FLOW INTERNATIONAL CORP
Form 10-K
July 30, 2002

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended April 30, 2002

OR

o **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

FLOW INTERNATIONAL CORPORATION

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

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:
Common Stock $.01 Par Value
Preferred Stock Purchase Rights

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. o

The aggregate market value of the voting stock held by non affiliates of the registrant based upon the closing price reported by the National Association of Securities Dealers' Automated Quotation System ("NASDAQ") as of July 5, 2002 was $90,621,000. The number of shares of common stock outstanding as of July 5, 2002 was 15,359,517 shares.

Documents Incorporated By Reference

Part I:	None
Part II:	None
Part III:	All Items See Registrant's definitive proxy statement which involves the election of directors and which will be filed with the Commission within 120 days after the close of the fiscal year.
Item 10	Directors and Executive Officers of the Registrant
Item 11	Executive Compensation
Item 12	Security Ownership of Certain Beneficial Owners and Management
Item 13	Certain Relationships and Related Transactions
Part IV:	None
Item 14	Exhibits, Financial Statement schedules, and Reports on Form 8-K

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PART I

Item 1. Business

Flow International Corporation designs, develops, manufactures, markets, installs and services ultrahigh-pressure ("UHP") products including both standard and specialized waterjet cutting and cleaning systems, the Fresher Under Pressure® food safety technology and isostatic and flexform press systems. We provide technologically-advanced, environmentally-sound solutions to the manufacturing, industrial, marine cleaning and food markets. Waterjet cutting is recognized as a better alternative to traditional cutting methods such as lasers, saws or plasma. It is faster, has greater versatility in the types of products it can cut and eliminates the need for secondary processing operations. Our UHP systems pressurize water from 40,000 to over 100,000 pounds per square inch (psi) and this high pressure water is the core of our product line. Within UHP systems, our primary product line is waterjet cutting. Utilizing pressures from 50,000 to 87,000 psi, the thin stream of water traveling at three times the speed of sound or more, can cut both metallic and nonmetallic materials in many industries, including aerospace, automotive, disposable products, food, glass, job shop, sign, metal cutting, marble, tile and other stone cutting, and paper. We manufacture a product line, utilizing 40,000 to 55,000 psi, for use in industrial cleaning, surface preparation, construction, nuclear decontamination, and petro-chemical and oil field applications. We manufacture the entire UHP system which includes the pump, as well as the robotic articulation equipment and may also include assembly, pick and place and load/unload operations. The March 1999 acquisition of Flow Pressure Systems ("Pressure Systems") from Asea Brown Boveri AB ("ABB") increased our product offering with the addition of patented UHP isostatic and flexform pressure vessel technology used primarily in the aerospace, automotive, medical and food industries.

We have developed a unique application trademarked "Fresher Under Pressure"® for our proprietary UHP pump and pressure vessel technology that addresses the growing demand in the U.S. for a post packaging, terminal pasteurization-like step for the food processing industry. This technology can provide benefits to a vast array of food products including fruits, vegetables, seafood, processed meats and ready-to-eat meals. The food industry is the single largest manufacturing industry in the world, of which $850 billion is in the U.S. Consumer demand for higher quality, wholesome, more natural, convenience foods offers an additional high growth opportunity. Marketed as Fresher Under Pressure since 1999, our UHP technology exposes foods to pressures from 50,000 to over 100,000 psi for a short period of time, typically 30 seconds to several minutes. This process reduces food-borne pathogens such as *Camplyobacter, E. coli, Listeria monocytogenes, salmonella and Vibro vulnificus*. UHP achieves the effects of pasteurization on packaged foods, offering the greatest level of food safety with minimal effects on the nutrition, taste, texture, or color of food, while extending shelf life. We can UHP process both pumpable and non-pumpable foods. For pumpable foods, we utilize a patented technology which features a 'continuous flow' concept whereby pumpable foods such as juices, salsas, guacamole, liquid eggs and salad dressings are pumped into the pressure chambers, pressurized and then pumped into the next stage of the process, such as bottling and packaging. This continuous flow process is fully automated and requires just a single operator. For non-pumpable foods, such as meats, seafood, vegetables and fruits, we utilize our patented large wire-wound pressure vessel batch technology. We are the world leader in both the continuous feed and batch UHP food processing technology. Revenues associated with this technology were $11.9 million during fiscal 2002.

We were formed in 1974, incorporated in 1980, and completed our initial public offering in March 1983. In 1991, our founder retired, and Ronald W. Tarrant was appointed President and Chief Executive Officer. His focus was to pursue a strategic plan which encompassed three major initiatives; build customer partnerships, constant new product introductions and a strategic market and technology focus. Since 1991, we have grown as a result of continued new product development, expanded marketing strategies and certain strategic acquisitions.

Over the past several years, we have completed a number of strategic acquisitions which have provided robotics and software capabilities, as well as new geographic markets and product technology. These acquisitions have positioned us as the only provider of turnkey systems utilizing UHP technology. These acquisitions include Flow Automation; Flow Robotics; Flow Japan; Foracon Maschinen und Anlagenbau GmbH & CO.KG ("Foracon"); CIS Robotics Inc. ("CIS") and Robot Simulations Limited ("Flow Software Technologies Ltd.").

In March 1999, we purchased the stock of Pressure Systems from ABB and acquired a 50% economic interest in a related U.S. joint venture, Flow Autoclave Systems Inc. ("Flow Autoclave"), which is evidenced by a 51% voting interest. Pressure Systems is the world's leading supplier of large, bulk UHP systems to the food industry and the world leader in isostatic and flexform press systems for the aerospace and automotive industries. Flow Autoclave exclusively markets and provides design and installation services for the Pressure Systems' product in the United States.

In September 1999, we purchased certain assets of Spearhead Automated Systems, Inc. ("Flow Robotic Systems"). Flow Robotic Systems manufactures advanced cutting, trimming and tooling equipment for the automotive, marine and systems related industries.

Products and Services

We provide UHP systems and related products and services to our target markets which are comprised of aerospace, automotive, food safety, job shops, pulp and paper and surface preparation. We divide our revenues into three primary categories of product: 'UHP Systems', 'Consumable Parts and Services' and 'Fresher Under Pressure Food Systems'.

