

FLOW INTERNATIONAL CORP  
Form 10-Q/A  
February 01, 2006  
Table of Contents

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q/A**  
**(AMENDMENT NO. 1)**

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

For the quarterly period ended October 31, 2005

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 20, 2006 is 34,661,613 shares.

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**Table of Contents**

EXPLANATORY NOTE: As described in Note 2 to the Condensed Consolidated Financial Statements, Flow International Corporation has restated its previously filed Condensed Consolidated Financial Statements for the three and six months ended October 31, 2005 and 2004 included in its Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2005, which was filed with the Securities and Exchange Commission ( SEC ) on December 20, 2005. As reported in our April 30, 2005 Form 10-K/A Amendment No.1, we previously identified errors in our Consolidated Financial Statements related to the impairment of goodwill, the valuation of anti-dilution warrants, additional costs incurred on percentage-of-completion contracts and the presentation of percentage-of-completion related balances on the Consolidated Balance Sheet, the computation of stock compensation expense, the allocation of the valuation allowance to deferred tax asset and liability balances, the recording of straight-line rent expense, and the classification of technical service expenses. We previously restated our Consolidated Balance Sheet as of April 30, 2005 included in our originally filed Form 10-Q for these errors. We also determined, as disclosed in our original Form 10-Q filed with the SEC on December 20, 2005, that there was an error in the Condensed Consolidated Statement of Cash Flows for the six months ended October 31, 2004 related to our balance sheet presentation of accounts receivable and cash receipts relating to contracts accounted for using the percentage-of-completion method. We recorded a reduction in receivables and customer deposits of \$6.2 million. The effect of this error did not impact total cash flows from operating, investing and financing activities.

As reported in our April 30, 2005 Form 10-K/A Amendment No. 2, and subsequent to the filing of our original Form 10-Q for the fiscal quarter ended October 31, 2005, we also identified errors in our financial statements related to the income tax provision and the recording of minority interest. Our Condensed Consolidated Balance Sheet as of April 30, 2005, included in this Form 10-Q/A has been restated to correspond to the April 30, 2005 restated amounts in the Amendment No. 2 to our Form 10-K. We have also identified errors related to the classification of expenses in the Condensed Consolidated Statement of Operations for the three and six months ended October 31, 2005 and 2004.

We have reviewed our consolidated income tax provision and have concluded that it was incorrectly stated for the three and six months periods ended October 31, 2005 and 2004. These misstatements occurred because we incorrectly calculated the consolidated tax provision by an amount equal to the separate tax provision of Flow Autoclave Systems, Inc. ( Flow Autoclave ). In addition, we inappropriately allocated income taxes between Continuing and Discontinued Operations. We have also reviewed the accounting for minority interest in Flow Autoclave (included in Discontinued Operations) and determined that we had incorrectly recorded minority interest based on pre-tax income rather than on after-tax income. As a result of these errors, the Provision for Income Taxes for the three and six months ended October 31, 2005 was understated by \$106,000 and \$117,000, respectively, and for the three and six months ended October 31, 2004 by \$289,000 and \$181,000, respectively. Income (Loss) from Continuing Operations was misstated by the same amounts in the respective periods. Loss From Operations of Discontinued Operations for the three months ended October 31, 2005 was overstated by \$53,000 and Income from Operations of Discontinued Operations for the six months ended October 31, 2005 was understated by \$64,000, and (Loss) From Operations of Discontinued Operations for the three and six months periods ended October 31, 2004 was overstated by \$226,000 and \$118,000, respectively.

In addition, the cumulative errors related to the minority interest at Flow Autoclave impacted our calculation of the loss on the disposition of the Avure Business (see Note 5). The loss was increased from \$261,000 to \$1.1 million on an after tax basis.

As a result of the errors referred to above, Net Income for the three and six months periods ended October 31, 2005 was overstated by \$939,000 and Net Loss for the three and six month periods ended October 31, 2004 was understated by \$63,000.

We also reclassified certain costs and expenses in the Condensed Consolidated Statements of Operations for the three and six months periods ended October 31, 2005 and 2004. These adjustments had no impact on Income (Loss) from Continuing Operations or Net Income (Loss).

**Table of Contents**

The Condensed Consolidated Balance Sheet at October 31, 2005 reflects the cumulative effect of the errors referred to above. Taxes Payable and Other Accrued Taxes in the Condensed Consolidated Balance Sheets as of October 31, 2005 were understated by \$185,000 and the Accumulated Deficit was understated by \$185,000. The Accumulated Deficit in the Condensed Consolidated Statements of Shareholders' Equity (Deficit) and Comprehensive Loss as of April 30, 2004 was overstated by \$1,335,000.

As reported in our original Item 4, we previously reported two material weaknesses in our internal controls. We have determined that these weaknesses contributed to the restatements referred to above and we have not yet completed their remediation. We have updated our disclosures in our Item 4 report included in this Form 10-Q/A to address this restatement.

