,000 was recorded during the current period.

The Company's net income amounted to \$990,000 for the three months ended December 31, 2002, compared to \$159,000 for the three months ended December 31, 2001. Currency rate fluctuations decreased the net income by \$55,000 in the current period. Net income per share amounted to \$0.07 basic and diluted for the three months ended December 31, 2002, as compared to net income per share of \$0.01 basic and diluted for the three months ended December 31, 2001.

### SEGMENT RESULTS

#### ACCESSORIES AND CONTROLS GROUP

Net sales for the three months ended December 31, 2002 increased by \$1,071,000, or 3.1%, to \$35,288,000 from \$34,217,000 for the three months ended December 31, 2001. Currency rate fluctuations attributable to the Company's overseas operations increased net sales for the current period by \$1,619,000; otherwise, net sales would have decreased by \$548,000 in the current period.

Operating income amounted to \$1,658,000 (4.7% of net sales) for the three months ended December 31, 2002, as compared to \$1,848,000 (5.4% of net sales) for the same period in the prior fiscal year, a decrease of \$190,000. Currency rate fluctuations decreased the

23

current fiscal year's operating income by \$48,000. Otherwise, operating income would have decreased by \$142,000 in the current period. This decrease is primarily the result of the overall decrease in sales discussed above, and to increased restructuring charges and consulting costs, and increased engineering and development project costs in the current fiscal year period. Operating income for the three months ended December 31, 2002 and 2001, includes restructuring charges of \$50,000 and zero, respectively, associated with both the March 2000 Plan and the August 2002 Plan.

#### LIQUIDITY AND CAPITAL RESOURCES AT DECEMBER 31, 2002 LIQUIDITY AND WORKING CAPITAL

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

On October 31, 2000, the Company entered into a \$35,000,000 revolving credit facility (the "Credit Facility") with Fleet National Bank and First Union National Bank (collectively the "Banks"), which had an original scheduled maturity date of October 31, 2003. The Credit Facility consisted of a \$25,000,000 revolving credit line (the "Revolver") and a \$10,000,000 credit line to be utilized for acquisitions, (the "Acquisition Line"). On January 28, 2002, the Credit Facility was amended (the "Amended Credit Facility"), to among other things, remove the Acquisition Line, reduce the Revolver to \$21,000,000 (subject to a borrowing base), and change the maturity date to October 1, 2002. In addition, \$4,000,000 of the existing Revolver was converted into a term loan (the "Term Loan"), which matured on June 28, 2002, resulting in available borrowings under the Revolver from July 1, 2002 to October 1, 2002 of \$17,000,000. The Amended Credit Facility required the Company to maintain certain financial covenants including minimum operating income covenants. The Revolver has associated commitment fees, which are calculated quarterly, at a rate of one-half of one percent per annum of the unused portion of the Revolver.

During the quarters ended March 31, 2002 and June 30, 2002, the Company did not meet its minimum operating income covenants contained in the Amended Credit Facility, and further the Company did not make the required \$4,000,000 principal payment on the Term Loan on June 28, 2002. The Banks granted a forbearance of the collection of the indebtedness until October 1, 2002 and on October 30, 2002, the Company and the Banks entered into an amendment to extend the Amended Credit Facility, waive the covenant violations and Term Loan default and extend the forbearance period through July 1, 2003 (the "Extended Credit Facility"). The Extended Credit Facility, totaling \$20,900,000, consists of a \$17,000,000 revolving credit line (the "Extended Revolver") and a \$3,900,000 term loan each due July 1, 2003 (the "Extended Term Loan"). The Extended Credit Facility required the Company to utilize the net proceeds of \$3,736,000 from the sale of certain assets of its wholly-owned subsidiary Baldwin Kansa Corporation ("BKA") to reduce outstanding borrowings under the Extended Revolver before October 30, 2002, of which \$2,700,000 permanently reduced the Extended Revolver and \$1,036,000 became available for future borrowings. At December 31, 2002, the Company had outstanding borrowings of \$12,689,000 under the Extended Revolver and Extended Term Loan, plus outstanding letters of credit of \$3,150,000. Additionally, beginning in December 2002, and extending through June 2003, the Company is required to permanently reduce the Extended Revolver by making monthly principal payments of \$125,000. The Company was also required to permanently reduce the Extended Revolver by \$5,000,000 on December 30, 2002 and further is required to permanently reduce the Extended Revolver by \$5,000,000 on March 30, 2003, but only if the company generates non-operating alternative sources of financing. As the Company did not generate any alternative sources of financing since entering into the Extended Credit Facility on October 30, 2002, the Company was not required to make, and did not make, the \$5,000,000 payment on December 30, 2002. The entire outstanding balance of \$12,689,000 due under the Extended Revolver and Extended Term Loan has been classified as current as of December 31, 2002 (of which \$250,000 was paid through February 13, 2003).