UHP Systems

We offer a variety of UHP products, including both waterjet cutting and cleaning systems, food safety systems and isostatic and flexform presses, as well as accessories and the related robotic articulation equipment. UHP pumps, as well as pumps combined with pressure vessels, are the core components of our technology. An intensifier pump pressurizes water to in excess of 100,000 psi and forces it through a small orifice within a nozzle, generating a high-velocity stream of water traveling in excess of 3,000 feet per second to perform the cutting process. In order to cut metallic and other hard materials, an abrasive substance, usually garnet, is added to the waterjet stream creating an abrasivejet. Abrasivejets cut without heat, cause no metallurgical changes, and leave a high-quality edge that usually requires no secondary operation. Our unique and patented direct-drive pressure-compensated pumps pressurize water to in excess of 55,000 psi utilizing triplex piston technology which creates opportunities in both cutting and cleaning applications.

A UHP system consists of an ultrahigh-pressure intensifier or direct drive pump and one or more waterjet cutting or cleaning heads with the necessary robotics, motion control and automation systems. We have placed UHP waterjet cutting systems worldwide, in our target markets of aerospace, automotive, food safety, job shops, pulp and paper and surface preparation industries. These cutting systems may also combine waterjet applications with other processes such as pick and place operations, inspection, assembly, and other automated processes. Our waterjet systems are also used in industrial cleaning applications such as paint removal, surface preparation, factory and industrial cleaning, ship hull preparation, oil field services and heat exchanger cleaning.

Our cutting and cleaning products are considered productivity enhancing tools and can be cost justified over traditional methods. Our sales will be affected by worldwide economic changes, however we should continue to gain market share in the machine cutting tool market even in 'down' economies due to productivity enhancements generated by equipment flexibility.

UHP systems also include isostatic and flexform presses ("General Presses"). Our isostatic press systems are large pressure vessels, ranging in height from 25 to 35 feet and weighing between 50 and 200 tons, that use a combination of heat and pressure to produce and strengthen advanced materials for the aerospace, automotive and medical industries. Examples include jet engine components, auto parts, high performance ceramics and hip joints. Our flexform presses are used to form sheet metal for flexible and cost-effective low volume production of structural items, panels and engine components. An effective use of our flexform technology is automotive prototype and short run production. Our general presses offer several advantages over other methods for forming metal and composite parts. Isostatic presses produce lighter weight, higher strength parts that have a better metal consistency, density and uniformity as compared to a forged or cast part. Flexform presses allow for cost-effective production, lower tooling costs, flexibility and shorter lead times. UHP systems sales accounted for 68% of fiscal 2002 revenues.

Consumable Parts and Services

Consumables primarily represent parts used by the pump and cutting head during operation. Many of these parts are proprietary in nature. We sell various tools and accessories which incorporate UHP technology, as well as aftermarket consumable parts and service for our products. Sales of consumable parts and services accounted for 26% of fiscal 2002 revenues.

Fresher Under Pressure Food Systems

In fiscal 1999 we began selling our food safety technology, Fresher Under Pressure. Revenues associated with this technology amounted to $11.9 million for fiscal 2002. This decline from fiscal 2001 revenues of $14.7 million is the result of a reorganization of the business, including a comprehensive product evaluation and a program to focus on specific markets within the food industry, as well as from purchasing decisions being placed on hold after the events of September 11th. We anticipate Fresher Under Pressure revenue will grow at a strong pace going forward. Fresher Under Pressure sales accounted for 6% of fiscal 2002 revenues.

Marketing and Sales

We market and sell our products worldwide through our headquarters in Kent, Washington (a suburb of Seattle) and through subsidiaries, divisions and joint ventures located in Columbus, Ohio; Wixom, Michigan; Jeffersonville, Indiana; Lafayette, Louisiana; Birmingham, England; Bretten, Germany; Burlington and Windsor, Canada; Hsinchu, Taiwan; Shanghai and Beijing, China; Incheon, Korea; Sao Paulo, Brazil; Milan, Italy; Madrid, Spain; Nagoya and Tokyo, Japan and Västerås, Sweden. We sell directly to customers in North and South America, Europe, and Asia, and have distributors or agents in most other countries. No customer accounted for 10% or more of our revenues during any of the three years ended April 30, 2002.

We focus our marketing efforts on specific target industries, applications and markets. To enhance the effectiveness of sales efforts, our marketing staff and sales force gather detailed information on the applications and requirements in targeted market segments. This information is used to develop standardized and customized solutions using UHP and robotics technologies. We provide turnkey systems, including system design, specification, hardware and software integration, equipment testing and simulation, installation, start-up services, technical training and service.

Our marketing techniques utilize both a telemarketing program, as well as the internet, to identify and qualify sales leads, thus increasing the efficiency of the direct sales staff. Market responses to these activities are carefully screened to identify new areas of interest and new potential applications in our target markets. We also attend trade shows for targeted market segments and advertise in selected industry publications.

Patents

We hold a large number of UHP technology and related systems patents. While we believe the patents we hold are valid, we do not consider our business dependent on patent protection. In addition, we have over the years developed non-patented proprietary expertise and know-how in UHP applications, and in the manufacture of these systems, which we believe allows us to remain in the technological forefront of our competitors.

We believe the patents we hold and have in process, along with the proprietary application and manufacturing know-how, act as a barrier to entry into many of the markets we serve.

Backlog

At April 30, 2002, our backlog was $33 million compared to the prior year end backlog of $83 million. Our products, exclusive of General Presses and Fresher Under Pressure products, can be shipped within a four to ten week period. General Presses and Fresher Under Pressure products typically have lead times of six to 18 months. The changes in our backlog are not necessarily indicative of comparable variations in sales or earnings. The April 30, 2002, backlog represented 18% of fiscal 2002 sales. The unit sales price for most of our products and services is relatively high (typically ranging from tens of thousands to millions of dollars) and individual orders can involve the delivery of several hundred thousand dollars of products or services at one time. Furthermore, some items in backlog can be shipped more quickly than others, and some have higher profit margins than others.

