FLOW INTERNATIONAL CORP
Form S-1/A
August 08, 2005
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As filed with the Securities and Exchange Commission on August 8, 2005

Registration No. 333-125113

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

Form S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Flow International Corporation

(Exact name of registrant as specified in its charter)

Washington	3569	91-1104842
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

Stephen R. Light

President and Chief Executive Officer

23500 64th Avenue South

Kent, WA 98032

(253) 850-3500

(Address, including zip code and telephone number, including area code, of Registrant s principal executive offices)

PTSGE Corp.

925 Fourth Avenue, Suite 2900

Seattle, WA 98104

(206) 623-7580

(Name, address, including zip code and telephone number, including area code, of agent for service)

Copies to:

Robert S. Jaffe

William Gleeson

Preston Gates & Ellis LLP

925 Fourth Avenue, Suite 2900

Seattle, WA 98104

(206) 623-7580

Approximate date of commencement of proposed sale to the public:

From time to time after the effective date of this registration statement,

as determined by market conditions and other factors.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered(1)	Proposed Maximum Offering Price Per Security(4)	Proposed Maximum Aggregate Offering Price(4)	Amount of Registration Fee
Common Stock, $0.01 par value.	17,473,116 Shares(2)	$6.76	$118,118,264.16	$13,902.52(5)
Common Stock, $0.01 par value.	3,219,245(3)	$6.76	$21,762,096	$2,561.40(5)

(1) In accordance with Rule 416(a), the registrant is also registering hereunder an indeterminate number of shares that may be issued and resold resulting from stock splits, stock dividends or similar transactions.
(2) Represents shares of the registrant s common stock being registered for resale that have been issued to the selling shareholders named in this registration statement.
(3) Represents shares of the registrant s common stock being registered for resale that have been or may be acquired upon the exercise of warrants issued to the selling shareholders named in this registration statement.
(4) Estimated pursuant to Rule 457(c) under the Securities Act of 1933, solely for the purposes of calculating the registration fee, upon the basis of the average high and low prices of our common stock as reported on the Nasdaq National Market on May 16, 2005.
(5) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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PRELIMINARY PROSPECTUS

Shares

Common Stock

This prospectus relates to the offer and sale of up to 17,473,116 outstanding shares of the common stock of Flow International Corporation, a Washington corporation, and up to 3,219,245 shares that may be issued on the exercise of outstanding warrants. Such shares may be offered and sold from time to time by the persons described in this prospectus under the heading Selling Shareholders or by pledgees, donees, transferees, assignees or other successors-in-interest of such persons (collectively, the Selling Shareholders). As used in this prospectus, we, us, our and similar expressions refer to Flow International Corporation and its subsidiaries.

The Selling Shareholders may offer their shares from time to time through or to one or more underwriters, brokers or dealers, on the NASDAQ Stock National Market at market prices prevailing at the time of sale, in one or more negotiated transactions at prices acceptable to the Selling Shareholders or in private transactions. We will not receive any proceeds from the sale of shares by the Selling Shareholders. In connection with any sales, the Selling Shareholders and any underwriters, agents, brokers or dealers participating in such sales may be deemed to be underwriters within the meaning of the Securities Act.

We will pay the expenses related to the registration of the shares covered by this prospectus. The Selling Shareholders will pay commissions and selling expenses, if any, incurred by them.

Our common stock trades on the NASDAQ National Market under the symbol FLOW. On August 4, 2005, the closing price of one share of our common stock was $8.21.

Investing in our securities involves risks. See Risk Factors beginning on page 5 of this prospectus.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is , 2005.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. An offer to sell these securities is not being made in any state where the offer is not permitted. You should not assume that the information contained in this prospectus or any prospectus supplement is accurate as of any date other than the date of such documents. Our business, financial condition, results of operations and prospects may have changed since that date.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using the SEC s shelf registration rules. Under the shelf registration rules, using this prospectus and, if required, one or more prospectus supplements, the Selling Shareholders may sell from time to time, in one or more offerings, the shares of common stock covered by this prospectus. The shares covered by this prospectus include 17,473,116 outstanding shares of common stock and 3,219,245 shares of common stock issuable upon the exercise of warrants.

This prospectus also covers any shares of common stock that may become issuable pursuant to anti-dilution adjustment provisions that would increase the number of shares issuable upon exercise of the warrants as a result of stock splits, stock dividends or similar transactions.

A prospectus supplement may add, update or change information contained in this prospectus. We recommend that you read carefully this entire prospectus, especially the section entitled Risk Factors beginning on page 5, together with any supplements before making a decision to invest in our common stock.

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PROSPECTUS SUMMARY

This summary highlights key aspects of the information contained elsewhere in this prospectus. This summary does not contain all the information you should consider before investing in our common stock. You should read this entire prospectus carefully, especially the risks of investing in our common stock discussed under Risk Factors beginning on page 5, current events beginning on page 17 and our consolidated financial statements and the notes to those consolidated financial statements beginning on page F-1, before making an investment decision.

THE COMPANY

We design, develop, manufacture, market, install and service ultrahigh-pressure, or UHP, water pumps and UHP water management systems. Our core competency is the design and manufacture of UHP water pumps. Our UHP water pumps pressurize water from 40,000 to over 100,000 pounds per square inch (psi) and are integrated with water delivery systems so that water can be used to cut or clean material or pressurize food. Our products include both standard and specialized waterjet cutting and cleaning systems and the Fresher Under Pressure® food processing products. In addition to UHP water pumps and related systems, we provide non UHP automation and articulation systems, primarily to the automotive industry, and isostatic and flexform press systems which produce and strengthen advanced materials for the aerospace, automotive and medical industries.

Our UHP technology has three broad applications: cutting, cleaning and Fresher Under Pressure or food processing. In cutting and cleaning applications, the ultrahigh-pressure created by our pumps is released through a small orifice to create a jet of water. In Fresher Under Pressure, we utilize contained pressure. Food is put into a pressure vessel and UHP water is pumped into the vessel. This pressurized water is used to kill both spoilage bacteria and pathogens in the food.

The primary application of our UHP water pumps is cutting. In cutting applications, pressures from 50,000 to 87,000 psi create a thin stream of water traveling at three or more times the speed of sound which can cut both metallic and nonmetallic materials. UHP water pumps are used in aerospace, automotive, disposable products, food, glass, job shop, sign, metal cutting, marble, tile and other stone cutting, and paper slitting and trimming applications. Waterjet cutting is recognized as a more flexible alternative to traditional cutting methods such as lasers, saws or plasma. It is often faster, has greater versatility in the types of materials it can cut and eliminates the need for secondary processing operations. We also manufacture a waterjet product line used in cleaning, where pressures in the range of 40,000 to 55,000 psi are used in industrial cleaning, surface preparation, construction, and petro-chemical and oil field applications. In the food pressurization applications, pressures of between 87,000 to 100,000 psi are used for our Fresher Under Pressure food processing technology to provide food safety, quality and productivity enhancements for food producers.