Items in the Form 10-Q/A amended by this filing are:

**Part I: Financial Information**

Item 1 Condensed Consolidated Financial Statements (Unaudited)

The Condensed Consolidated Financial Statements appearing on pages 5-9 and Notes 2, 5, 6, 7, 11 and 14 thereto

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

Pages 25-38

Item 4 Controls and Procedures

**Part II:**

Item 6 Exhibits

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Except as described above, all other information is unchanged and reflects the disclosures made at the time of the original filing on December 20, 2005 and this Form 10-Q/A does not otherwise reflect events occurring after the original filing or otherwise modify or update these disclosures. Accordingly, this Form 10-Q/A should be read in conjunction with our filings with the Securities and Exchange Commission subsequent to the filing of the original Form 10-Q.

**Table of Contents**

**FLOW INTERNATIONAL CORPORATION**

**INDEX**

|  | <b>Page</b>  |
|--|--------------|
|  | <b>_____</b> |
| <b><u>Part I - FINANCIAL INFORMATION</u></b>   |              |
| Item 1. <u>Condensed Consolidated Financial Statements (unaudited)</u>   |              |
| <u>Condensed Consolidated Balance Sheets - October 31, 2005 and April 30, 2005</u>   | 5            |
| <u>Condensed Consolidated Statements of Operations - Three and Six Months Ended October 31, 2005 and 2004</u>                                  | 6            |
| <u>Condensed Consolidated Statements of Cash Flows - Six Months Ended October 31, 2005 and 2004</u>  | 7            |
| <u>Condensed Consolidated Statements of Shareholders' Equity (Deficit) and Comprehensive Loss - Six Months Ended October 31, 2005 and 2004</u> | 9            |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | 10           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 25           |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 38           |
| Item 4. <u>Controls and Procedures</u>   | 38           |
| <b><u>Part II - OTHER INFORMATION</u></b>  |              |
| Item 1. <u>Legal Proceedings</u>   | 41           |
| Item 1A. <u>Risk Factors</u>   | 41           |
| Item 2. <u>Changes in Securities: Use of Proceeds and Issuer Purchases of Equity Securities</u>  | 41           |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 41           |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u>   | 41           |
| Item 5. <u>Other Information</u>   | 41           |
| Item 6. <u>Exhibits</u>  | 41           |
| <u>Signatures</u>  | 43           |

**Table of Contents****FLOW INTERNATIONAL CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(unaudited; in thousands, except share amounts)**

|  | <b>October 31,<br/>2005</b> | <b>April 30,<br/>2005</b> |
|--|-----------------------------|---------------------------|
|  | <b>(restated)</b>           | <b>(restated)</b>         |
| <b>ASSETS:</b>                               |                             |                           |
| Current Assets:                              |                             |                           |
| Cash and Cash Equivalents                    | \$ 24,436                   | \$ 12,976                 |
| Restricted Cash                              | 921                         | 469                       |
| Receivables, Net                             | 28,150                      | 38,325                    |
| Receivable from Purchaser of Avure Business  | 13,049                      |                           |
| Inventories, Net                             | 19,402                      | 24,218                    |
| Prepaid Expenses                             | 4,340                       | 6,046                     |
| Other Current Assets                         | 549                         | 2,632                     |
|  | <hr/>                       | <hr/>                     |
| Total Current Assets                         | 90,847                      | 84,666                    |
| Property and Equipment, Net                  | 10,111                      | 12,634                    |
| Intangible Assets, Net                       | 3,057                       | 14,644                    |
| Goodwill                                     | 2,764                       | 2,764                     |
| Deferred Income Taxes                        | 63                          | 1,532                     |
| Other Assets                                 | 2,020                       | 2,227                     |
|  | <hr/>                       | <hr/>                     |
|  | \$ 108,862                  | \$ 118,467                |
|  | <hr/>                       | <hr/>                     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b> |                             |                           |
| Current Liabilities:                         |                             |                           |
| Notes Payable                                | \$ 1,011                    | \$ 3,531                  |
| Current Portion of Long-Term Obligations     | 426                         | 9,912                     |
| Accounts Payable                             | 17,224                      | 20,842                    |
| Accrued Payroll and Related Liabilities      | 5,372                       | 8,819                     |
| Taxes Payable and Other Accrued Taxes        | 2,921                       | 2,370                     |
| Deferred Income Taxes                        | 49                          | 609                       |
| Deferred Revenue                             | 3,487                       | 4,646                     |
| Customer Deposits                            | 7,582                       | 10,606                    |
| Warrant Obligation                           | 11,531                      | 6,696                     |
| Other Accrued Liabilities                    | 5,901                       | 10,481                    |
|  | <hr/>                       | <hr/>                     |
| Total Current Liabilities                    | 55,504                      | 78,512                    |
| Long-Term Obligations                        | 23,538                      | 5,704                     |
| Other Long-Term Liabilities                  | 1,321                       | 3,219                     |
|  | <hr/>                       | <hr/>                     |
| Total Liabilities                            | 80,363                      | 87,435                    |
|  | <hr/>                       | <hr/>                     |
| Commitments and Contingencies                |                             |                           |
| Minority Interest                            |                             | 1,568                     |
|  | <hr/>                       | <hr/>                     |