Competition UHP Systems

The major competitors for UHP waterjet cutting and cleaning systems are conventional cutting and cleaning methods. These methods include lasers, saws, knives, shears, plasma, routers, drills and abrasive blasting techniques. A UHP waterjet cutting system has many advantages over conventional cutting systems, including no generation of heat or airborne dust, easy adaptability to complex cutting programs, versatility in the different types of materials that can be cut, faster cutting speed and the ability to produce finished edges. These factors, in addition to elimination of secondary processing in most circumstances, enhance manufacturing productivity.

Waterjet cleaning offers many advantages over other cleaning methods, such as the ability to remove difficult coatings or deposits from a surface without damaging underlying material. A UHP waterjet system is an environmentally-friendly answer to many difficult cleaning applications and can often be justified solely on the basis of hazardous material containment or reduction of secondary operations in the cleaning process. The many advantages of waterjet technology listed above have positioned us in the market as a leading alternative to traditional cutting and cleaning methods.

We also compete with other waterjet cutting and cleaning equipment manufacturers in the United States, Europe and Asia. Our robotics technology provides a competitive advantage as the only total solution supplier of complete waterjet cutting and cleaning systems. Although independent market information is not generally available, based upon data assembled from internal and external sources, we believe we are the largest manufacturer of UHP waterjet cutting systems in the world.

Our presses, which consist of isostatic and flexform presses, represent a niche segment of the general press market that use UHP technology for specialized applications, primarily to produce high strength and precision or low volume parts. We compete in this market against forging and casting methods of production which currently represent a significantly larger market than our technology. However, our press technology is necessary to produce high quality parts with high material density, no internal voids or cracks and beneficial isotropic properties.

Competition Fresher Under Pressure

Pasteurization is the primary method used to help ensure that fresh food is safe to eat. Fresher Under Pressure represents a break-through technology which destroys harmful pathogens such as E. coli bacteria, as well as the spoilage microorganisms, thus increasing shelf life while ensuring a safe, healthy product. There are several other companies throughout the world that are trying to develop a similar UHP processing technology. These companies have had little commercial success, and we believe our patents and know-how make us the world leader in this technology. Currently our equipment is the only equipment being used in any significant commercial applications. There are also other technologies being developed for food safety, including irradiation and ultra-violet light. Of the alternative technologies, irradiation is the most developed. The primary target market for irradiation is the raw meat industry, while Fresher Under Pressure is targeting the prepared meat market, i.e., sliced deli meats, etc., as well as the premium food market, such as fresh juices.

Overall, we believe that our competitive position is enhanced by:

- Technically advanced, proprietary products that provide excellent reliability, low operating costs, and user-friendly features;
- A strong application-oriented, problem-solving marketing and sales approach;
- An active research and development program that allows us to maintain technological leadership;

The ability to provide complete turnkey systems;

A strong position in key markets, such as in the U.S., Canada, Japan, southeast Asia and Europe;

Strong OEM customer ties, and

Efficient production facilities.

Research and Engineering

We have spent between 8% and 9% of revenues in research and engineering during each of the three years ended April 30, 2002. Research and engineering expenses were $16.0 million, $18.2 million, and $14.7 million in fiscal 2002, 2001 and 2000, respectively. We will continue a high level of research and engineering spending to maintain our technological leadership position through development of new products and applications, as well as enhancement of our current product lines.

Employees

As of April 30, 2002, we employed 895 full time and 10 part time personnel. There are no material collective bargaining agreements to which we are a party.

Foreign and Domestic Operations

See Note 16 of Notes to Consolidated Financial Statements for information regarding foreign and domestic operations.

Safe Harbor Statement

Statements in this report that are not strictly historical are "forward looking" statements which should be considered as subject to the many uncertainties that exist in our operations and business environment. These statements are only predictions and actual results could differ materially from those anticipated in these statements based on those factors identified below. The words "believe",

"expect", "intend", "anticipate", variations of such words and similar expressions identify forward-looking statements but their absence does not mean that the statement is not forward looking. Significant factors which may affect our future performance include the following:

Our growth depends, in part, on the successful development of improvements to our equipment and on the introduction of new products and technologies. Improvements in competing technologies could affect our ability to market our products.

Our financial performance could be affected if a change in overall economic conditions results in a decrease in the purchase of capital goods by our customers. Changes in the mix of products we sell can also affect the gross margin achieved.

The success of our food safety business depends on consumer and industry acceptance of the UHP Fresher Under Pressure technology, as well as our ability to conform the technology to any food and beverage regulations.

Statements concerning the above may be forward looking. These statements are not guaranties of future performance and are subject to certain risks, uncertainties and assumptions described above that are difficult to predict.

Item 2. Properties

Our headquarters and primary manufacturing facilities are located in two leased facilities in Kent, Washington. We also manufacture product in Wixom, Michigan; Jeffersonville, Indiana; Columbus, Ohio; Bretten, Germany; Burlington, Canada; Hsinchu, Taiwan and Västerås, Sweden. We sell products through all of these locations, in addition to sales offices located in Lafayette, Louisiana; Birmingham, England;

Milan, Italy; Madrid, Spain; Lyon, France; Mezzovico, Switzerland; Nagoya and Tokyo, Japan; Shanghai and Beijing, China; Incheon, Korea; Sao Paulo, Brazil and Windsor, Canada.

All of our facilities are leased with the exception of our manufacturing facility in Jeffersonville, Indiana.

We believe that our facilities are suitable for our current operations and that expansion in the near term will not require additional space. We have completed the consolidation of our German operations from the Darmstadt facility into the Bretten facility and will continue to evaluate our manufacturing capacity to match production levels.

We are currently in negotiations for our Kent manufacturing operations. The current lease expires in December 2002.

Item 3. Legal Proceedings

We are party to various legal actions incident to the normal operation of our business, none of which is believed to be material to our financial position and results of operations. See Notes 1 and 14 of Notes to Consolidated Financial Statements for a description of our product liability claims.

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

See page 10

Item 6. Selected Financial Data.

See page 10

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

See pages 11 through 19

Item 7a. Quantitative and Qualitative Disclosures About Market Risk.