We analyze our business based on the utilization of UHP, either as released pressure or contained pressure, as follows: Flow Waterjet Systems, or Waterjet, for released pressure applications and Avure Technologies Incorporated, or Avure, for contained pressure applications. In addition to the cutting and cleaning operations, the Waterjet operation also includes the automotive and articulation applications while Avure includes the Fresher Under Pressure technology, and the General Press operations.

Our principal executive offices are at 23500 64th Avenue South, Kent, WA 98032 and our telephone number is (253) 850-3500. We maintain a website at www.flowcorp.com. The contents of our website are not incorporated into this prospectus.

The Offering

Common Stock offered by the Selling Shareholders	20,692,359 Shares(1)
Offering	The Selling Shareholders may offer their shares from time to time through one or more underwriters, brokers or dealers, on the NASDAQ Stock National Market at market prices prevailing at the time of sale, in one or more negotiated transactions at prices acceptable to the Selling Shareholders or in private transactions.
Use of Proceeds	The proceeds from the sale of the shares covered by this prospectus will be received by the Selling Shareholders. We will not receive any of the proceeds from the sales by the Selling Shareholders of the shares covered by this prospectus.
Nasdaq National Market symbol	FLOW
Risk Factors	See Risk Factors beginning on page 5 for a discussion of factors that you should consider carefully before deciding to purchase our common stock.
Offering-related Information	On March 21, 2005, in a Private Investment in Public Equity Transaction (PIPE Transaction), we sold 17,473,116 equity units at $3.72 per unit for gross proceeds of $65 million, and net proceeds of $59.3 million. A unit consists of one share of our common stock and one warrant to buy 1/10th of a share of our common stock. Ten warrants give the holder the right to purchase one share of common stock for $4.07. The closing price of our stock on Nasdaq National Market on the day before the agreement between the Company and the Selling Shareholders relating to the PIPE Transaction was entered into $3.70 per share. On the day that the agreement was entered into, the closing price was $4.28 per share.
	Proceeds of the PIPE were used to pay down existing debt of $59.3 million, including all of our subordinated debt. Under the terms of warrants previously issued to our senior and subordinated lenders, we are obligated to issue additional warrants if shares of our common stock are issued for prices less than market price. Because the issuance price of the common stock of the PIPE Transaction was less than market value, we issued approximately 304,000 anti-dilution $0.01 warrants to our lenders. These warrants had a Black-Scholes value of approximately $1.1 million. The majority of the charges resulting from the issuance of the additional warrants, $1.0 million, were charged to interest expense in the fourth quarter of fiscal 2005 as the underlying debt associated with these warrants was retired in the fourth quarter of fiscal 2005. The remainder, $82,000, will be capitalized and amortized to interest expense through August 1, 2005.

(1) Includes 3,219,245 shares of common stock issuable upon the exercise of outstanding warrants to purchase common stock.

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Under EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF 00-19), the fair value of the warrants sold to the PIPE investors will be reported initially as a liability due to liquidated damages of 1% of the gross proceeds per month ($650,000) which will be payable in the event that this Form S-1 is not be declared effective prior to September 17, 2005. Upon effectiveness of the Form S-1, the fair value of the warrants will be reclassified into Capital in Excess of Par in the Equity section of the Consolidated Balance Sheet. As of March 21, 2005, the warrants sold to the PIPE investors have been valued at $6.4 million using the Black-Scholes method, and the shares have been recorded at $52.9 million, or the difference between the net proceeds and the value of the warrants. The warrants sold to the PIPE investors are considered a derivative financial instrument and will be marked to fair value quarterly until this Form S-1 is declared effective. Any changes in fair value of the warrants will be recorded through the Consolidated Statement of Operations.

Historical Stock Price

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 first and second quarter of fiscal 2006 through August 4, 2005 and the four quarters for fiscal 2005, 2004 and 2003 is set forth in the following table.

	Fiscal Year 2006		Fiscal Year 2005		Fiscal Year 2004		Fiscal Year 2003	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$ 7.83	$ 5.87	$ 3.66	$ 1.90	$ 1.94	$ 1.13	$ 10.90	$ 5.05
Second Quarter	8.21	7.74	3.75	2.54	3.11	1.36	5.60	2.12
Third Quarter			3.20	2.57	4.11	2.40	3.80	2.13
Fourth Quarter			6.90	2.85	3.74	2.20	3.28	1.08

We have not paid dividends to common shareholders in the past. Our Board of Directors intends to retain future earnings, if any, to finance development and expansion of our business and reduce debt and does not expect to declare dividends to common shareholders in the near future. The credit agreement entered into on July 11, 2005 does permit us to pay dividends however. Prior to this date however, our credit agreements contained restrictions on our ability to pay dividends to our shareholders.

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Summary Financial Data

The following table provides summary historical financial data for the periods indicated. You should read this information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus.

The summary statement of operations data for each of the fiscal years ended April 30, 2003, 2004 and 2005 and the summary balance sheet data as of April 30, 2004 and 2005 are derived from our audited financial statements, which are included elsewhere in this prospectus. The summary statement of operation data for the fiscal year ended April 30, 2002 and the summary balance sheet data as of April 30, 2003 are derived from our audited financial statements which are not included in this prospectus. The summary statement of operation data for the fiscal year ended April 30, 2001 and the summary balance sheet data as of April 30, 2001 and 2002 are derived from our unaudited financial statements which are not included in this prospectus.

	Year Ended April 30,				
(In thousands, except per share amounts)	**2005**	**2004**	**2003(3)**	**2002(2)**	**2001(1)**
					(unaudited)
Statement of Operations Data:					
Sales	$ 219,365	$ 177,609	$ 144,115	$ 176,890	$ 204,854
(Loss) Income Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	(10,797)	(12,048)	(69,464)	(8,244)	4,038
Net (Loss) Income	(10,797)	(11,522)	(69,987)	(7,853)	1,630
Basic (Loss) Income Per Share Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	(0.61)	(0.78)	(4.53)	(0.54)	0.27
Diluted (Loss) Income Per Share Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	(0.61)	(0.78)	(4.53)	(0.54)	0.27
Basic (Loss) Income Per Share	(0.61)	(0.75)	(4.56)	(0.52)	0.11
Diluted (Loss) Income Per Share	(0.61)	(0.75)	(4.56)	(0.52)	0.11

	April 30,				
	2005	**2004**	**2003**	**2002**	**2001**
				(unaudited)	**(unaudited)**
Balance Sheet Data:					
Working Capital	$ 8,013	$ (9,060)	$ (6,709)	$ 84,532	$ 91,750
Total Assets	131,334	135,071	147,701	208,674	209,309
Short-Term Debt	13,443	48,727	61,056	5,237	8,464
Long-Term Obligations, net	5,704	38,081	29,023	83,453	85,652
Shareholders Equity (Deficit)	37,732	(9,552)	4,872	71,054	68,755

(1) The Statement of Operations for fiscal 2001 includes the adoption of SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements , as amended by SAB101A and 101B. We reflected this change in policy as a Cumulative Effect of Change in Accounting Principle.