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|  |   |                   |
|--|---|-------------------|
| Shareholders' Equity:  |   |                   |
| Series A 8% Convertible Preferred Stock                                | \$0.01 par value, 1,000,000 shares authorized, none issued  |                   |
| Common Stock   | \$0.01 par value, 49,000,000 shares authorized, 34,614,261 shares outstanding at October 31, 2005 and 33,495,479 shares outstanding at April 30, 2005 |                   |
|  | 346   | 335               |
| Capital in Excess of Par   | 114,614   | 112,512           |
| Accumulated Deficit  | (78,787)  | (79,827)          |
| Accumulated Other Comprehensive Loss                                   |   |                   |
| Cumulative Translation Adjustment, net of income tax of \$0            | (7,674)   | (3,506)           |
| Unrealized Loss on Cash Flow Hedges, net of income tax of \$0 and \$19 |   | (50)              |
|  | <u>          </u>   | <u>          </u> |
| Total Shareholders' Equity   | 28,499  | 29,464            |
|  | <u>          </u>   | <u>          </u> |
|  | <u>\$ 108,862</u>   | <u>\$ 118,467</u> |

See Accompanying Notes to  
Condensed Consolidated Financial Statements



**Table of Contents****FLOW INTERNATIONAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited; in thousands, except per share data)**

|   | Three Months Ended<br>October 31, |            | Six Months Ended<br>October 31, |            |
|---|-----------------------------------|------------|---------------------------------|------------|
|   | 2005                              | 2004       | 2005                            | 2004       |
|   | (restated)                        | (restated) | (restated)                      | (restated) |
| Revenues  | \$ 50,685                         | \$ 44,087  | \$ 92,671                       | \$ 82,386  |
| Cost of Sales   | 28,351                            | 28,696     | 52,404                          | 52,823     |
| Gross Margin  | 22,334                            | 15,391     | 40,267                          | 29,563     |
| Expenses:   |                                   |            |                                 |            |
| Sales and Marketing   | 7,873                             | 7,056      | 15,449                          | 13,292     |
| Research and Engineering  | 1,692                             | 1,255      | 3,570                           | 2,877      |
| General and Administrative  | 7,135                             | 4,838      | 13,350                          | 9,496      |
| Restructuring   | 487                               |            | 585                             |            |
| Financial Consulting  |                                   |            |                                 | 623        |
|   | 17,187                            | 13,149     | 32,954                          | 26,288     |
| Operating Income  | 5,147                             | 2,242      | 7,313                           | 3,275      |
| Interest Expense, Net   | (437)                             | (3,700)    | (1,363)                         | (6,712)    |
| Other (Expense) Income, Net   | (1,129)                           | 2,655      | (2,914)                         | 2,561      |
| Income (Loss) Before Provision for Income Taxes   | 3,581                             | 1,197      | 3,036                           | (876)      |
| Provision for Income Taxes  | (1,232)                           | (531)      | (1,815)                         | (1,129)    |
| Income (Loss) From Continuing Operations  | 2,349                             | 666        | 1,221                           | (2,005)    |
| Income (Loss) From Operations of Discontinued Operations, Net of Income Tax of \$194, \$53, \$488 and \$161 | (184)                             | (1,004)    | 966                             | (673)      |
| Loss on Sale of Discontinued Operations, Net of Income Tax of \$334   | (1,147)                           |            | (1,147)                         |            |
| Net Income (Loss)   | \$ 1,018                          | \$ (338)   | \$ 1,040                        | \$ (2,678) |
| Income (Loss) Per Share From Continuing Operations Basic:   | \$ 0.07                           | \$ 0.04    | \$ 0.04                         | \$ (0.13)  |
| Income (Loss) Per Share From Discontinued Operations Basic:   | \$ (0.04)                         | \$ (0.06)  | \$ (0.01)                       | \$ (0.04)  |
| Net Income (Loss) Per Share Basic:  | \$ 0.03                           | \$ (0.02)  | \$ 0.03                         | \$ (0.17)  |
| Income (Loss) Per Share From Continuing Operations Diluted:   | \$ 0.07                           | \$ 0.04    | \$ 0.03                         | \$ (0.13)  |
| Income (Loss) Per Share From Discontinued Operations Diluted:   | \$ (0.04)                         | \$ (0.06)  | \$ 0.00                         | \$ (0.04)  |
| Net Income (Loss) Per Share Diluted:  | \$ 0.03                           | \$ (0.02)  | \$ 0.03                         | \$ (0.17)  |

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Weighted Average Shares Used in Computing Basic and Diluted  
Net Income (Loss) Per Share

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 34,597 | 15,905 | 34,448 | 15,796 |
| Diluted | 36,137 | 17,073 | 36,065 | 15,796 |