See page 19

Item 8. Financial Statements and Supplementary Data.

See pages 21 through 49

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

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Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

The principal market for Flow International Corporation's common stock is the over-the-counter market. Our stock is traded on the NASDAQ National Market under the symbol "FLOW". The range of high and low sales prices for our common stock for the last two fiscal years is set forth in the following table.

	Fiscal Year 2002		Fiscal Year 2001	
	High	**Low**	**High**	**Low**
First Quarter	$ 13.91	$ 9.55	$ 11.50	$ 10.00
Second Quarter	13.79	8.55	13.00	9.88
Third Quarter	12.90	9.09	12.56	10.12
Fourth Quarter	11.23	9.25	12.50	9.16

There were 1,011 shareholders of record as of July 5, 2002.

We have not paid dividends to common shareholders in the past. Our Board of Directors intends to retain future earnings to finance development and expansion of our business and does not expect to declare dividends to common shareholders in the near future.

Item 6. Selected Financial Data

	Year Ended April 30,				
	2002	**2001**	**2000**	**1999**	**1998***
	(In thousands, except per share amounts)				
Income Statement Data:					
Revenue	$ 179,242	$ 207,193	$ 195,556	$ 149,297	$ 159,482
(Loss) Income Before Cumulative Effect of Change in Accounting Principle	(5,996)	5,161	4,656	6,722	4,803
Net (Loss) Income	(5,996)	2,509	4,656	6,722	4,803
Basic (Loss) Earnings Per Share Before Change in Accounting Principle	(0.39)	0.35	0.32	0.46	0.33
Basic (Loss) Earnings Per Share	(0.39)	0.17	0.32	0.46	0.33
Diluted (Loss) Earnings Per Share Before Change in Accounting Principle	(0.39)	0.34	0.31	0.45	0.32
Diluted (Loss) Earnings Per Share	(0.39)	0.17	0.31	0.45	0.32
Balance Sheet Data:					
Working Capital	$ 87,634	$ 91,750	$ 87,552	$ 79,993	$ 59,863
Total Assets	206,476	206,944	194,639	179,152	121,181
Short-Term Debt	6,488	8,464	9,216	4,604	6,905
Long-Term Obligations	81,625	85,652	70,397	64,614	32,076
Shareholders' Equity	70,684	66,390	64,975	64,022	61,195

*

Includes the results of operations and related restructuring provisions associated with certain business units disposed of during fiscal 1998.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

We provide ultrahigh-pressure ("UHP") systems and related products and services to a wide variety of industries. Waterjet cutting is recognized as a better alternative to traditional cutting methods such as lasers, saws or plasma. It is faster, has greater versatility in the types of products it can cut and eliminates the need for secondary processing operations. We presently divide our revenues according to our identified segments: UHP Systems and Fresher Under Pressure. For analytical purposes, our UHP Systems are further broken down into 'Systems' and 'Consumable Parts and Services'.

CONSOLIDATED REVENUES BY SEGMENT

	Year Ended April 30,								
		2002	%		2001	%		2000	%
	(In thousands)								
UHP Systems:									
Systems	$	121,433	68	$	138,433	67	$	132,697	68
Consumable Parts and Services		45,892	26		54,085	26		55,708	28
Fresher Under Pressure Food Systems		11,917	6		14,675	7		7,151	4
Total Revenues	$	179,242	100	$	207,193	100	$	195,556	100

Fiscal 2002 Compared to Fiscal 2001

Our total revenues for the year ended April 30, 2002 were $179.2 million, a decrease of $28.0 million (13%) over the prior year period. Fresher Under Pressure food technology revenues totaled $11.9 million, a $2.8 million decrease from fiscal 2001 revenues of $14.7 million. Excluding Fresher Under Pressure, revenues decreased $25.2 million (13%), due to a 25% decline in domestic revenues, impacted by the tightening economy which was further exacerbated by the events of September 11th. This decline was offset in part by a $4.5 million (6%) growth in international sales. Both domestic and international sales include the patented wire wound isostatic and flexform presses ("General Press"). General Press revenues increased $6.5 million (21%) to $37.1 million in fiscal 2002. Excluding General Press revenues, as well as Fresher Under Pressure, fiscal 2002 domestic sales decreased 21% as compared to the overall United States machine cutting tool market which declined 34% for the year ended March 31, 2002, according to The Association for Manufacturing Technology ("AMT"). Consistent with historical performance, waterjet technology continues to gain market share due to its advantages over traditional cutting technologies, even in a down market. These advantages, as well as continued product development, should allow us to continue to gain market share; however, growth will be affected by the performance of the broader machine tool market.

Our revenues are segregated according to our currently identified segments: UHP Systems and Fresher Under Pressure. Our UHP Systems are further comprised of System sales and Consumable Parts and Services sales. Systems are generally comprised of a pump along with the robotics or articulation used to move the cutting or cleaning head. Systems are further broken down between standard cutting systems, standard automotive systems, and special or custom designed systems used primarily in the aerospace and automotive markets, as well as General Press systems. Systems sales in fiscal 2002 were $121.4 million, a decrease of $17 million (12%) over the prior year resulting from the soft economic conditions which have slowed capital spending decisions. Consumables are primarily parts used by the pump and cutting head during operation. Consumable parts and services revenues decreased $8.2 million (15%) to $45.9 million in fiscal 2002. The slowdown in the consumable sales growth reflects a decrease of machine utilization in the worldwide machine tool market, as well as success of our goal of providing lower operating costs through longer life parts.