Interest on the Extended Revolver and the Extended Term Loan is charged at prime plus 2.00% per annum. The Extended Credit Facility is collateralized by a pledge of the capital stock

and certain assets of the Company's domestic subsidiaries. The Extended Credit Facility includes certain restrictions, which limit the incurrence of debt and prohibit dividend payments among other things, and require the Company to satisfy certain financial covenants. These financial covenants, as defined in the Extended Credit Facility, require the Company to achieve minimum operating income of \$945,000 for the quarter ended December 31, 2002, \$844,000 for the quarter ending March 31, 2003 and \$732,000 for the quarter ending June 30, 2003.

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

While the Company did meet the above minimum operating income covenant of \$945,000 for the quarter ended December 31, 2002, the ability to satisfy future covenants depends in part on management's successful execution of the restructuring plans discussed in Note 9 to the consolidated financial statements, and other business factors outside of the control of management. There can be no guarantee that such covenants will be met. If the covenants are not met, amounts outstanding under the Extended Credit Facility would become payable on demand. Management believes that alternative sources of financing are available to finance the existing facilities beyond July 1, 2003, which the Company is currently pursuing. If the loans become payable on demand and alternative financing sources are not available, management will be required to take additional actions to reduce operating expenses or sell assets in an effort to meet liquidity needs. There can be no assurances however, that such actions will be sufficient to meet liquidity needs in the event the loans become payable on demand.

The Company maintains relationships with both foreign and domestic banks, which combined have extended credit facilities to the Company totaling \$21,303,000, including amounts available under the Extended Revolver and the Extended Term Loan. As of December 31, 2002, the Company had \$18,504,000 outstanding under these lines of credit including \$12,689,000 under the Extended Revolver and the Extended Term Loan. Total debt levels as reported on the balance sheet at December 31, 2002 are \$328,000 higher than they would have been if June 30, 2002 exchange rates had been used.

On April 27, 2001, the Company entered into an interest rate swap agreement with Fleet National Bank to fix the LIBOR portion of its interest rate at 4.98% for a principal amount of \$15,000,000 with the maturity the same as the Credit Facility. The effect of this interest rate swap added \$126,000 and \$249,000 to interest expense for the three and six months ended December 31, 2002, respectively, and \$102,000 and \$151,000 to interest expense for the three and six months ended December 31, 2001, respectively.

The Company's working capital decreased by \$14,322,000 or 64.2% from \$22,319,000 at June 30, 2002, to \$7,997,000 at December 31, 2002. Foreign currency rate fluctuations accounted for an increase of \$719,000. Working capital decreased primarily due to a portion of long-term debt being reclassified to short-term and to the additional reserve recorded as a result of the Company's restructuring plan initiated in August 2002. Excluding the impacts of the sale of BKA and the portion of long-term debt being reclassified as short-term, working capital would have decreased by \$1,320,000 from June 30, 2002 to December 31, 2002.

The Company generated \$3,170,000 and \$5,919,000 from investing activities for the six months ended December 31, 2002 and 2001, respectively. The decrease in cash generated by investing activities is primarily the result of the proceeds from the sale of the RHG and the POD business in the prior fiscal year period offset by the proceeds from the sale of BKA in the current fiscal year period. Capital expenditures for the six months ended December 31, 2002 and 2001 were \$566,000 and \$909,000, respectively.