See Accompanying Notes to  
Condensed Consolidated Financial Statements

**Table of Contents****FLOW INTERNATIONAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited; in thousands)**

|   | <b>Six Months Ended</b> |                   |
|---|-------------------------|-------------------|
|   | <b>October 31,</b>      |                   |
|   | <b>2005</b>             | <b>2004</b>       |
|   | <b>(restated)</b>       | <b>(restated)</b> |
| <b>Cash Flows from Operating Activities:</b>  |                         |                   |
| Net Income (Loss)   | \$ 1,040                | \$ (2,678)        |
| <b>Adjustments to Reconcile Net Income (Loss) to Cash Provided by Operating Activities:</b> |                         |                   |
| Depreciation and Amortization   | 2,337                   | 2,546             |
| Foreign Currency Gains  | (1,324)                 | (1,124)           |
| Amortization of Debt Discount   |                         | 528               |
| Fair Value Adjustment on Warrants Issued  | 4,835                   |                   |
| Non-Cash Interest Expense   |                         | 2,625             |
| Stock Compensation  | 1,304                   | 492               |
| Loss on Sale of Discontinued Operations   | 1,149                   |                   |
| Minority Interest   | 82                      | 90                |
| Restructuring Charges   | 585                     |                   |
| Other Non-Cash Items  | (136)                   | (152)             |
| <b>Changes in Operating Assets and Liabilities:</b>   |                         |                   |
| Receivables   | (1,180)                 | 1,801             |
| Inventories   | (4,122)                 | (1,166)           |
| Other Operating Assets  | (261)                   | (1,165)           |
| Customer Deposits   | 4,652                   | 2,605             |
| Accounts Payable  | (288)                   | 1,630             |
| Deferred Revenue  | (915)                   | 1,321             |
| Other Operating Liabilities   | 1,485                   | (611)             |
| <b>Cash Provided by Operating Activities</b>  | <b>9,243</b>            | <b>6,742</b>      |
| <b>Cash Flows from Investing Activities:</b>  |                         |                   |
| Expenditures for Property and Equipment   | (880)                   | (446)             |
| Restricted Cash   | (469)                   | 330               |
| Cash in Disposed Businesses   | (2,930)                 |                   |
| Other   | 181                     | 593               |
| <b>Cash (Used In) Provided By Investing Activities</b>                                      | <b>(4,098)</b>          | <b>477</b>        |
| <b>Cash Flows from Financing Activities:</b>  |                         |                   |
| Borrowings under Line of Credit Agreements, Net   | (545)                   | 624               |
| Payments on Senior Credit Agreement   | (30,059)                | (25,228)          |
| Borrowings on Senior Credit Agreement   | 38,849                  | 19,430            |
| Payments of Long-Term Obligations   | (67)                    | 12                |
| Dividends Paid to Joint Venture Partner   | (989)                   |                   |
| Proceeds from Exercise of Warrants  | 9                       |                   |

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|  |           |           |
|--|-----------|-----------|
| Cash Provided By (Used In) Financing Activities                                | 7,198     | (5,162)   |
| Effect of Changes in Exchange Rates on Cash                                    | (883)     | 276       |
| Increase in Cash and Cash Equivalents  | 11,460    | 2,333     |
| Cash and Cash Equivalents at Beginning of Period                               | 12,976    | 11,734    |
| Cash and Cash Equivalents at End of Period                                     | \$ 24,436 | \$ 14,067 |
| <i>Supplemental Disclosure of Noncash Financing Activity</i>                   |           |           |
| Issuance of warrants to lenders  | \$        | \$ 960    |
| Issuance of compensatory common stock on executive incentive compensation plan | \$ 799    | \$ 680    |

See Accompanying Notes to

Condensed Consolidated Financial Statements

**Table of Contents**

**FLOW INTERNATIONAL CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(unaudited; in thousands)**

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.

Table of Contents

## FLOW INTERNATIONAL CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT)

## AND COMPREHENSIVE LOSS

(unaudited, in thousands)

|  | Common Stock |              | Capital<br>In Excess<br>of Par | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Shareholders<br>Equity<br>(Deficit) |
|--|--------------|--------------|--------------------------------|------------------------|---|--|
|  | Shares       | Par<br>Value |                                |                        |   |  |
| Balances, April 30, 2004   | 15,510       | \$ 156       | \$ 54,686                      | \$ (58,630)            | \$ (4,429)                                    | \$ (8,217)                                   |
| Components of Comprehensive Loss:  |              |              |                                | (restated)             |   | (restated)                                   |
| Net Loss   |              |              |                                | (2,678)                |   | (2,678)                                      |
| Unrealized Gain on Cash Flow Hedges, Net of Income Tax of \$100                            |              |              |                                |                        | 256   | 256  |
| Cumulative Translation Adjustment, Net of Income Tax of \$0                                |              |              |                                |                        | 717   | 717  |
| Total Comprehensive Loss   |              |              |                                |                        |   | (1,705)                                      |
| Issuance of Warrants   |              |              | 960                            |                        |   | 960  |
| Stock Compensation   | 366          | 3            | 1,170                          |                        |   | 1,173  |
| Balances, October 31, 2004   | 15,876       | \$ 159       | \$ 56,816                      | \$ (61,308)            | \$ (3,456)                                    | \$ (7,789)                                   |
| Balances, April 30, 2005   | 33,495       | \$ 335       | \$ 112,512                     | \$ (79,827)            | \$ (3,556)                                    | \$ 29,464                                    |
| Components of Comprehensive Loss:  |              |              |                                |                        |   |  |
| Net Income   |              |              |                                | 1,040                  |   | 1,040  |
| Unrealized Loss on Cash Flow Hedges, Net of Income Tax of \$155                            |              |              |                                |                        | (398)   | (398)  |
| Reclassification Adjustment for Settlement of Cash Flow Hedges, Net of Income Tax of \$174 |              |              |                                |                        | 448   | 448  |
| Reclassification of Cumulative Translation Adjustment to Income, Net of Income Tax of \$0  |              |              |                                |                        | (1,845)                                       | (1,845)                                      |
| Cumulative Translation Adjustment, Net of Income Tax of \$0                                |              |              |                                |                        | (2,323)                                       | (2,323)                                      |
| Total Comprehensive Loss   |              |              |                                |                        |   | (3,078)                                      |
| Exercise of Warrants   | 908          | 9            |                                |                        |   | 9  |
| Stock Compensation   | 211          | 2            | 2,102                          |                        |   | 2,104  |
| Balances, October 31, 2005   | 34,614       | \$ 346       | \$ 114,614                     | \$ (78,787)            | \$ (7,674)                                    | \$ 28,499                                    |