Fiscal 2002 revenues included $11.9 million related to food technology or "Fresher Under Pressure", a 19% decrease from the fiscal 2001 total of $14.7 million. This decline from fiscal 2001 revenues of $14.7 million is the result of a reorganization of the business, including a comprehensive product evaluation and a program to focus on specific markets within the food industry, as well as from purchasing decisions being placed on hold after the events of September 11th. Our UHP technology exposes foods to pressures from 50,000 to over 100,000 psi for a short period of time, typically 30 seconds to several minutes. This process reduces food-borne pathogens such as *Camplyobacter, E. coli, Listeria monocytogenes, salmonella and Vibro vulnificus*. UHP achieves the effects of pasteurization on packaged foods, offering the greatest level of food safety with minimal effects on the nutrition, taste, texture, or color of food, while also extending shelf life. We can UHP process both pumpable and non-pumpable foods. For pumpable foods, we utilize a technology which features a 'continuous flow' concept whereby pumpable foods such as juice, salsas, guacamole, liquid eggs and salad dressings are pumped into the pressure chambers, pressurized and then pumped into the next stage of the process, such as bottling. This continuous flow process is fully automated and requires just a single operator. For non-pumpable foods, such as meats, seafood, vegetables and fruits, we utilize our patented large wire-wound pressure vessel batch technology. This makes us the only supplier of complete UHP systems to the food industry. We anticipate selling and leasing the continuous flow systems and selling the batch systems. The leases have a fixed monthly charge plus a per gallon or per pound usage fee. Lease revenue is recognized monthly based on throughput. Revenue for the batch systems is recognized on the percentage of completion method.

Our European revenues of $52.8 million increased $9.4 million (22%) compared to the prior year and represented 29% of fiscal 2002 consolidated revenue. This increase was spurred by a growth in General Press sales of $15.0 million offset by declining revenues in European shapecutting sales of $7.0 million resulting from the economic softness in the European market. Sales in the remainder of the world, primarily Asia, Canada, Mexico and South America, decreased 15% to $28.3 million, the result of weak global economic conditions. We typically sell our products at higher prices outside the United States due to the costs of servicing these markets.

Gross profit for the year ended April 30, 2002 decreased $14.7 million (17%) as compared to the prior fiscal year. Gross profit expressed as a percentage of revenue was 40% in fiscal 2002 as compared to 41% in fiscal 2001. In general, gross margin rates on our systems sales are less than 45% as opposed to consumables sales which are in excess of 50%. On average, standard systems carry higher margins than the custom engineered systems, which include General Presses. As such, the gross margin percentage varies depending on the revenue mix between systems, both standard and special, and consumables sales. Systems sales, including Fresher Under Pressure, represented 74% of fiscal 2002 revenues, flat from the prior year, and consumables sales represented 26% of fiscal 2002 revenues consistent with the prior year. The slight decrease in current year gross margin was a function of the increase, as a percentage of total revenues, of General Press systems, as compared to standard systems sales.

Operating expenses decreased $1.7 million (2%) as compared to the prior year. Expressed as a percentage of revenues, total operating expenses increased to 39% in fiscal 2002 from 34% in fiscal 2001. Marketing expenses of $31.6 million decreased $1.5 million (4%) as compared to the prior year, but expressed as a percentage of revenues, increased to 18% from 16% in the prior year. The current year expense decrease results from the lower commission expense associated with lower revenue levels as well as lower trade show expenses, having not incurred IMTS trade show expenses in fiscal 2002 as the show is held every other year. Research and engineering expenses in fiscal 2002 decreased $2.1 million (12%) to $16.0 million as compared to the prior year due to a global realignment of resources. As a percentage of revenues, research and engineering expenses were 9% in fiscal 2002 which is comparable to fiscal 2001. Our management will continue to pursue technological advances through focused research and engineering spending to maintain our technological superiority. General

and administrative expenses of $17.4 million decreased $2.4 million (12%) for the year as compared to the prior year. A portion of the decrease stems for worldwide staffing reductions as we continue to realign our resources while the remaining $1.6 million of the decrease stems from the adoption of Statement of Financial Accounting Standards No. 142 ("FAS 142"), "Goodwill and Other Intangible Assets", in May 2001, which discontinued the amortization of goodwill. Expressed as a percentage of revenues however, general and administrative expenses were comparable to the prior year at 10%. Another component of FAS 142 requires that we conduct a periodic evaluation of the carrying value of our goodwill balances. From this review, we identified and expensed $4.3 million of asset impairment in our automotive divisions which have been highly impacted from recent economic events. This amount is reflected in the Impairment of Goodwill caption on our Consolidated Statement of Operations.

Operating income can vary significantly for domestic and foreign operations, but is primarily the result of product mix variations and volume from year to year. The domestic machine tool market extended its weakness into fiscal 2002 and the U.S. dollar continued to gain strength over the European currencies.

Net interest expense of $8.8 million increased $1.8 million (25%) in fiscal 2002 compared to fiscal 2001. The increase in interest expense is due to higher average debt levels associated with the additional financing related to the development of the Fresher Under Pressure program, as well as higher weighted average cost of capital year over year. Average debt outstanding increased $4.3 million (5%) during fiscal 2002 compared to the prior year. This increase in debt was solely related to funding the Fresher Under Pressure technology's operating loss. During fiscal 2002, other expense, net, totaled $2.3 million compared to other expense, net, of $613,000 in fiscal 2001. This increase is comprised primarily of the write-down of two investments to their market value at April 30, 2002 which amounted to $1.3 million.

The fiscal 2002 income tax benefit was computed using a rate of 34% as compared to 30% in the previous year. The current year tax rate is a blended rate of the various tax jurisdictions in which we conduct business. In fiscal 2001, the income tax rate was lower than the statutory rates primarily due to lower foreign tax rates and benefits from the foreign sales corporation. We regularly evaluate the likelihood of utilizing our deferred tax assets and adjust the valuation allowance thereon based on an evaluation of both positive and negative evidence related to these deferred tax assets.

The weighted average number of shares outstanding used for the calculation of Basic and Diluted (loss) earnings per share is 15,234,000 for fiscal 2002 and 14,828,000 and 15,109,000, respectively, for fiscal 2001.

The effect of the adoption of SAB 101, Revenue Recognition in Financial Statements, during fiscal 2001 is shown as a cumulative effect of change in accounting principle, net of tax. Included in the consolidated results of operations is the performance of the Fresher Under Pressure technology, and the performance of the non-food business, cutting, cleaning and isostatic presses. We have used estimates to determine the allocable costs of the consolidated operations to the Fresher Under Pressure results of operations. Based on these estimates, Fresher Under Pressure lost $9.8 million or $.64 per share in fiscal 2002 and the waterjet operations generated net income of $3.8 million or $.25 per share. On a consolidated basis, we recorded fiscal 2002 net loss of $6.0 million, or $.39 Basic and Diluted loss per share as compared to $2.5 million, or $.17 Basic and Diluted earnings per share in fiscal 2001.