Net cash used by financing activities was \$4,334,000 for the six months ended December 31, 2002 as compared to \$1,988,000 for the six months ended December 31, 2001. The difference was primarily due to higher net debt repayments in the current fiscal year period primarily sourced with the proceeds from the sale of BKA.

On September 10, 2001, one large OEM customer, Goss Graphic Systems, Inc. ("Goss") filed for bankruptcy protection under a prearranged Chapter 11 proceeding in the U.S.

Bankruptcy Court. Goss' European and Asian subsidiaries are not included in this proceeding. The Company has received timely payments, on a post petition basis, from the foreign subsidiaries of Goss, and continues to monitor the status of all Goss payments. At December 31, 2002, the Company's consolidated balance sheet included approximately \$1,039,000 of trade receivables from Goss, of which approximately \$318,000 relates to Goss' European and Asian subsidiaries, which are not included in the bankruptcy proceeding. The balance of \$721,000 is fully reserved. As a result of this bankruptcy filing, the Company increased its bad debt reserve related to Goss by \$0 and \$634,000 during the six months ended December 31, 2002 and 2001, respectively.

During March 2000, the Company initiated a restructuring plan (the "March 2000 Plan") that included the consolidation of production into certain facilities, and a reduction in total employment. This plan was expanded during the fourth quarter of the fiscal year ended June 30, 2001. The Company recorded restructuring charges in the amounts of \$55,000 and \$506,000 for the six months ended December 31, 2002 and 2001, respectively, related to the March 2000 Plan. These charges relate primarily to additional exit costs, which were expensed as incurred. The restructuring plan is expected to reduce the Company's worldwide cost base and strengthen its competitive position as a leading global supplier of auxiliary equipment to the printing and publishing industry. Prior to the restructuring, the Company was managed in a decentralized manner through geographically dispersed autonomous business units. Given that many of the Company's significant customers have been reorganizing on a global basis, management decided to restructure the Company along functional lines on a global basis. Rather than have sales, product development and production activities at each decentralized business unit, the restructuring plan included the centralization of these activities. Severance costs will be paid through the balance of the current fiscal year ending June 30, 2003. Facility lease termination costs will be paid through April 2006. As of December 31, 2002, \$843,000 of these restructuring costs are included in "Other accounts payable and accrued liabilities" and \$856,000 is included in "Other long-term liabilities."

In August 2002, the Company announced additional restructuring activities (the "August 2002 Plan") primarily in response to weak market conditions. The August 2002 Plan includes a reduction in employment by approximately 90 people worldwide, as well as plant consolidations. As a result, the Company recorded an initial restructuring charge of \$3,241,000 during the six months ended December 31, 2002. As of December 31, 2002, \$2,017,000 is included in "Other accounts payable and accrued liabilities" and \$178,000 is included in "Other long-term liabilities" related to the August 2002 Plan. The charge for the August 2002 Plan was recorded to account for the estimated employee severance and benefit costs of approximately \$2,757,000, lease termination costs of approximately \$437,000 and approximately \$47,000 in incremental costs associated with product discontinuance. The additional charges of \$41,000 recorded during the six months ended December 31, 2002 related primarily to product transfer costs, which are being expensed as incurred. The August 2002 Plan is expected to reduce operating costs by approximately \$4,700,000 annually after full implementation, which is expected to occur by the end of the current fiscal year ending June 30, 2003. Remaining severance costs of approximately \$1,745,000 will be paid through September 2003 and remaining facility lease termination costs of approximately \$403,000 will be paid through December 2004.

Management believes that the nature and scope of the above restructuring activities will be sufficient to restore the Company's profitability and cash flows from operations; however, there can be no assurances.

The Company is currently negotiating alternative financing sources.

## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

Although these negotiations are ongoing, there can be no assurance that the Company will be successful in negotiating a replacement of the Extended Credit Facility beyond July 1, 2003. The Company believes however, that its cash flows from operations, along with the available bank lines of credit

26

and alternative sources of borrowing are sufficient to finance its working capital and other capital requirements for the near and long-term future.

At December 31, 2002 and June 30, 2002, 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, 2002 and the effect such obligations are expected to have on its liquidity and cash flow in future periods (in thousands):

	Total at December 31, 2002 -----	2003* -----	Fiscal Years ending June		
			2004 ----	2005 ----	2006 ----
<b>Contractual Obligations:</b>					
Loans payable	\$ 5,815	\$ 5,815	\$ 0	\$ 0	\$ 0
Capital lease obligations	97	24	23	24	24
Long-term debt	13,300	809	12,051	104	104
Non-cancelable operating lease obligations	15,863	2,291	4,168	3,619	3,619
	-----	-----	-----	-----	-----
<b>Total contractual cash obligations</b>	<b>\$35,075</b>	<b>\$ 8,939</b>	<b>\$16,242</b>	<b>\$ 3,747</b>	<b>\$ 3,747</b>
	=====	=====	=====	=====	=====

\*Includes only the remaining six months of the fiscal year ending June 30, 2003.

### 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.

### RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 2 to the consolidated financial statements for information concerning recently issued accounting standards.

27



## Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

### 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, 2002. There have been no material changes during the six months ended December 31, 2002.

### ITEM 4: CONTROLS AND PROCEDURES:

The Chief Executive Officer and Chief Financial Officer of the Company (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of a date within 90 days prior to the date of the filing of this Report on Form 10-Q, that the Company's controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed by it under the Securities and Exchange Act of 1934, as amended, are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, as appropriate, to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

28

## PART II: OTHER INFORMATION

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

- (a) The Annual Meeting of Stockholders was held on November 21, 2002.
- (b) A brief description of matters voted upon and the results of the voting follows:

Proposal 1 - To amend the Company's 1996 Stock Option Plan to (a) increase the total number of shares of Class A Common Stock that may be subject to outstanding options determined immediately after the grant of any option to purchase Class A Common Stock, from 875,000 shares to 1,875,000 shares; (b) prohibit the granting of any options to purchase any shares of Class B Common Stock under the Plan; (c) provide that Non-Employee Directors be eligible to receive options under the Plan; and (d) make certain technical and clarifying amendments to the Plan.

Class A & B -----	For ---	Against -----	Abstain -----	Non-Vote -----
	19,877,504	2,486,694	1,070,032	6,520

Proposal 2 - To elect two Class III Directors to serve for three-year terms or until their respective successors are elected and qualify.

# Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

## SCHEDULE OF VOTES CAST FOR EACH DIRECTOR

	Total Vote for Each Director -----	Total Vote Withhe From Each Directo -----
Class B		
Akira Hara	14,489,840	1,370,800
Ralph R. Whitney, Jr.	11,510,520	4,350,120

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) Exhibits

- 10.59 Amended and Restated Loan and Pledge Agreement dated and effective November 21, 2002 between Baldwin Technology Company, Inc. and John T. Heald, Jr. (filed herewith).
- 99.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1354 (filed herewith).
- 99.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1354 (filed herewith).

- (b) Reports on Form 8-K. The Company filed a Current Report on Form 8-K dated October 10, 2002, relating to items 5 and 7.

29

### 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: February 13, 2003

30

### CERTIFICATIONS

I, Gerald A. Nathe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Baldwin Technology

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

Company, Inc. ("the registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Gerald A. Nathe

-----  
Gerald A. Nathe  
Chairman, President and Chief Executive Officer

Date: February 13, 2003

CERTIFICATIONS

I, Vijay C. Tharani, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Baldwin Technology Company, Inc. ("the registrant");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including

Edgar Filing: BALDWIN TECHNOLOGY CO INC - Form 10-Q

any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Vijay C. Tharani

-----  
Vijay C. Tharani  
Vice President and Chief Financial Officer

Date: February 13, 2003