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See Accompanying Notes to

Condensed Consolidated Financial Statements

**Table of Contents**

**FLOW INTERNATIONAL CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the Six Months Ended October 31, 2005**

**(unaudited)**

**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. 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 April 30, 2005 consolidated financial statements included in the Company's Annual Report filed with the Securities and Exchange Commission on Form 10-K/A (Amendment No. 2) as filed with the SEC on January 31, 2006. 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 under different assumptions or conditions. Operating results for the six months ended October 31, 2005 may not be indicative of future results.

**2. Restatement**

Prior to the filing of our original Form 10-Q for the fiscal quarter ended October 31, 2005 and as reported in the Company's April 30, 2005 Form 10-K/A Amendment No.1, the Company identified errors in the Consolidated Financial Statements related to the impairment of goodwill, the valuation of anti-dilution warrants, additional costs incurred on percentage-of-completion contracts and the presentation of percentage-of-completion related balances on the Consolidated Balance Sheet, the computation of stock compensation expense, the allocation of the valuation allowance to deferred tax asset and liability balances, the recording of straight-line rent expense, and the classification of technical service expenses. The Company restated its consolidated financial statements as of and for the year ended April 30, 2005 as described in the Form 10-K/A Amendment No. 1. These errors impacted the April 30, 2005 Condensed Consolidated Balance Sheet and the Condensed Consolidated Statement of Cash Flows for the three months ended October 31, 2004, included in this Form 10-Q/A. The Company also determined that there was an error in the Condensed Consolidated Statement of Cash Flows for the six months ended October 31, 2004 related to its balance sheet presentation of accounts receivable and cash receipts relating to contracts accounted for using the percentage-of-completion method. The Company recorded a reduction in receivables and customer deposits of \$6.2 million. The effect of this error did not impact total cash flows from operating, investing and financing activities.

Subsequent to the filing of our original Form 10-Q for the fiscal quarter ended October 31, 2005, and as reported in the Company's April 30, 2005 Form 10-K/A Amendment No. 2, the Company identified errors in the Consolidated Financial Statements related to the income tax provision and the recording of minority interest. The Company restated its consolidated financial statements as of and for the year ended April 30, 2005 as described in the Form 10-K/A Amendment No. 2. These errors impacted the April 30, 2005 Condensed Consolidated Balance Sheet included in this Form 10-Q/A.



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We have reviewed our consolidated income tax provision and have concluded that it was incorrectly stated for the three and six months ended October 31, 2005 and 2004. These misstatements occurred because we incorrectly calculated the consolidated tax provision by an amount equal to the separate tax provision of Flow Autoclave. In addition, we inappropriately allocated income taxes between Continuing and Discontinued Operations.

We have also reviewed the accounting for minority interest in Flow Autoclave (included in Discontinued Operations) and determined that we had incorrectly recorded minority interest based on pre-tax income rather

**Table of Contents****FLOW INTERNATIONAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Six Months Ended October 31, 2005****(unaudited)**

than on after-tax income. As a result of these errors, the Provision for Income Taxes for the three and six months ended October 31, 2005 was understated by \$106,000 and \$117,000, respectively, and for the three and six months ended October 31, 2004 by \$289,000 and \$181,000, respectively. Income (Loss) from Continuing Operations was misstated by the same amounts in the respective periods. (Loss) From Operations of Discontinued Operations for the three months ended October 31, 2005 was overstated by \$53,000, Income from Operations of Discontinued Operations for the six months ended October 31, 2005 was understated by \$64,000, and (Loss) From Operations of Discontinued Operations for the three and six months periods ended October 31, 2004 was overstated by \$226,000 and \$118,000, respectively.

In addition, the cumulative errors related to the minority interest at Flow Autoclave impact our calculation of the loss on the disposition of the Avure Business (see Note 5). The loss was increased from \$261,000 to \$1.1 million on an after tax basis.