Fiscal 2001 Compared to Fiscal 2000

Revenues for the year ended April 30, 2001 were $207.2 million, an increase of $11.6 million (6%) over the prior year period. Fresher Under Pressure food safety revenues totaled $14.7 million, a doubling of the fiscal 2000 Fresher Under Pressure revenues of $7.2 million. Excluding Fresher Under Pressure, revenues increased $4.2 million (2%), which was comprised of a 17% growth in domestic revenues, offset in part by a 14% decline in international sales. Excluding General Press revenues, as

well as Fresher Under Pressure, domestic sales increased 28% as compared to the overall United States machine cutting tool market which declined 2% for the 12 months ended March 31, 2001, according to The Association for Manufacturing Technology ("AMT"). Consistent with historical performance, waterjet technology continues to gain market share due to its advantages over traditional cutting technologies, even in a down market.

Our worldwide General Press business decreased $12.7 million (29%) to $30.5 million. However, the current fiscal year total is more reflective of a normal business level as the prior year included a $14 million Ford press, the single largest press ever sold.

During fiscal 2001 the Company adopted Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements," which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC. SAB 101 outlines the criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. Under SAB 101, revenue recognition is delayed until after installation of the Company's standard UHP systems. Prior to SAB 101 adoption, the Company recognized revenue for standard systems upon shipment. Standard systems sales represent approximately one third of the Company's consolidated revenues. The remaining consolidated revenue represents either consumable parts sales for which revenue is recognized upon shipment, or special systems for which revenue is recognized under the percentage of completion method. The impact of the SAB 101 adoption as described in Note 2 to the consolidated financial statements was not significant to consolidated current year revenues.

Systems sales in fiscal 2001 were $138.4 million, an increase of $5.7 million (4%) over the prior year. Excluding General Presses, systems revenues increased $19.2 million (21%). Consumable parts and services revenues decreased $1.6 million (3%) to $54.1 million in fiscal 2001.

European revenues of $43.3 million decreased $10.9 million (20%) compared to the prior year and represented 21% of fiscal 2001 revenues. The majority of this decrease, $8.4 million, represents a decline in sales of General Presses. The remainder of the decrease was exchange rate related as the Euro continued to weaken against the U.S. dollar during the year. Asian revenues increased 13% to $18.6 million and accounted for 9% of consolidated revenues. Sales in the remainder of the world, primarily Canada, Mexico and South America, decreased

19% to $14.6 million.

Gross profit for the year ended April 30, 2001 increased $9.9 million (13%). Gross profit expressed as a percentage of revenue was 41% in fiscal 2001 as compared to 39% in fiscal 2000. The prior year includes a $2.7 million charge associated with a Pressure Systems' loss contract. Excluding this impact, the gross margin percent in fiscal 2000 was 40%. The gross margin percentage varies depending on the revenue mix between systems, both standard and special, and consumables sales. Systems sales, including Fresher Under Pressure, represented 74% of fiscal 2001 revenues, up from 72% in the prior year, and consumables sales represented 26% of fiscal 2001 revenues, down from 28% in the prior year. The increase in current year gross margin was a function of the shift in revenue towards a greater percentage of standard system sales, as General Press systems revenues decreased.

Operating expenses increased $8.3 million (13%) as compared to the prior year. Expressed as a percentage of revenues, total operating expenses increased to 34% in fiscal 2001 from 32% in fiscal 2000. Marketing expenses of $33 million increased $4 million (14%) as compared to the prior year, and expressed as a percentage of revenues, increased to 16% from 15% in the prior year. The current year increase includes expenses associated with additional Fresher Under Pressure marketing activity, as well as the IMTS trade show. Research and engineering expenses in fiscal 2001 increased $3.5 million (24%) to $18.2 million as compared to the prior year. As a percentage of revenues, research and engineering expenses were 9% in fiscal 2001 as compared to 8% in fiscal 2000. Approximately one half of this increase is continued development of the Fresher Under Pressure technology and the other half is advancement of the waterjet cutting technology. General and administrative expenses of $19.7 million increased $824,000 (4%) for the year as compared to the prior year. Expressed as a percentage of revenues however, general and administrative expenses were comparable to the prior year at 10%.

Operating income is subject to product mix variations and volume from year to year. It can experience significant changes for domestic and foreign operations. In fiscal 2001 operating income began to reflect the effects of the weakening domestic machine tool market thus yielding lower results than in the prior year same period.

Net interest expense of $7 million increased $2 million (41%) in fiscal 2001 compared to fiscal 2000. The increase in interest expense is due to higher average debt levels associated with the additional financing related to the development of the Fresher Under Pressure program. Average debt outstanding increased $12.4 million (17%) during fiscal 2001 compared to the prior year. This increase in debt was solely related to funding the Fresher Under Pressure technology, from both asset additions as well as its operating loss. During fiscal 2001, other expense, net, totaled $613,000 compared to other expense, net, of $2 million in fiscal 2000. This reduction is due in part to the decrease in the minority interest for majority owned joint ventures.

Fiscal 2001 income tax expense was 30% of income before tax as compared to 28% in the previous year. The income tax rates were lower than the statutory rates in both the current and prior year due primarily to lower foreign tax rates and benefits from the foreign sales corporation. Additionally, the Company regularly evaluates the likelihood of utilizing its deferred tax assets and adjusts the valuation allowance thereon based on an evaluation of both positive and negative evidence related to these deferred tax assets.

The weighted average number of shares outstanding used for the calculation of Basic and Diluted earnings per share is 14,828,000 and 15,109,000, respectively, for fiscal 2001 and 14,716,000 and 15,127,000, respectively, for fiscal 2000.