(2) The Statement of Operations for fiscal 2002 includes the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (FAS 142). See Note 1 to the Consolidated Financial Statements for the year ended April 30, 2005 for further discussion of the impact of this adoption.

(3)

The Statement of Operations for fiscal 2003 includes the impact of management s launch of its restructuring program and resulting focus on cash generation. See the Fiscal 2003 Comprehensive Financial Review at the end of the Fiscal 2004 Compared to Fiscal 2003 financial analysis in the Management s Discussion and Analysis section for further discussion of the impact on our financial results.

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RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with the financial and other information contained in this prospectus, before making a decision to buy our common stock from the Selling Shareholder. If any of the following risks actually occur, our business, financial condition and results of operations could suffer. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment in our common stock.

We have incurred losses in recent years and we may be unable to achieve profitability.

Our net losses for each of the fiscal years ended April 30, 2003, 2004 and 2005 were $70.0 million, $11.5 million and $10.8 million, respectively. We believe our recently completed restructuring and related cost-cutting initiatives will reduce overall spending. If our restructuring efforts fail to adequately reduce costs, or if our sales are less than we project, we will continue to incur losses in future periods. Economic weakness in our served markets may adversely affect our ability to meet our sales projections.

Economic weakness in our served markets may adversely affect our financial results.

The products we sell are capital goods with individual system prices ranging from $150,000 to several million dollars. Many of our customers depend on long term financing from a financial institution to purchase our equipment. Economic weakness in the capital goods market and or a credit tightening by the banking industry would reduce our sales and accordingly affect our financial results.

If we fail to comply with our financing arrangements, our ability to continue operations would be impaired.

Under the Current Senior Credit Agreement (entered into on July 11, 2005), we are operating under a credit agreement with our senior lenders which expires July 8, 2008 and sets forth specific financial covenants to be attained on a quarterly basis. In addition, our agreement includes subjective acceleration clauses which permit the lenders to demand payment on the determination of a material adverse change in the business. In the event of default, the senior lenders may limit our access to borrow funds as needed. Our ability to continue operating is dependent on the senior lenders willingness to grant access to funds. If we are unable to obtain the necessary funds, our ability to continue operations would be seriously impaired unless we are able to obtain alternative financing from another source. In the event of a default, obtaining alternative financing may be difficult and may be at less favorable terms. We may be unable to achieve our projected operating results and maintain compliance with the loan covenants which would trigger an event of default with our Lenders. In an event of default, the Lenders would be in the position to exercise default remedies which include applying a default interest rate and acceleration of payment schedules for our outstanding debt. Our Lenders may pursue any number of plans to reduce the outstanding debt, including, in certain circumstances, a liquidation of some or all of our assets.

If the registration statement of which this prospectus is a part becomes ineffective for more than 40 days, after having gone effective, we may be subject to significant financial penalties.

Under terms of the Registration Rights Agreement with the purchasers in the PIPE Transaction, if the registration statement of which this prospectus is a part becomes ineffective for more than 40 days (not necessarily consecutive) then we will be subject to a cash penalty of up to $650,000 per month for each month the registration statement is not effective. Certain factors that could cause the registration statement to become or remain ineffective are not within our control.

If we are unable to retain the current members of our senior management team and other key personnel, and to quickly replace our Chief Financial Officer, our future success may be negatively impacted.

Effective August 8, 2005, our Chief Financial Officer resigned to take a position with another company. We have retained Spencer Stuart, an international executive search firm, to assist in filling our Chief Financial

Officer position. In addition to the departure of our Chief Financial Officer, we may lose key management personnel and encounter difficulties replacing these positions. We may have to incur greater costs to attract replacement personnel.

Our inability to protect our intellectual property rights, or our possible infringement on the proprietary rights of others, and related litigation could be time consuming and costly.

We defend our intellectual property rights because unauthorized copying and sale of our proprietary equipment and consumables represents a loss of revenue to us. From time to time we also receive notices from others claiming we infringe their intellectual property rights. The number of these claims may grow in the future, and responding to these claims may require us to stop selling or to redesign affected products, or to pay damages. On November 18, 2004, Omax Corporation (Omax) filed suit against us alleging that our products infringe on Omax s patents. The suit also seeks to have a specific patent we hold declared invalid. Although the suit seeks damages of over $100 million, we believe Omax s claims are without merit and we intend not only to contest Omax s allegations of infringement but also to vigorously pursue our claims against Omax with regard to our own patent. See Note 14 to Consolidated Financial Statements for further discussion of contingencies.

Fluctuations in our quarterly operating results may cause our stock price to decline and limit our shareholders ability to sell our common stock in the public market.

In the past, our operating results have fluctuated significantly from quarter to quarter and we expect them to continue to do so in the future due to a variety of factors, many of which are outside of our control. Our operating results may in some future quarter fall below the expectations of securities analysts and investors. In this event, the trading price of our common stock could decline significantly. In addition to the risks disclosed elsewhere in this prospectus, factors outside of our control that have caused our quarterly operating results to fluctuate in the past and that may affect us in the future include:

fluctuations in general economic conditions;

demand for UHP pumps and UHP water management systems generally;

fluctuations in the capital budgets of customers; and

development of superior products and services by our competitors.

In addition, factors within our control, such as our ability to deliver equipment in a timely fashion, have caused our operating results to fluctuate in the past and may affect us similarly in the future.

The factors listed above may affect both our quarter-to-quarter operating results as well as our long-term success. Given the fluctuations in our operating results, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance or to determine any trend in our performance. Fluctuations in our quarterly operating results could cause the market price of and demand for our common stock to fluctuate substantially, which may limit your ability to sell our common stock on the public market.

We do business in industries that are cyclical, which may result in weakness in demand for our products.

Our products are sold in many industries, including machine tool, automotive and aerospace, that are highly cyclical. The machine tool industry, in particular from 1998 through 2003, experienced a significant decline in global demand. Cyclical weaknesses in the industries that we serve could lead to a reduced demand for our products.

We may be affected by rising costs or lack of availability of materials, which could negatively impact our operations.

We have experienced and may continue to experience significant increases in the costs of materials we use in the manufacture of our products, such as steel, and we may not be able to either achieve corresponding

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increases in the prices of our products or reduce manufacturing costs to offset these increases, or if we do increase prices, we may experience lower sales. Any of the foregoing may adversely affect our financial results.

If we cannot develop technological improvements to our products through continued research and engineering, our financial results may be adversely affected.

In order to maintain our position in the market, we need to continue to invest in research and engineering to improve our products and technologies and introduce new products and technologies. If we are unable to make such investment, if our research and development does not lead to new and/or improved products or technologies, or if we experience delays in the development or acceptance of new and/or improved products, our financial results will be adversely affected.

We have received notice of material weaknesses in internal controls. Consequently, there is more than a remote likelihood that a material misstatement of our financial statements will not be prevented or detected in the current or any future period. Additionally we may conclude that our system of internal controls under Section 404 of Sarbanes-Oxley is not effective.