Also, subsequent to the filing of its October 31, 2005 Form 10-Q, the Company identified errors in the classification of expenses between Cost of Sales, Sales and Marketing Expenses, Research and Engineering Expenses and General and Administrative Expenses. These errors had no impact on Income (Loss) from Continuing Operations or Discontinued Operations or Net Income (Loss), but it did impact certain pre-tax costs and expenses included in Continuing Operations, as shown in the tables below.

The effect of the restatements on the Company's unaudited interim consolidated quarterly financial statements is as follows:

|  | <b>Three Months Ended</b> |             |                          |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>October 31,</b>        |             |                          |             |
|  | <b>2005</b>               | <b>2005</b> | <b>2004</b>              | <b>2004</b> |
|  | (as previously reported)  | (restated)  | (as previously reported) | (restated)  |
|  | (in thousands)            |             |                          |             |
| <b>Summary of Statement of Operations Data</b>   |                           |             |                          |             |
| Cost of Sales  | \$ 28,552                 | \$ 28,351   | \$ 28,897                | \$ 28,696   |
| Gross Margin   | 22,133                    | 22,334      | 15,190                   | 15,391      |
| Sales and Marketing Expenses   | 7,860                     | 7,873       | 7,043                    | 7,056       |
| Research and Engineering Expenses  | 1,586                     | 1,692       | 1,149                    | 1,255       |
| General and Administrative Expenses  | 7,053                     | 7,135       | 4,756                    | 4,838       |
| Provision for Income Taxes   | (1,126)                   | (1,232)     | (242)                    | (531)       |
| Income (Loss) From Continuing Operations   | 2,455                     | 2,349       | 955                      | 666         |
| Income (Loss) From Operations of Discontinued Operations, Net of Income Tax of \$194, \$194, \$216 and | (237)                     | (184)       | (1,230)                  | (1,004)     |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| \$53   |           |           |           |           |
| Loss on Sale of Discontinued Operations, Net of Income |           |           |           |           |
| Tax of \$334   | (261)     | (1,147)   |           |           |
| Net Income (Loss)                                      | \$ 1,957  | \$ 1,018  | \$ (275)  | \$ (338)  |
| Income (Loss) Per Share From Continuing Operations     |           |           |           |           |
| Basic:   | \$ 0.07   | \$ 0.07   | \$ 0.06   | \$ 0.04   |
| Income (Loss) Per Share From Discontinued Operations   |           |           |           |           |
| Basic:   | \$ (0.01) | \$ (0.04) | \$ (0.08) | \$ (0.06) |
| Net Income (Loss) Per Share Basic:                     | \$ 0.06   | \$ 0.03   | \$ (0.02) | \$ (0.02) |
| Income (Loss) Per Share From Continuing Operations     |           |           |           |           |
| Diluted:   | \$ 0.07   | \$ 0.07   | \$ 0.06   | \$ 0.04   |
| Income (Loss) Per Share From Discontinued Operations   |           |           |           |           |
| Diluted:   | \$ (0.02) | \$ (0.04) | \$ (0.08) | \$ (0.06) |
| Net Income (Loss) Per Share Diluted:                   | \$ 0.05   | \$ 0.03   | \$ (0.02) | \$ (0.02) |

Table of Contents

## FLOW INTERNATIONAL CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Six Months Ended October 31, 2005

(unaudited)

|  | Six Months Ended         |            |  |            |
|--|--------------------------|------------|--|------------|
|  | October 31,              |            |  |            |
|  | 2005                     | 2005       | 2004                                       | 2004       |
|  | (as previously reported) | (restated) | (in thousands)<br>(as previously reported) | (restated) |
| <i>Summary of Statement of Operations Data</i>   |                          |            |  |            |
| Cost of Sales  | 52,804                   | 52,404     | 53,223                                     | 52,823     |
| Gross Margin   | 39,867                   | 40,267     | 29,163                                     | 29,563     |
| Sales and Marketing Expenses   | 15,424                   | 15,449     | 13,267                                     | 13,292     |
| Research and Engineering Expenses  | 3,359                    | 3,570      | 2,666                                      | 2,877      |
| General and Administrative Expenses  | 13,186                   | 13,350     | 9,332                                      | 9,496      |
| Provision for Income Taxes   | (1,698)                  | (1,815)    | (948)                                      | (1,129)    |
| Income (Loss) From Continuing Operations   | 1,338                    | 1,221      | (1,824)                                    | (2,005)    |
| Income (Loss) From Operations of Discontinued Operations, Net of Income Tax of \$499, \$488, \$216 and \$161 | 902                      | 966        | (791)                                      | (673)      |
| Loss on Sale of Discontinued Operations, Net of Income Tax of \$334  | (261)                    | (1,147)    |  |            |
| Net Income (Loss)  | \$ 1,979                 | \$ 1,040   | \$ (2,615)                                 | \$ (2,678) |
| Income (Loss) Per Share From Continuing Operations Basic:  | \$ 0.04                  | \$ 0.04    | \$ (0.12)                                  | \$ (0.13)  |
| Income (Loss) Per Share From Discontinued Operations Basic:  | \$ 0.02                  | \$ (0.01)  | \$ (0.05)                                  | \$ (0.04)  |
| Net Income (Loss) Per Share Basic:   | \$ 0.06                  | \$ 0.03    | \$ (0.17)                                  | \$ (0.17)  |
| Income (Loss) Per Share From Continuing Operations Diluted:  | \$ 0.04                  | \$ 0.03    | \$ (0.12)                                  | \$ (0.13)  |
| Income (Loss) Per Share From Discontinued Operations Diluted:  | \$ 0.01                  | \$ 0.00    | \$ (0.05)                                  | \$ (0.04)  |
| Net Income (Loss) Per Share Diluted:   | \$ 0.05                  | \$ 0.03    | \$ (0.17)                                  | \$ (0.17)  |

