

FLOW INTERNATIONAL CORP  
Form 10-Q  
February 01, 2007  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended October 31, 2006

**OR**

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

For the transition period from            to

Commission file number 0-12448

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**FLOW INTERNATIONAL CORPORATION**

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**WASHINGTON**  
(State or other jurisdiction of  
incorporation or organization)

**91-1104842**  
(I.R.S. Employer  
Identification No.)

**23500 - 64th Avenue South**

**Kent, Washington 98032**

**(253) 850-3500**

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

The number of shares outstanding of common stock, as of January 26, 2007 is 37,245,132 shares.

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## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited; in thousands, except per share and share amounts)

	October 31, 2006	April 30, 2006
<b>ASSETS:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 32,648	\$ 36,186
Receivables, net	27,462	34,193
Inventories	28,155	22,775
Deferred Income Taxes	105	108
Prepaid Expenses	3,417	4,763
Other Current Assets	1,229	2,017
Total Current Assets	93,016	100,042
Property and Equipment, net	12,791	11,085
Intangible Assets, net	3,575	3,173
Goodwill	2,764	2,764
Deferred Income Taxes	239	248
Other Assets	887	1,956
	\$ 113,272	\$ 119,268
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
Current Liabilities:		
Notes Payable	\$ 2,225	\$ 2,319
Current Portion of Long-Term Obligations	851	928
Accounts Payable	15,773	20,811
Accrued Payroll and Related Liabilities	6,355	6,954
Taxes Payable and Other Accrued Taxes	2,362	4,198
Deferred Income Taxes	2,921	2,416
Deferred Revenue	2,659	6,322
Customer Deposits	5,196	7,396
Other Accrued Liabilities	7,439	6,294
Total Current Liabilities	45,781	57,638
Long-Term Obligations, net	3,185	3,774
Other Long-Term Liabilities	371	716
	49,337	62,128
Commitments and Contingencies (Note 14)		
Shareholders' Equity:		
Series A 8% Convertible Preferred Stock \$ .01 par value, 1,000,000 shares authorized, none issued		
Common Stock \$ .01 par value, 49,000,000 shares authorized, 37,225,111 and 36,943,161 shares issued and outstanding at October 31, 2006 and April 30, 2006, respectively	367	364
Capital in Excess of Par	140,111	137,192
Accumulated Deficit	(67,633)	(72,417)

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Accumulated Other Comprehensive Loss:		
Cumulative Translation Adjustment, net of income tax of \$0 and \$0	(8,910)	(7,726)
Unrealized Loss on Cash Flow Hedges, net of income tax of \$0		(273)
Total Shareholders' Equity	63,935	57,140
	\$ 113,272	\$ 119,268

See Accompanying Notes to  
Condensed Consolidated Financial Statements

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**Table of Contents****FLOW INTERNATIONAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited; in thousands, except per share and share amounts)

	<b>Three Months Ended October 31, 2005</b>		<b>Six Months Ended October 31, 2005</b>	
	<b>2006</b>	<b>(As restated) see Note 2</b>	<b>2006</b>	<b>(As restated) see Note 2</b>
Sales	\$ 54,404	\$ 50,685	\$ 107,814	\$ 92,671
Cost of Sales	30,792	28,351	61,171	52,404
<b>Gross Margin</b>	<b>23,612</b>	<b>22,334</b>	<b>46,643</b>	<b>40,267</b>
Expenses:				
Sales and Marketing	10,563	7,873	20,160	15,449
Research and Engineering	2,339	1,692	4,633	3,570
General and Administrative	8,982	7,135	16,002	13,350
Restructuring Charges		487		585
Gain on Barton Sale		(2,500)		(2,500)
	21,884	14,687	40,795	30,454
<b>Operating Income</b>	<b>1,728</b>	<b>7,647</b>	<b>5,848</b>	<b>9,813</b>
Interest Income	153	19	382	55
Interest Expense	(46)	(456)	(181)	(1,418)
Fair Value Adjustment on Warrants Issued		(4,157)		(4,835)
Other Income (Expense), Net	399	528	1,025	(579)
Income Before Provision for Income Taxes	2,234	3,581	7,074	3,036
Provision for Income Taxes	(492)	(1,232)	(1,564)	(1,815)
Income From Continuing Operations	1,742	2,349	5,510	1,221
(Loss) Income From Operations of Discontinued Operations, Net of Income Tax of \$0, \$194, \$0, and \$488		(184)		966
Loss on Sale of Discontinued Operations, Net of Income Tax of \$0, \$334, \$0, and \$334		(1,147)	(726)	(1,147)
<b>Net Income</b>	<b>\$ 1,742</b>	<b>\$ 1,018</b>	<b>\$ 4,784</b>	<b>\$ 1,040</b>
Income Per Share From Continuing Operations Basic	\$ 0.05	\$ 0.07	\$ 0.15	\$ 0.04
Loss Per Share From Discontinued Operations Basic	\$	\$ (0.04)	\$ (0.02)	\$ (0.01)
Net Income Per Share Basic	\$ 0.05	\$ 0.03	\$ 0.13	\$ 0.03
Income Per Share From Continuing Operations Diluted	\$ 0.05	\$ 0.07	\$ 0.15	\$ 0.03
Loss Per Share From Discontinued Operations Diluted	\$	\$ (0.04)	\$ (0.02)	\$ 0.00