The effect of the adoption of SAB 101 during fiscal 2001 is shown as a cumulative effect of change in accounting principle, net of tax. Included in the consolidated results of operations is the performance of the Fresher Under Pressure technology, and the performance of the non-food business, cutting, cleaning and isostatic presses. Management has used estimates to determine the allocable costs of the consolidated operations to the Fresher Under Pressure results of operations. Based on these estimates, Fresher Under Pressure lost $9.4 million or $.62 per share in fiscal 2001 and the non-food operations generated net income of $11.9 million or $.79 per share. On a consolidated basis, the Company recorded fiscal 2001 net income of $2.5 million, or $.17 Basic and $.17 Diluted earnings per share as compared to $4.7 million, or $.32 Basic and $.31 Diluted earnings per share in fiscal 2000

Liquidity and Capital Resources

We generated $5.6 million in cash from operations during fiscal 2002 as compared to using $5.6 million in fiscal 2001. The increased focus on receivables and inventory management allowed us to convert these assets into cash during the year. At April 30, 2002, we had $11.3 million in inventory and fixed assets associated with Fresher Under Pressure, compared to $22.7 million last year, a decrease of $11.4 million. Total debt at April 30, 2002 was $88.1 million, a decrease of $6.0 million (6%) from April 30, 2001. On May 31, 2001, we signed and funded a $35 million subordinated debt agreement with The John Hancock Life Insurance Company ("Hancock"). The agreement requires semi-annual interest only payments of 13% and two equal principal payments due on April 30, 2007 and April 30, 2008. In addition, we issued to Hancock warrants for 859,523 shares of our common stock exercisable at $.01 per share. We used the proceeds of the debt to pay down part of the existing senior debt, increase our borrowing capacity and continue to expand our product and marketing programs for Fresher Under Pressure. This financing is subordinated debt, which typically carries a higher rate of interest. We do not consider this higher cost of funds to be a trend, nor do we expect to incur any changes to the cost of capital due to this transaction. We believe that the available credit facilities and working capital generated by operations will provide sufficient resources to meet our operating and capital requirements for the next 12 months. Our Credit Agreement and Private Placement require us

to comply with certain financial covenants. The covenants were amended as of April 30, 2002 to respond to the weakening economic conditions. We are in compliance with all covenants, as amended.

The Company has been able to satisfy its needs for working capital and capital expenditures, due in part to its ability to access adequate financing arrangements. The Company expects that operations will continue, with the realization of assets and discharge of liabilities in the ordinary course of business. Compliance with future debt covenants requires the Company to meet its operating projections, which include achieving certain revenues and consistent operating margins. If the Company is unable to comply with the amended debt covenants, and the Company's lenders are unwilling to waive or amend the debt covenants, certain components of the Company's long-term obligations and notes payable would become current, and the Company would be required to seek alternative financing. Alternative sources of financing may not be available if required or, if available, may not be on terms satisfactory to the Company. If the Company is unable to obtain alternative financing on satisfactory terms, it could have a material adverse effect on the Company's business, and the Company may be required to curtail capital spending, further reduce expenses and otherwise modify its planned operations.

	Payments Due by Period				
	Less than 1 year	**1-3 years**	**4-5 years**	**After 5 years**	**Total**
Long-term debt and notes payable	$ 6,488	$ 55,182	$ 17,500	$ 17,500	$ 96,670
Operating leases	4,108	5,204	3,963	837	14,112
Total contractual cash obligations	$ 10,596	$ 60,386	$ 21,463	$ 18,337	$ 110,782

Long-term debt obligations, notes payable and lease commitments are expected to be met from working capital provided by operations and, as necessary, by other borrowings.

Our capital spending plans currently provide for outlays of approximately $6 million to $9 million in fiscal 2003. It is expected that funds necessary for these expenditures will be generated internally and through available credit facilities.

Gross receivables of $62.8 million at April 30, 2002 decreased $330,000 from April 30, 2001. Trade receivables decreased $11.4 million (23%) due to collection of several large receivables which was offset by an increase of $11.1 million in unbilled receivables from several non-standard and food systems, which have lead times from six to 18 months. Additionally, longer payment terms are sometimes negotiated on large system orders. We do not believe these timing issues will present a material adverse impact on our short-term liquidity requirements.

Inventory of $48.2 million at April 30, 2002 represents a decrease of $8.6 million (15%) compared to April 30, 2001. Included in these totals is a decrease in work in process of $8.2 million, with the majority of this decrease related to Fresher Under Pressure production.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us 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 our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, see Note 1 of Notes to Consolidated Financial Statements.

Revenue Recognition

We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), as amended by SAB 101A and 101B. SAB 101 requires that revenue can only be recognized when is realized or realizable and earned. Revenue generally is realized or realizable and earned when all of four of the following criteria have been met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criterion (4) is based on our judgments regarding the collectibility of those amounts. Should changes in conditions cause us to determine this criterion is not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

For non-standard and long lead time systems, including the Fresher Under Pressure technology, we recognize revenues using the percentage of completion method in accordance with Statement of Position 81-1 (SOP 81-1), "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." We use the cost to cost method, measuring the costs incurred on a project at a specified date, as compared to the estimated total cost of the project. Revenues from equipment on lease are recognized as rental income in the period earned. Shipping revenues and expenses are recorded in revenue and costs of goods sold, respectively.

Product Warranty Reserve

Our products are generally covered by a warranty for up to 12 months. We accrue a warranty reserve for estimated costs to provide warranty services. Our estimate of costs to service our warranty obligations is based on historical experience and expectation of future conditions. To the extent we experience increased warranty claim activity or increased costs associated with servicing those claims, our warranty accrual will increase resulting in decreased gross profit.

Valuation of Accounts Receivable

We use estimates in determining our allowance for bad debts that are based on our historical collection experience, current trends, credit policy and a percentage of our accounts receivable by aging category. In determining these percentages, we review historical write-offs of our receivables and we have a low experience of write-offs. Additionally, we also review current trends in the credit quality of our customers, as well as changes in our internal credit policies.

Valuation of Obsolete/Excess Inventory

We currently record a reserve for obsolete or excess inventory for parts and equipment that is no longer used due to engineering and design changes to our products. We regularly monitor our inventory levels. If we do not deplete the inventory through normal or expected usage, we may record a reserve for any expected obsolete or excess inventory. If this estimate for obsolete or excess inventory is understated, operating income would be reduced.