The balances as of April 30, 2005 included in the Condensed Consolidated Balance Sheets reflect the restated amounts for the restatements described above as reported in the Company's Form 10-K/A Amendment No. 2 filed with the Securities and Exchange Commission on January 31, 2006. The Condensed Consolidated Balance Sheet as of October 31, 2005 has also been restated to reflect the restatements referred to above as follows:

As of October 31, 2005

Restated

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|                                       | As previously<br>reported | _____    |
|---------------------------------------|---------------------------|----------|
|                                       | (in thousands)            |          |
| <i>Summary of Balance Sheet Data</i>  |                           |          |
| Taxes Payable and Other Accrued Taxes | \$ 2,736                  | \$ 2,921 |
| Total Current Liabilities             | 55,319                    | 55,504   |
| Total Liabilities                     | 80,178                    | 80,363   |
| Accumulated Deficit                   | 78,602                    | 78,787   |
| Total Shareholders' Equity            | 28,684                    | 28,499   |

**Table of Contents**

**FLOW INTERNATIONAL CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**For the Six Months Ended October 31, 2005**

**(unaudited)**

**3. Liquidity**

On July 8, 2005, the Company executed a new \$30 million, three year senior credit agreement (the "Credit Agreement") with Bank of America N.A. and U.S. Bank N.A. This credit agreement expires July 8, 2008 and bears interest at the bank's prime rate (6.75% at October 31, 2005) or is linked to LIBOR plus a percentage depending on the Company's leverage ratios, at the Company's option. The agreement sets forth specific financial covenants to be attained on a quarterly basis, which we believe, based on our financial forecasts, are achievable.

The Company's Credit Agreement is its primary source of external funding. At October 31, 2005, the balance outstanding on the Credit Agreement was \$18.5 million against a maximum available borrowing of \$30 million. The available credit at October 31, 2005, net of \$2.3 million in outstanding letters of credit, was \$9.2 million.

We believe that our existing cash, cash from operations, and credit facilities at October 31, 2005 are adequate to fund our operations through April 30, 2006. If we fail to achieve our planned revenues, costs and working capital objectives, management believes it has the ability to curtail capital expenditures and reduce costs to levels that will be sufficient to enable us to meet our cash requirements and debt covenants through April 30, 2006. The Company was in compliance with all covenants as of October 31, 2005.

**4. Restructuring and Financial Consulting**

In fiscal 2005, the Company completed the execution of a restructuring plan, begun in May 2003, intended to return the Company to profitability through reductions in headcount, consolidation of facilities and operations, and closure or divestiture of selected operations.

In June 2005, under a new initiative, the Company announced the closing and relocation of its Wixom, Michigan facility to its Burlington, Ontario facility. The Company terminated 25 employees and recorded associated severance benefits of \$175,000 which were paid in the six month period. The Company also wrote off \$24,000 of inventory with no future value. In October 2005, once the facility was vacated, the Company recorded restructuring charges related to lease termination costs of \$278,000, net of expected sublease income, and wrote-off leasehold improvements of \$108,000 related to this leased space.

The remaining accrued facility exit costs for all segments of \$587,000, which consist of long-term lease commitments, net of expected sublease income, will be paid primarily over the next several years.



**Table of Contents****FLOW INTERNATIONAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Six Months Ended October 31, 2005****(unaudited)**

The following table summarizes accrued restructuring activity (in thousands):