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Net Income Per Share	Diluted	\$ 0.05	\$ 0.03	\$ 0.13	\$ 0.03
Weighted Average Shares Used in Computing Basic and Diluted					
Net Income Per Share:					
Basic		37,194	34,597	37,134	34,448
Diluted		37,879	36,137	37,887	36,065

See Accompanying Notes to  
Condensed Consolidated Financial Statements

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**Table of Contents****FLOW INTERNATIONAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited; in thousands)

	<b>Six Months Ended October 31,</b>	
	<b>2006</b>	<b>2005 (As restated, see Note 2)</b>
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 4,784	\$ 1,040
<b>Adjustments to Reconcile Net Income to Cash Provided By (Used In) Operating Activities:</b>		
Depreciation and Amortization	1,413	2,337
Unrealized Foreign Currency Gains	(1,690)	(1,324)
Fair Value Adjustment on Warrants Issued		4,835
Incentive Stock Compensation Expense	1,405	1,304
Loss on Sale of Discontinued Operations	726	1,149
Restructuring Charges		585
Gain on Barton Sale		(2,500)
Other	733	(54)
<b>Changes in Operating Assets and Liabilities:</b>		
Receivables	6,180	(1,180)
Inventories	(5,737)	(4,122)
Other Operating Assets	2,643	(261)
Customer Deposits	(2,175)	4,652
Accounts Payable	(5,281)	(288)
Deferred Revenue	(3,661)	(915)
Other Operating Liabilities	(1,427)	1,485
<b>Cash Provided By (Used In) Operating Activities</b>	<b>(2,087)</b>	<b>6,743</b>
<b>Cash Flows from Investing Activities:</b>		
Expenditures for Property and Equipment	(2,853)	(880)
Proceeds from Sale of Asset/Business	990	2,500
Settlement on Sale of Avure Business	(985)	
Restricted Cash	(125)	(469)
Cash in Disposed Businesses		(2,930)
Other		181
<b>Cash Used In Investing Activities</b>	<b>(2,973)</b>	<b>(1,598)</b>
<b>Cash Flows from Financing Activities:</b>		
Borrowings under Notes Payable, Net	(1)	(545)
Payments on Senior Credit Agreement		(30,059)
Borrowings on Senior Credit Agreement		38,849
Payments of Long-Term Obligations	(499)	(67)
Dividends Paid to Joint Venture Partner		(989)
Proceeds from Exercise of Warrants and Options	1,412	9
<b>Cash Provided By Financing Activities</b>	<b>912</b>	<b>7,198</b>
<b>Effect of Changes in Exchange Rates on Cash</b>	<b>610</b>	<b>(883)</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(3,538)</b>	<b>11,460</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>36,186</b>	<b>12,976</b>



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Cash and Cash Equivalents at End of Period	\$ 32,648	\$ 24,436
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### Supplemental Disclosure of Noncash Investing and Financing Activities