In December 2004, in connection with the restatement of our fiscal 2002, 2003 and 2004 financial statements, our independent registered public accounting firm reported to our Audit Committee two matters involving internal controls which our independent registered public accounting firm considered to be material weaknesses in our financial reporting process, as defined by the Public Company Accounting Oversight Board (PCAOB) in Auditing Standard No. 2. As defined by the PCAOB, a material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management agrees and has responded to the Audit Committee and our independent registered public accounting firm and has addressed each matter raised in our independent registered public accounting firm s report. As of April 30, 2005, we had begun but had not yet completed the remediation of these material weaknesses.

The material weaknesses identified by our independent registered public accounting firm were as follows:

- Insufficient analysis, a documentation and review of the consolidation of the financial statements of subsidiaries. Inadequate processes to ensure the accuracy of the reconciliation of inter-company accounts. Also, we must improve the consolidation process and controls surrounding adequate monitoring and oversight of the work performed by accounting and financial reporting personnel.

- Insufficient staffing of the accounting and financial reporting function. The financial and accounting function requires additional personnel with appropriate skills and training to identify and address the application of technical accounting literature of our transactions and activities.

An in-depth review of the remediation process to date, as well as the steps remaining, can be found under Controls and Procedures in this Form S-1.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to assess the design and effectiveness of our internal control systems effective April 30, 2006. Our independent registered public accounting firm is required to render an attestation report on managements assessment and the effectiveness of our system of internal control over financial reporting. We must complete the documentation, evaluation and remediation of our systems of internal control. The costs associated with such compliance are likely to be substantial and will negatively impact our financial results. In addition, there is no assurance that we will be able to conclude that our systems are appropriately designed or effective, which could result in a material misstatement of the financial statements in the future and a decline in the stock price.

We have outstanding options and warrants that have the potential to dilute the return of our existing common shareholders and cause the price of our common stock to decline.

We grant stock options to our employees and other individuals. At April 30, 2005, we had options outstanding to purchase 2,030,221 shares of our common stock, at exercise prices ranging from $2.00 to $12.25

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per share. In addition, we currently have outstanding 3,219,245 warrants, for which we are registering the resale of the underlying shares hereby. The exercise price of the warrants range from $.008 to $4.07 per share.

As a result of accounting regulations, which become applicable to us on May 1, 2006, requiring companies to expense stock options, our expenses will increase and our stock price may decline.

A number of publicly traded companies have recently announced that they will begin expensing stock option grants to employees. In addition, the Financial Accounting Standards Board (FASB) has adopted rule changes with an effective date as of the beginning of fiscal years beginning after June 15, 2005 requiring expensing of stock options. Currently we include such expenses on a pro forma basis in the notes to our financial statements in accordance with accounting principles generally accepted in the United States, but do not include stock option expense for employee options in our reported financial statements. This change in accounting standards will require us to expense stock options, and as a result our reported expenses may increase significantly.

Washington law and our charter documents may make an acquisition of us more difficult.

Provisions in Washington law and in our articles of incorporation, bylaws, and rights plan could make it more difficult for a third-party to acquire us, even if doing so would benefit our shareholders. These provisions:

Establish a classified board of directors so that not all members of our board are elected at one time;

Authorize the issuance of blank check preferred stock that could be issued by our board of directors (without shareholder approval) to increase the number of outstanding shares (including shares with special voting rights), each of which could hinder a takeover attempt;

Provide for a Preferred Share Rights Purchase Plan or poison pill;

Impose restrictions on certain transactions between a corporation and certain significant shareholders.

Provide that directors may be removed only at a special meeting of shareholders and provide that only directors may call a special meeting;

Require the affirmative approval of a merger, share exchange or sale of substantially all of the Corporation s assets by 2/3 of the Corporation s shares entitled to vote; and

Provide for 60 day advance notification for shareholder proposals and nominations at shareholder meetings.

Market risk exists in our operations from potential adverse changes in foreign exchange rates relative to the U.S. dollar in our foreign operations.

A significant portion of our sales take place outside of the United States, and we transact business in various foreign currencies, primarily the Canadian dollar, the Eurodollar, the Japanese yen, the New Taiwan dollar, and the Swedish Krona. In addition, our foreign divisions may have customer receivables and vendor obligations in currencies other than their local currency which exposes us to near-term and longer term currency fluctuation risks. 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 net foreign exchange gains included in the determination of net loss amounted to $531,000 for the year ended April 30, 2005. Based on our results for the year ended April 30, 2005 for our foreign subsidiaries, and based on the net position of foreign assets less liabilities, a near-term 10% appreciation or depreciation of the U.S. dollar in all currencies we operate could impact operating income by $1.2 million and other income (expense) by $3.7 million. Our financial position and cash flows could be similarly impacted.

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Current year foreign sales have benefited from a weak U.S. dollar. If the dollar were to strengthen against certain foreign currencies, such as the euro and yen, our margins may be negatively affected.

A significant portion of our products sold outside the United States are manufactured domestically. The weaker U.S. dollar, relative to the local currency of many of the countries we sell into, has made our products less expensive, on a relative basis, when compared to locally manufactured products and products manufactured in certain other countries. As the U.S. dollar gains in value relative to these foreign currencies, our products will increase in cost to the customer relative to locally produced product and products manufactured in certain other countries, which could negatively impact sales.

Sales of registered stock could exert downward pressure on the market price of our stock and could encourage short selling that could exert further downward pressure

To the extent the Selling Stockholders acquired their shares (whether such shares were acquired in the PIPE transaction or on the exercise of warrants, which are exercisable at $.01 per share) at prices less than the then current trading price of our common stock, they may have an incentive to immediately resell material amounts of such shares in the market which may, in turn, cause the trading price of our common stock to decline. Significant downward pressure on our stock price caused by the sale of stock registered in this offering could encourage short sales by the Selling Stockholders (and in particular short sales by warrant holders in anticipation of exercising their warrants) or third parties that would place further downward pressure on our stock price. In an ordinary or uncovered short sale, a seller causes his or her executing broker to borrow the shares to be delivered at the completion of the sale from another broker, subject to an agreement to return them upon request, thereby avoiding the need to deliver any shares actually owned by the seller stockholder on the settlement date for the sale. Since the seller does not own the shares that are sold, the seller must subsequently purchase an equivalent number of shares in the market to complete or cover the transaction. The seller stockholder will realize a profit if the market price of the shares declines after the time of the short sale, but will incur a loss if the market price rises and he or she is forced to buy the replacement shares at a higher price. Accordingly, a declining trend in the market price of our common stock may stimulate short sales.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

SAFE HARBOR STATEMENT:

Statements made in this prospectus that are not historical facts are forward-looking statements that involve risks and uncertainties. Forward-looking statements typically are identified by the use of such terms as may, will, expect, believe, anticipate, estimate, plan and similar words, although some forward-looking statements are expressed differently. You should be aware that our actual results could differ materially from those contained in any forward-looking statement due to a number of factors, which include, but are not limited to the following: the special risk factors and uncertainties set forth in this document; our striving to continue to improve our customer s profitability through investment in the development of innovative products and services; our ability to absorb cyclical downturns through the flexibility of our UHP technology and market diversity; our confidence that we can continue to gain market share; governmental regulations, and consumer demand for higher quality, wholesome, and more natural convenience foods offer a long-term growth opportunity for the Fresher Under Pressure product line; our conclusion that waterjet technology is in the early adoption phase of its product life cycle; our ability to retain a technical lead over our competitors through non-patented proprietary trade secrets and know-how in UHP applications; the ability of our patents to act as a barrier to entry for competitors in the UHP technology field; increased market acceptance of waterjet cutting systems by the aerospace, automotive, and machine (Jobshop) industries will encourage other manufacturers, including those in other industries, to adopt waterjet solutions; our intent to contest Omax s allegations; our belief that the estimated cost of probable legal claims resolutions will not have an adverse effect on our consolidated financial position; our belief that the appropriate action to remedy our material weakness is to hire additional accounting staff with appropriate levels of experience in order to improve the reconciliation process and increase the

oversight ability thereof; our expectation that we will retain the services of a temporary CFO, until a permanent one is found; our belief that our restructuring activities and related cost-cutting initiatives will reduce overall spending; our belief that the benefits of our restructuring activities will continue into fiscal 2006; our belief that our new control policies and procedures, when completed, will eliminate material weaknesses in our internal accounting controls; our intent to divest ourselves from our General Press operations; our expectation of a manufacturing agreement with the purchasers of any potentially divested businesses; spare parts sales will continue to increase as more systems are put into operation; expected severance and relocation costs; our belief that our existing cash and credit facilities at April 30, 2005 are adequate to fund our operations through April 30, 2006; our belief that compliance with covenants in the current senior credit agreement is achievable; our expectation that the funds necessary for capital expenditures will be generated internally and through available credit facilities; the strengthening of global economies; and global economic conditions and additional threatened terrorist attacks and responses thereto, including war. Additional information on these and other factors that could affect our financial results is set forth below. Finally, there may be other factors not mentioned above or included in our SEC filings that may cause our actual results to differ materially from those in any forward-looking statement. You should not place undue reliance on these forward-looking statements. We assume no obligation to update any forward-looking statements as a result of new information, future events or developments, except as required by federal securities laws.

All references to fiscal years are references to our fiscal year end of April 30.

USE OF PROCEEDS

The proceeds from the sale of the shares covered by this prospectus will be received by the Selling Shareholders. We will not receive any of the proceeds from the sales by the Selling Shareholders of the shares covered by this prospectus.

We originally received gross proceeds of $65 million and net proceeds of $59.3 million on March 21, 2005 when we sold 17,473,116 equity units at $3.72 per unit in the PIPE Transaction. A unit consists of one share of our common stock and one warrant to buy 1/10th of a share of our common stock. Ten warrants give the holder the right to purchase one share of common stock for $4.07. We will receive an aggregate of up to $7.1 million if the selling shareholders who participated in the PIPE Transaction, exercise all of their warrants to purchase common stock.

We used the gross proceeds to pay the entire balance of our subordinated debt and accrued interest totaling $48.9 million in April 2005. The remaining proceeds were used to repay borrowings on our senior credit facility.

1,471,933 shares are issuable on the exercise of warrants issued to lenders, including approximately 304,000 warrants issued for anti-dilution. The exercise price of such warrants is $0.008 per share.

We would expect to use any such proceeds for general corporate purposes.

DIVIDEND POLICY

We have not paid dividends to common shareholders in the past. Our Board of Directors intends to retain future earnings, if any, to finance development and expansion of our business and reduce debt and does not expect to declare dividends to common shareholders in the near future. The credit agreement entered into on July 11, 2005 does permit us to pay dividends however. Prior to this date however, our credit agreements contained restrictions on our ability to pay dividends to our shareholders.

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PRO-FORMA INFORMATION

As a result of the PIPE Transaction and the reduction in outstanding debt, our interest expense will be reduced. The changes to our capitalization are reflected in our Consolidated Balance Sheet at April 30, 2005. The following table sets forth our interest expense, net (loss) income and (loss) earnings per share for the year ended April 30, 2005 as follows:

On an actual basis

On a pro-forma basis giving effect to our sale of 17,473,116 shares of common stock and 1,747,312 warrants to purchase Flow common stock. After deducting offering expenses, the net proceeds were $59.3 million

As further described below, the pro-forma presentation reflects application of all of the net proceeds to pay down debt. Our subordinated debt and related accrued interest was paid off in its entirety and the remaining net proceeds were used to pay down our Senior debt. In addition, the pro-forma presentation excludes the charges for the expensing of the related capitalized debt fees and the write-off of the subordinated debt discount which were charged to expense in the fourth quarter of fiscal 2005 of $6.3 million.

In addition, the pro-forma presentation includes the issuance of approximately 304,000 anti-dilution warrants. The warrants were issued to our senior and subordinated lenders. The fair value of these warrants was $1.1 million. Charges taken in the fourth quarter of fiscal 2005 for the portion of the warrants ($970,000) issued to our subordinated lender and those senior lenders who did not participate in an ongoing senior credit agreement are excluded from the pro-forma results.

The following comments explain the changes between the Consolidated Statement of Operations for the year ended April 30, 2005 reported amounts and the pro-forma amounts:

The PIPE Transaction gross proceeds of $65 million, less investment banking fees of $5.1 million and other costs of $626,000, result in net cash proceeds of $59.3 million. The PIPE Transaction includes the sale of 17,473,116 shares of FLOW common stock and warrants to purchase 1,747,312 shares of FLOW common stock.

The net proceeds of the PIPE Transaction have been applied to debt on a pro-forma basis as of May 1, 2004 (beginning of fiscal 2005) as follows:

In Thousands	
Repayment of subordinated debt and accrued interest	$ 42,325
Repayment of senior debt	16,962
Total application of proceeds	$ 59,287

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As a result of this transaction, on a pro-forma basis, our interest expense for the year ended April 30, 2005 would have been reduced and our net loss and loss per share would have been reported as income as follows:

In Thousands, except per share data	Year Ended April 30, 2005 Actual	Year Ended April 30, 2005 Pro-Forma
Interest Expense	$ 19,995	$ 4,511
Net (Loss) Income	(10,797)	4,687
Net (Loss) Income per share:		
Basic	$ (0.61)	$ 0.14
Diluted	$ (0.61)	$ 0.13

In Thousands	Year Ended April 30, 2005 Actual	Year Ended April 30, 2005 Pro-Forma
Weighted Average Shares Outstanding:		
Basic	17,748	33,402
Diluted	17,748	35,427

Note:

The subordinated debt and accrued interest at May 1, 2004 (the beginning of fiscal 2005) was $42.3 million. The pro-forma interest expense, net income and earnings per share information assumes the proceeds of the PIPE Transaction were used first to pay off the balance of the subordinated debt and accrued interest and the remaining net proceeds were used to pay-down Senior Credit Facility borrowings. The reduction between the Actual and Pro-Forma amounts of interest expense is attributable to the reduced levels of senior and subordinated borrowings. Because the interest expense on the subordinated borrowings was all accrued and did not require cash payments, the pro-forma proceeds applied to reduce senior borrowings are the full difference between net proceeds of $59.3 million and $42.3 million of subordinated borrowing and accrued interest or $17.0 million. In addition, the pro-forma amounts exclude the amortization of the Debt Discount on the Subordinated debt of approximately $1.1 million per year. Because we have provided for full valuation allowances for our deferred tax assets in the United States, the reductions to our interest expense would not effect our income tax provision. Therefore we have not adjusted the impact of these pro-forma items to reflect any tax effect.