Impairment of Goodwill

We periodically evaluate acquired businesses for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on expected operational performance of our operating and acquired businesses, market conditions and legal factors. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with these businesses is

impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

Legal Contingencies

At any time, we may be involved in certain legal proceedings. As discussed in Note 14 of our consolidated financial statements, as of April 30, 2002, we have accrued our estimate of the probable costs for the resolution of these claims. This estimate has been developed in consultation with outside legal counsel and is based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. We do not believe these proceedings will have a material adverse effect on our consolidated financial position. However, it is possible that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions, or the effectiveness of our strategies, related to these proceedings.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 133 ("FAS 133"), "Accounting for Derivative Instruments and Hedging Activities", was effective beginning May 1, 2001. FAS 133 standardizes the accounting for derivative instruments by requiring that an entity recognize those items as assets or liabilities in the financial statements and measure them at fair value. We adopted FAS 133 without a material impact on the financial condition or results of operations.

Statement of Financial Accounting Standards No. 142 ("FAS 142"), "Goodwill and Other Intangible Assets" states that goodwill should not be amortized, but rather periodically analyzed using an impairment-only approach. Upon our early adoption of FAS142 on May 1, 2001, an initial evaluation of goodwill impairment was performed, and no impairment charges were taken. In the fourth quarter of fiscal 2002, we took a $4.3 million impairment charge commensurate with the continued depression of the automotive sector which decreased the implied fair value of certain of our divisions.

Statement of Financial Accounting Standards No. 143 ("FAS 143"), "Accounting for Asset Retirement Obligations" provides accounting and reporting standards for recognizing obligations related to asset retirement costs associated with the retirement of tangible long-lived assets. We will be required to adopt this statement no later than May 1, 2003. We expect to adopt this statement in fiscal 2004 without a material impact on our financial position, results of operations and cash flows.

Statement of Financial Accounting Standards No. 144 ("FAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets", is required to be adopted as of May 1, 2002. FAS 144 governs the recognition and measurement of the impairment of long-lived assets to be held and used and the measurement of long-lived assets to be disposed of by sale. We expect to adopt this statement in fiscal 2003 without a material impact on our financial position, results of operations and cash flows.

Statement of Financial Accounting Standards No. 145 ("FAS 145"), "Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections as of April 2002" makes certain technical corrections and supersedes other technical guidance. Certain provisions are required to be adopted immediately, while other provisions are effective for transactions occurring after May 15, 2002. We do not expect adoption of FAS 145 to have a material impact on our financial position, results of operations and cash flows.

Statement of Financial Accounting Standards No. 146 ("FAS 146"), "Accounting for Exit or Disposal Activities" addresses the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force (EITF) has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an

Activity (including Certain Costs Incurred in a Restructuring)". FAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002. We do not expect adoption of FAS 146 to have a material impact on our financial position, results of operations and cash flows.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk:

Market risk exists in our financial instruments related to an increase in interest rates, adverse changes in foreign exchange rates relative to the U.S. dollar, as well as financial risk management and derivatives. These exposures are related to our daily operations.

Interest Rate Exposure At April 30, 2002, we had $96.7 million in interest bearing debt. Of this amount, $39.3 million was fixed rate debt with interest rates ranging from 7.7% to 13% per annum. The remaining debt of $57.4 million was variable with $52.0 million of this total bearing a rate of LIBOR + 3.5% or 5.375% at April 30, 2002. The majority of the remaining floating rate debt was at prime + 2%, or 6.75%. See Note 9 to the Consolidated Financial Statements for additional contractual information on our debt obligations. Market risk is estimated as the potential for interest rates to increase 10% on the variable rate debt. A 10% increase in interest rates would result in an approximate additional annual charge to our pretax profits and cash flow of $313,000. At April 30, 2002, we had no derivative instruments to offset the risk of interest rate changes. We may choose to use derivative instruments, such as interest rate swaps, to manage the risk associated with interest rate changes. We had none in effect at April 30, 2002.

Foreign Currency Exchange Rate Risk We transact business in various foreign currencies, primarily the Canadian dollar, the Eurodollar, the Japanese yen, the New Taiwan dollar, and the Swedish crown. The assets and liabilities of our foreign operations, with functional currencies other than the U.S. dollar, are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the period. Aggregate transaction gains and losses included in the determination of net income have not been material. Based on our overall currency rate exposure at April 30, 2002, a near-term 10% appreciation or depreciation of the U.S. dollar would not have a significant effect on our financial position, results of operations and cash flows over the next fiscal year. At April 30, 2002, we had several forward exchange contracts to offset the risk of foreign currency exchange rate changes. We may continue to use derivative instruments, such as forward exchange rate contracts, to manage the risk associated with foreign currency exchange rate changes.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

Management is responsible for the fair and accurate presentation of information in this Form 10-K. The consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America. Financial and operating information comes from Company records and other sources. Certain amounts are, of necessity, based on judgment and estimation.

We believe that adequate accounting systems and financial controls are maintained to ensure that the Company's records are free from material misstatement and to protect the Company's assets from loss or unauthorized use. In addition, the Audit Committee of the Board of Directors periodically meets with PricewaterhouseCoopers LLP, the Company's independent accountants, and management to review the work of each, to discuss financial reporting matters, and to review auditing and internal control procedures.

/s/ MICHAEL R. O'BRIEN

Michael R. O'Brien
Chief Financial Officer

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements are filed as a part of this report:

All other schedules are omitted because they are not applicable.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Flow International Corporation

In our opinion, the consolidated financial statements and related schedule listed in the accompanying index present fairly, in all material respects, the financial position of Flow International Corporation and its subsidiaries at April 30, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2002, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

Seattle, Washington
June 5, 2002

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FLOW INTERNATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	April 30, 2002	April 30, 2001
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$ 7,120	$ 6,808
Receivables, net	62,774	63,104
Inventories, net	48,164	56,800
Deferred Income Taxes	1,980	1,882
Other Current Assets	11,608	8,607
Total Current Assets	131,646	137,201
Property and Equipment, net	16,996	15,935
Equipment Held for Lease, net	5,968	5,438
Intangible Assets, net	13,182	13,913
Goodwill, net	16,332	20,667