Nonmonetary exchange of assets	\$ 250	\$
Issuance of compensatory common stock on executive incentive compensation plan	\$ 884	\$ 799
Note received in the sale of Avure Business	\$	\$ 1,313

### Supplemental Non-Cash Disclosure on Disposition of the Avure Business

On October 31, 2005, the Company received in exchange for the assets and liabilities of the Avure Business notes receivable totaling \$9.3 million of which \$1.3 million is long-term, as well as a promise to pay \$5.1 million. The \$5.1 million was received on November 1, 2005. As such, the disposed assets and liabilities of the Avure Business as well as the consideration received on the transaction is non-cash as of October 31, 2005 and has been excluded from the balances presented in the Condensed Consolidated Statement of Cash Flows.

See Accompanying Notes to

Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME

(unaudited, in thousands)

	Common Stock			Accumulated		Total Shareholders' Equity
	Shares	Capital		Accumulated Deficit	Other Comprehensive Loss	
		Value of Par	In Excess of Par			
Balances, April 30, 2006	36,943	\$ 364	\$ 137,192	\$ (72,417)	\$ (7,999)	\$ 57,140
Cumulative effect of the adoption of FAS 123R (Note 4)			(313)			(313)
Components of Comprehensive Income:						
Net Income				4,784		4,784
Reclassification Adjustment for Settlement of Cash Flow Hedges, net of income tax of \$0					273	273
Cumulative Translation Adjustment, Net of Income Tax of \$0					(1,184)	(1,184)
<b>Total Comprehensive Income</b>						<b>3,873</b>
Exercise of Options	151	2	1,410			1,412
Stock Compensation	131	1	1,822			1,823
Balances, October 31, 2006	37,225	\$ 367	\$ 140,111	\$ (67,633)	\$ (8,910)	\$ 63,935

See Accompanying Notes to  
Condensed Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All tabular dollar amounts in thousands, except shares and per share amounts)

(Unaudited)

**Note 1 Basis of Presentation**

In the opinion of the management of Flow International Corporation (the Company), the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring items and accruals necessary to fairly present the financial position, results of operations and cash flows of the Company. The financial information as of April 30, 2006 is derived from the Company's audited consolidated financial statements and notes for the fiscal year ended April 30, 2006 included in Item 8 in the fiscal 2006 Annual Report on Form 10-K/A (10-K/A). These interim financial statements do not include all information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, and should be read in conjunction with the Company's fiscal 2006 Form 10-K/A. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the Company's financial statements. Actual results may differ from these estimates. Operating results for the three and six months ended October 31, 2006 may not be indicative of future results.

For fiscal 2007, Interest Income, Interest Expense and Fair Value Adjustment on Warrants Issued have been shown separately in the Condensed Consolidated Statement of Income and the prior period presentation has been conformed.

**Note 2 Restatement**

Subsequent to the issuance of the Company's Quarterly Report on Form 10-Q/A filed with the Securities and Exchange Commission on February 1, 2006, management determined that the Condensed Consolidated Statement of Cash Flows for the six months ended October 31, 2005 should be restated. Management determined that \$2.5 million of proceeds from the sale of a customer list to Barton Mines Company (Barton) should be reported as cash flows from investing activities rather than cash flows from operating activities. The Company also determined that the gain on the sale was incorrectly recorded in Other (Expense) Income, net for the quarter ended October 31, 2005 in the Original Filing. The gain on the sale has been recorded correctly within operating expenses in the Condensed Consolidated Statements of Income for the six month period ended October 31, 2005 in this filing.

The following items in the Condensed Consolidated Statement of Income for the three and six month periods ended October 31, 2005, and the Condensed Statement of Cash Flows for the six months ended October 31, 2005 have been restated as follows:

**Three Months Ended October 31, 2005**

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	As previously reported	Restatement Amounts	Reclassification amounts  (see Note 1)	As restated and reclassified
<i>Selected Condensed Consolidated Statement of Income Data:</i>				
Expenses:				
Gain on Barton Sale	\$	\$ (2,500)	\$	\$ (2,500)
Operating Income	5,147	2,500		7,647
Fair Value Adjustment on Warrants Issued			(4,157)	(4,157)
Other Income (Expense), Net	(1,129)	(2,500)	4,157	528