The pro-forma presentation also excludes the write off of unamortized debt discount, write-off of any capitalized fees or the value of warrants issued to the debt holders as part of the PIPE transaction. These fees were expensed in the fourth quarter of fiscal 2005 when the underlying debt was retired. They amounted to $6.3 million in additional charges.

The pro-forma interest expense includes the following adjustments:

In Thousands	Year Ended April 30, 2005

Reduced interest expense on subordinated debt	$ 7,724
Reduced interest expense on senior debt	1,509
Exclude write-off of capitalized fees and debt discount	6,251
Total pro forma adjustment to interest expense	$ 15,484

The pro-forma weighted average shares outstanding includes the following adjustments:

	Year Ended April 30, 2005	
	Basic	**Diluted**
In Thousands		
Common shares issued in PIPE Transaction	15,654	15,654
Dilutive potential common shares from warrants		2,025
Total additional shares included in weighted average shares outstanding	15,654	17,679

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The weighted average shares are adjusted for the additional shares issued in the PIPE Transaction, as if they were issued May 1, 2004. Diluted earnings (loss) per share takes into consideration the warrants issued to purchasers of stock in the PIPE Transaction, as well as the anti-dilution warrants issued to then current warrant holders prior to the PIPE Transaction where their inclusion would be dilutive.

The Company s potential common stock equivalents on an actual and pro-forma basis were:

	April 30, 2005	
In Thousands	**Actual**	**Pro forma**
Common stock options	2,030	2,030
Warrants	3,219	3,219
Total	5,249	5,249

Controls and Procedures

In December 2004, in connection with the restatement of our fiscal 2002, 2003 and 2004 financial statements, our independent registered public accounting firm reported to our Audit Committee two matters involving internal controls which our independent registered public accounting firm considered to be material weaknesses in our financial reporting process, as defined by the Public Company Accounting Oversight Board (PCAOB) in Auditing Standard No. 2. As defined by the PCAOB, a material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management agrees and has responded to the Audit Committee and our independent registered public accounting firm and has addressed each matter raised in our independent registered public accounting firm s report. As of April 30, 2005, we had not completed the remediation of these material weaknesses.

The material weaknesses identified by our independent registered public accounting firm were as follows:

Insufficient analysis, documentation and review of the consolidation of the financial statements of subsidiaries. Inadequate processes to ensure the reconciliation of inter-company accounts are performed appropriately. Also, we must improve the consolidation process and controls surrounding adequate monitoring and oversight of the work performed by accounting and financial reporting personnel in connection with the consolidation process.

Insufficient staffing of the accounting and reporting function. The finance and accounting function requires additional personnel with appropriate skills and training to identify and address the application of technical accounting literature to our transactions and activities.

These deficiencies in both design and operational effectiveness contributed to significant post-closing adjustments and delays in the completion and filing of our July 31, 2004 and October 31, 2004 Forms 10-Q and restatement of our financial statements for the fiscal years ended April 30, 2004, 2003 and 2002.

Our management and Audit Committee have dedicated significant resources to assessing the underlying issues giving rise to the restatements and to ensure that proper steps have been and are being taken to improve our control environment. We have assigned the highest priority to the correction of these deficiencies and have taken and will continue to take action to fully correct them. Management is committed to instilling strong control policies and procedures and ensuring that the tone at the top is committed to accuracy and completeness in all financial reporting.

As of April 30, 2005 we have addressed each of the material weakness comments as follows:

Comment # 1

Insufficient analysis, documentation and review of the consolidation of the financial statements of subsidiaries. Inadequate processes to ensure the reconciliation of inter-company accounts are performed

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appropriately. Also, we must improve the consolidation process and controls surrounding adequate monitoring and oversight of the work performed by accounting and financial reporting personnel in connection with the consolidation process.

We engaged a financial consulting firm to assist in both the detail reconciliation work, as well as reviewing current processes and controls and assistance in the development of prospective processes and controls over the inter-company reconciliation process. We created a standardized template used in the reconciliation of all our inter-company accounts. These reconciliations are reviewed for accuracy and completeness by our Chief Financial Officer. Additionally, we have created a new template for use in generation of our Statement of Cash Flows. We have modified our monthly divisional close check list to ensure all required reconciliations are completed, as well as help ensure adherence to corporate policies and procedures. As is described in the following paragraph, we still need to hire one or two additional persons, depending on skill set, to provide enhanced review of the consolidated financial statements.

Comment # 2

Insufficient staffing of the accounting and reporting function. The finance and accounting function requires additional personnel with appropriate skills and training to identify and address the application of technical accounting literature to our transactions and activities.

We have filled several new positions in the corporate accounting and finance department with newly hired staff, including a financial planner, assistant controller and senior accountant. We have not completed the hiring process at corporate as we continue to assess our staffing needs. We need, at a minimum, a strong technical accountant to ensure compliance with all current and future accounting rules. Currently the existing staff is addressing our application of technical accounting literature. We will continue to assess staffing needs at both corporate and our subsidiaries. We have applied additional resources and time to improve the documentation of our accounting positions, but more is needed in this area and will be enhanced with the addition of a technical accountant. We are and have been actively recruiting for the technical accountant position for several months. We have experienced difficulty in finding qualified applicants and several candidates that we have made offers to have declined the offer. We will strive to fill the position as soon as possible.

The implementation of the initiatives described above, as well as completion of the open items, are among our highest priorities. Our Audit Committee will continually assess the progress and sufficiency of these initiatives and make adjustments as and when necessary. As of the date of this report, management believes that the plan outlined above, when completed, will eliminate the material weaknesses in internal accounting control as described above. In light of the material weaknesses described above and the progress to date, our Chief Executive Officer and Chief Financial Officer believe that our disclosure controls and procedures were not effective as of the end of the fiscal year 2005.

Management and the Audit Committee will continue to work towards remediation of these material weaknesses, however, management and our Audit Committee do not expect that our disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control gaps and instances of fraud have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions.

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Effective August 8, 2005, the Company s Chief Financial Officer (CFO) resigned to take a position with another company. The Company has retained Spencer Stuart, an international executive search firm to assist in filling the CFO position. In the interim period until a permanent CFO is hired, the Company expects to retain the services of a temporary CFO. This person, in combination with the Company s Corporate Controller, will assume the responsibilities of the CFO position relative to internal controls and procedures.