|                           | North<br>America<br>Waterjet | Other<br>International<br>Waterjet | Other                 |                                     | Discontinued<br>Operations |                        | Consolidated          |                                     |        |
|---------------------------|------------------------------|------------------------------------|-----------------------|-------------------------------------|----------------------------|------------------------|-----------------------|-------------------------------------|--------|
|                           | Facility<br>Exit Costs       | Facility<br>Exit<br>Costs          | Severance<br>Benefits | Facility Exit<br>Costs and<br>Other | Severance<br>Benefits      | Facility<br>Exit Costs | Severance<br>Benefits | Facility<br>Exit Costs<br>and Other | Total  |
| Balance, April 30, 2004   | \$ 139                       | \$ 333                             | \$                    | \$                                  | \$ 244                     | \$ 191                 | \$ 244                | \$ 663                              | \$ 907 |
| Q1 restructuring charge   |                              |                                    |                       |                                     |                            |                        |                       |                                     |        |
| Q1 cash payments          | (9)                          | (4)                                |                       |                                     | (68)                       | (3)                    | (68)                  | (16)                                | (84)   |
| Balance, July 31, 2004    | 130                          | 329                                |                       |                                     | 176                        | 188                    | 176                   | 647                                 | 823    |
| Q2 restructuring charge   |                              |                                    |                       |                                     |                            |                        |                       |                                     |        |
| Q2 cash payments          | (9)                          | (4)                                |                       |                                     | (64)                       | (3)                    | (64)                  | (16)                                | (80)   |
| Balance, October 31, 2004 | 121                          | 325                                |                       |                                     | 112                        | 185                    | 112                   | 631                                 | 743    |
| Q3 restructuring charge   |                              |                                    |                       |                                     | 120                        | 119                    | 120                   | 119                                 | 239    |
| Q3 cash payments          | (9)                          | (10)                               |                       |                                     | (56)                       | (42)                   | (56)                  | (61)                                | (117)  |
| Balance, January 31, 2005 | 112                          | 315                                |                       |                                     | 176                        | 262                    | 176                   | 689                                 | 865    |
| Q4 restructuring charge   |                              |                                    |                       |                                     |                            |                        |                       |                                     |        |
| Q4 cash payments          | (9)                          | (31)                               |                       |                                     | (89)                       | (20)                   | (89)                  | (60)                                | (149)  |
| Balance, April 30, 2005   | 103                          | 284                                |                       |                                     | 87                         | 242                    | 87                    | 629                                 | 716    |
| Q1 restructuring charge   |                              |                                    | 74                    | 24                                  |                            |                        | 74                    | 24                                  | 98     |
| Q1 cash payments          | (9)                          | (30)                               | (74)                  |                                     | (83)                       | (20)                   | (157)                 | (59)                                | (216)  |
| Q1 charge-offs            |                              |                                    |                       | (24)                                |                            |                        |                       | (24)                                | (24)   |
| Balance, July 31, 2005    | 94                           | 254                                |                       |                                     | 4                          | 222                    | 4                     | 570                                 | 574    |
| Q2 restructuring charge   |                              |                                    | 101                   | 386                                 |                            |                        | 101                   | 386                                 | 487    |
| Q2 cash payments          | (9)                          | (30)                               | (101)                 |                                     | (4)                        | (20)                   | (105)                 | (59)                                | (164)  |
| Q2 charge-offs            |                              |                                    |                       | (108)                               |                            | (202)                  |                       | (310)                               | (310)  |
| Balance, October 31, 2005 | \$ 85                        | \$ 224                             | \$                    | \$ 278                              | \$                         | \$                     | \$                    | \$ 587                              | \$ 587 |





Table of Contents

## FLOW INTERNATIONAL CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Six Months Ended October 31, 2005

(unaudited)

**5. Discontinued Operations**

During the second quarter of fiscal 2006, the Board of Directors approved the Company's plan to sell certain of its non-core businesses as a result of the strategy to divest itself of operations that are not part of its core ultra-high-pressure water pump business. On September 30, 2005, the Company entered into an agreement to divest its General Press operations, which consist of the North America Press and the International Press segments, as well as the non-ultrahigh-pressure portion of the Food segment. The ultrahigh-pressure portion of the Food segment will be shown in North America Waterjet on a go-forward basis. The sale of the business, collectively hereafter referred to as the Avure Business, was consummated on October 31, 2005. The consideration included cash of \$6 million, less a working capital adjustment of \$951,000, which was received on November 1, 2005, and a promissory note of \$8 million payable 90 days after closing at a simple interest rate of 10% per annum. These amounts are included in the Receivable from Purchaser of Avure Business on the October 31, 2005 Consolidated Balance Sheet. In addition, the Company received a promissory note of \$2 million payable at 3 years after closing at a simple interest rate of 6% per annum. The \$2 million promissory note was reduced by 50% of the pension balance of the International Press segment as of October 31, 2005 or \$687,500 and is included in Other Assets on the October 31, 2005 Consolidated Balance Sheet. The Company recorded a loss of \$1,087,000, net of income taxes of \$334,000, on the sale.

The Company has classified the financial results of its Avure Business as discontinued operations on the Condensed Consolidated Statement of Operations for the all periods presented. The Condensed Consolidated Balance Sheets as of October 31, 2005 and April 30, 2005 and the Condensed Consolidated Statements of Cash Flows for the six months ended October 31, 2005 and 2004 do not reflect discontinued operations treatment for the Avure Business as the Company has elected not to reclassify its balance sheets or cash flows for this discontinued operation.

Summarized financial information for the discontinued operations is set forth below (dollars in thousands):

|           | Three Months Ended<br>October 31, |            | Six Months Ended<br>October 31, |            |
|-----------|-----------------------------------|------------|---------------------------------|------------|
|           | 2005                              | 2004       | 2005                            | 2004       |
| Net sales | (restated)                        | (restated) | (restated)                      | (restated) |