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All tabular dollar amounts in thousands, except shares and per share amounts)

(Unaudited)

	<b>Six Months Ended October 31, 2005</b>			
	<b>As</b>		<b>Reclassification</b>	
	<b>previously</b>	<b>Restatement</b>	<b>amounts</b>	<b>As restated</b>
	<b>reported</b>	<b>Amounts</b>	<b>(see Note 1)</b>	<b>and reclassified</b>
<i>Selected Condensed Consolidated Statement of Income Data:</i>				
Expenses:				
Gain on Barton Sale	\$	\$ (2,500)	\$	\$ (2,500)
Operating Income	7,313	2,500		9,813
Fair Value Adjustment on Warrants Issued			(4,835)	(4,835)
Other Income (Expense), Net	(2,914)	(2,500)	4,835	(579)

	<b>Six Months Ended</b>	
	<b>October 31, 2005</b>	
	<b>As</b>	<b>As</b>
	<b>previously</b>	<b>restated</b>
	<b>reported</b>	<b>restated</b>
<i>Selected Condensed Consolidated Statement of Cash Flow Data:</i>		
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Gain on Barton Sale	\$	\$ (2,500)
Cash Provided by Operating Activities	9,243	6,743
Proceeds from Sale of Customer List		2,500
Cash Used in Investing Activities	(4,098)	(1,598)

**Note 3 Segment Information**

The Company has identified four reportable segments. These segments, North America Waterjet, Asia Waterjet, Other International Waterjet (together known as Waterjet), and Applications, utilize the Company's released pressure technology. The Waterjet operation includes cutting and cleaning operations, which are focused on providing total solutions for many industries including aerospace, automotive, semiconductor, disposable products, food, glass, job shop, metal cutting, stone, tile, surface preparation, and paper. The Applications operation provides specialty engineered robotic systems designed for material removal and separation of various materials and for factory automation. These systems are primarily used in automotive applications. Segment operating results are measured based on revenue, gross margin and operating income (loss).

A summary of operations by reportable segment is as follows:

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	North America Waterjet	Asia Waterjet	Other International Waterjet	Applications	Inter- segment Eliminations	Total
<b>Three Months Ended October 31, 2006</b>						
External sales	\$ 30,079	\$ 8,133	\$ 11,943	\$ 4,249	\$	\$ 54,404
Inter-segment sales	6,028	337	26	168	(6,559)	
Gross margin	13,800	4,472	4,807	533		23,612
Operating (loss) income	(261)	973	1,264	(248)		1,728

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All tabular dollar amounts in thousands, except shares and per share amounts)

(Unaudited)

	North America Waterjet	Asia Waterjet	Other International Waterjet	Applications	Inter- segment Eliminations	Total
<b>Six Months Ended October 31, 2006</b>						
External sales	\$ 61,588	\$ 15,489	\$ 22,584	\$ 8,153	\$	\$ 107,814
Inter-segment sales	11,421	644	71	184	(12,320)	
Gross margin	28,132	8,938	8,796	979	(202)	46,643
Operating (loss) income	1,445	3,565	1,830	(790)	(202)	5,848
<b>Three Months Ended October 31, 2005</b>						
External sales	\$ 28,644	\$ 7,468	\$ 8,789	\$ 5,784	\$	\$ 50,685
Inter-segment sales	6,355	200	19	44	(6,618)	
Gross margin	14,030	3,549	3,281	1,626	(152)	22,334
Operating income	4,911	2,016	344	528	(152)	7,647
<b>Six Months Ended October 31, 2005</b>						
External sales	\$ 51,571	\$ 13,236	\$ 17,242	\$ 10,622	\$	\$ 92,671
Inter-segment sales	11,121	508	55	58	(11,742)	
Gross margin	24,977	6,359	6,542	2,501	(112)	40,267
Operating income	5,338	3,361	627	599	(112)	9,813

A summary reconciliation of total segment operating income to total consolidated income before provision for income taxes is as follows:

	Three Months Ended October 31, 2006	2005	Six Months Ended October 31, 2006	2005
Operating income for reportable segments	\$ 1,728			