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SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes, which are included elsewhere in this prospectus. The selected consolidated statement of operations data for each of the fiscal years ended April 30, 2003, 2004 and 2005 and the selected consolidated balance sheet data as of April 30, 2004 and 2005 are derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The summary consolidated statement of operation data for the fiscal year ended April 30, 2002 and the summary consolidated balance sheet data as of April 30, 2003 are derived from our audited consolidated financial statements which are not included in this prospectus. The summary consolidated statement of operation data for the fiscal year ended April 30, 2001 and the summary consolidated balance sheet data as of April 30, 2001 and 2002 are derived from our unaudited consolidated financial statements which are not included in this prospectus.

	Year Ended April 30,				
(In thousands, except per share amounts)	**2005**	**2004**	**2003(3)**	**2002(2)**	**2001(1)**
					(unaudited)
Statement of Operations Data:					
Sales	$ 219,365	$ 177,609	$ 144,115	$ 176,890	$ 204,854
Operating Income (Loss)	11,460	(1,883)	(46,657)	112	14,389
(Loss) Income Before Provision for Income Taxes	(8,459)	(6,851)	(56,861)	(11,367)	5,635
(Loss) Income Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	(10,797)	(12,048)	(69,464)	(8,244)	4,038
Net (Loss) Income	(10,797)	(11,522)	(69,987)	(7,853)	1,630
Basic (Loss) Income Per Share Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	(0.61)	(0.78)	(4.53)	(0.54)	0.27
Diluted (Loss) Income Per Share Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	(0.61)	(0.78)	(4.53)	(0.54)	0.27
Basic (Loss) Income Per Share	(0.61)	(0.75)	(4.56)	(0.52)	0.11
Diluted (Loss) Income Per Share	(0.61)	(0.75)	(4.56)	(0.52)	0.11

	April 30,				
(In thousands)	**2005**	**2004**	**2003**	**2002**	**2001**
				(unaudited)	**(unaudited)**
Balance Sheet Data:					
Working Capital	$ 8,013	$ (9,060)	$ (6,709)	$ 84,532	$ 91,750
Total Assets	131,334	135,071	147,701	208,674	206,309
Short-Term Debt	13,443	48,727	61,056	5,237	8,464
Long-Term Obligations, net	5,704	38,081	29,023	83,453	85,652
Shareholders Equity (Deficit)	37,732	(9,552)	4,872	71,054	68,755

(1) The Statement of Operations for fiscal 2001 includes the adoption of SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements , as amended by SAB101A and 101B. We reflected this change in policy as a Cumulative Effect of Change in Accounting Principle.

(2) The Statement of Operations for fiscal 2002 includes the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (FAS 142). See Note 1 to the Consolidated Financial Statements for the year ended April 30, 2005 for further discussion of the impact of this adoption.

(3) The Statement of Operations for fiscal 2003 includes the impact of management s launch of its restructuring program and resulting focus on cash generation. See the Fiscal 2003 Comprehensive Financial Review at the end of the Fiscal 2004 Compared to Fiscal 2003 financial

analysis in the Management s Discussion and Analysis section for further discussion of the impact on our financial results.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Current Events

Current Senior Credit Agreement

Until April 28, 2005, our long-term financing consisted of a senior credit agreement (originally entered into on July 28, 2004) whose maturity date was August 1, 2005 (Senior Credit Agreement) and a subordinated debt agreement (Subordinated Debt Agreement). On April 28, 2005, we entered into a new senior debt agreement (April Senior Credit Agreement) for the purpose of being able to pay off the Subordinated Debt Agreement, which was done. The April Senior Credit Agreement also had a maturity date of August 1, 2005. On July 11, 2005, we entered into a new senior credit agreement, with a maturity date of July 8, 2008 (Current Senior Credit Agreement). At certain places in this report, we refer to Senior Credit Arrangements referring to one or more of the senior credit agreements when identification of a particular agreement is not important. The Current Senior Credit Agreement is a $30 million, three year agreement with Bank of America N.A. and U.S. Bank N.A. It bears interest at Bank of America s prime rate (5.75% at April 30, 2005) or is linked to LIBOR plus a percentage depending on our leverage ratios, at our 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 financial covenants in the Current Senior Credit Agreement are less restrictive than in the earlier Senior Credit Arrangements.

Restructuring

In fiscal 2005, we completed a plan intended to return us to profitability through reductions in headcount, consolidation of facilities and operations, and closure or divestiture of selected operations. We evaluated the workforce and skill levels necessary to satisfy the expected future requirements of the business. As a result, we implemented plans to eliminate redundant positions and realign and modify certain roles based on skill assessments. We recorded restructuring charges of $3.3 million and $239,000 for the years ended April 30, 2004 and 2005, respectively, which are shown in the table below (in thousands):

	Year Ended April 30, 2005	Year Ended April 30, 2004
Severance benefits	$ 120	$ 652
Facility exit costs	119	1,058
Inventory write-down		1,546
	$ 239	$ 3,256

These charges included employee severance related costs for approximately 50 individuals. The fiscal 2004 reductions in the global workforce were made across manufacturing, engineering and general and administrative functions. We have also recorded facility exit costs for the year ended April 30, 2004 primarily as a result of consolidating our two Kent facilities into one facility, vacating the manufacturing warehouse portion of our Flow Europe facility and reducing the space utilized in our Swedish manufacturing facility. In addition, we scrapped some obsolete parts, returned surplus parts to vendors and sold parts to third parties, in conjunction with the shutdown of our manufacturing operation in Europe and standardization of our product line. The fiscal 2005 restructuring related to employee reductions in the Food segment as well as closure of our Memphis sales office. See restructuring accrual information in Note 16 to Consolidated Financial Statements.

During the year ended April 30,2005 and 2004, we incurred $.6 million and $1.5 million, respectively, of professional fees associated with the restructuring of our debt in July 2004 and July 2003, respectively. These costs were evaluated under EITF 98-14, Debtor s Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements , and as they were either expenses related to potential Senior Credit Arrangement with lenders that

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did not occur, or they related to expenses associated with our subordinated debt and did not result in an increase in the facility and accordingly they were expensed.

Avure

The 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 business, which is included in the Food segment, are not considered core to our business and it is our intent to divest ourselves of these operations. However, there can be no assurance we will find a suitable buyer at an acceptable price. If we do divest these businesses, it is anticipated that we will enter into a manufacturing agreement to provide the purchaser with the ultrahigh-pressure pump components and related spare parts for the Fresher Under Pressure business. These segments do not meet the accounting criteria to be considered assets held for sale as of April 30, 2005 and accordingly the results of operations are shown as continuing operations and the related assets have not been reported as held for sale in our financial statements. Upon divestiture, we will record to the Statement of Operations the Cumulative Translation Adjustment of these operations which represent a $4.8 million credit at April 30, 2005.

Robotics Division

In an effort to control costs and to focus on our core UHP waterjet systems, on June 2, 2005, we announced that we had expanded our strategic relationship with Motoman Inc., to deliver standard, pre-engineered robotic waterjet cutting solutions to the automotive industry. The relationship means that Motoman, Inc. will be the primary sales contact with the end user for standard systems and we will sell UHP pumps and parts to Motoman, Inc. to be integrated into the pre-engineered robotic cutting system. At the same time we announced that, in order to re-align our resources with this new strategic direction, our custom robotic waterjet cutting system manufacturing would be relocated from Wixom, Michigan to Burlington, Ontario. This closure is expected to be completed by the second quarter of fiscal 2006 with restructuring expenses of approximately $1,000,000. These expenses include severance payments for employees, exit expenses for the facility as well as logistical expenses for moving and disposing of equipment and assets.

We have also retained a broker to assist us in evaluating various opportunities for the Applications Group, our Other segment.

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Operational and Financial

Operational Data as a Percentage of Sales

	Year Ended April 30,		
	2005	2004	2003
Sales	100%	100%	100%
Cost of Sales	63%	63%	75%
Gross Margin	37%	37%	25%
Expenses:			
Marketing	15%	16%	26%
Research & Engineering	4%	6%	9%
General & Administrative	12%	13%	16%
Restructuring Charges	%	2%	%
Financial Consulting Charges	1%	1%	%
Impairment Charges		%	8%
	32%	38%	59%
Operating Income (Loss)	5%	(1)%	(34)%
Interest Expense	(9)%	(7)%	(8)%
Interest Income	%	%	%
Other Income (Expense), net	%	4%	2%
Loss Before Provision for Income Taxes	(4)%	(4)%	(39)%
Provision for Income Taxes	(1)%	(3)%	(9)%
Loss Before Discontinued Operations	(5)%	(7)%	(48)%
Discontinued Operations, Net of Tax	%	1%	(1)%
Net Loss	(5)%	(6)%	(49)%

Operational Overview:

	Year ended April 30, 2005			Year ended April 30, 2004			Year ended April 30, 2003		
	Waterjet	Avure	Consolidated	Waterjet	Avure	Consolidated	Waterjet	Avure	Consolidated
Dollars in thousands									
Sales	$ 172,966	$ 46,399	$ 219,365	$ 132,861	$ 44,748	$ 177,609	$ 121,833	$ 22,282	$ 144,115
Cost of Sales	107,324	31,212	138,536	83,604	28,778	112,382	88,620	19,454	108,074

Gross Margin	65,642	15,187	80,829	49,257	15,970	65,227	33,213	2,828	36,041
Operating Expenses	56,726	12,643	69,369	50,934	16,176	67,110	60,335	24,405	84,740
Operating (Loss) Income	$ 8,916	$ 2,544	$ 11,460	$ (1,677)	$ (206)	$ (1,883)	$ (27,122)	$ (21,577)	$ (48,699)

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Sales Summary:

Dollars in thousands	Year ended April 30, 2005	Year ended April 30, 2004	% Change	Year ended April 30, 2004	Year ended April 30, 2003	% Change
Operational breakdown:						
Waterjet:						
Systems	$ 122,129	$ 85,015	44%	$ 85,015	$ 76,346	11%
Consumable parts and services	50,837	47,846	6%	47,846	45,487	5%
Total	172,966	132,861	30%	132,861	121,833	9%
Avure:						
Fresher Under Pressure	15,072	15,296	(1)%	15,296	4,851	215%
General Press	31,327	29,452	6%	29,452	17,431	69%
Total	46,399	44,748	4%	44,748	22,282	101%
	$ 219,365	$ 177,609	24%	$ 177,609	$ 144,115	23%
Geographic breakdown:						
United States	$ 128,975	$ 92,799	39%	$ 92,799	$ 79,450	17%
Rest of Americas	19,468	17,751	10%	17,751	15,673	13%
Europe	45,417	46,557	(2)%	46,557	31,326	49%
Asia	25,505	20,502	24%	20,502	17,666	16%
	$ 219,365	$ 177,609	24%	$ 177,609	$ 144,115	23%

Results of Operations

We analyze our business based on the utilization of ultrahigh-pressure, either as released pressure or contained pressure. The released pressure portion of our UHP business which we call Waterjet, is comprised of the following segments: North America Waterjet, Asia Waterjet, Other International Waterjet and Other. The contained pressure operation which is what we call Avure, is made up of the Food, North America Press and International Press segments.

Fiscal 2005 Compared to Fiscal 2004

(Tabular amount in thousands)

Sales.

Our sales by segment for the periods noted below is summarized as follows:

	2005	2004	Difference	%
Sales				
Waterjet:				
North America	$ 82,381	$ 59,044	$ 23,337	40%
Asia	25,505	20,502	5,003	24%
Other International	34,530	28,160	6,370	23%
Other	30,550	25,155	5,395	21%
Waterjet Total	172,966	132,861	40,105	30%
Avure:				
Food	15,072	15,296	(224)	(1)%
North America Press	16,617	7,445	9,172	123%
International Press	14,710	22,007	(7,297)	(33)%
Avure Total	46,399	44,748	1,651	4%
Consolidated Total	$ 219,365	$ 177,609	$ 41,756	24%

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Waterjet. The Waterjet operation includes cutting and cleaning operations, which are focused on providing total solutions for the aerospace, automotive, job shop, surface preparation (cleaning) and paper industries. It is comprised of four reporting segments: North America Waterjet, Asia Waterjet, Other International Waterjet and Other. The North America, Asia and Other International Waterjet segments primarily represent sales of our standard cutting and cleaning systems throughout the world, as well as sales of our custom designed systems into the aerospace industry. The Other segment represents sales of our automation and robotic waterjet cutting cells, as well as non-waterjet systems, which are sold primarily into the North American automotive industry. For the fiscal year ended April 30, 2005, we reported a $40.1 million, or 30%, increase in revenue to $173.0 million versus the prior year comparative period. All four segments reported an increase in revenue; however $23.3 million of the $40.1 million increase was recognized in our North America Waterjet segment. At the end of fiscal 2004, we believed the market awareness of waterjet technology was low and addressed this through an increase in marketing and tradeshow activity, including attendance at the bi-annual International Manufacturing Technology Show in early September 2004, as well as increasing the number of domestic waterjet cutting direct sales staff from 10 to 15, adding two machine tool distributors, acting as agents, and increasing domestic technical services staff from 12 to 24 persons. The growth in revenue in North America is a result of an increase in unit sales stemming from our increased sales and marketing activity. There were no significant price increases year over year, however a price increase of 4% on selected systems was implemented on February 1, 2005. Aerospace sales, which are also included in the North America segment, were $5.5 million, up $1.4 million (33%) from the prior year. The growth in our Other segment results from improved non-waterjet automated robotic system demand in the domestic automotive industry. We have not increased our marketing and sales staff in this segment year over year. Our waterjets are experiencing growing acceptance in the marketplace because of their flexibility and superior machine performance.

Outside the U.S., Waterjet revenue growth was positively influenced by growth in Asia Waterjet sales which were $25.5 million, up $5.0 million or 24% for the year ended April 30, 2005. This increase was driven largely by sales in China where we experienced strong demand for shapecutting and cutting cell systems from a strengthening automotive industry.

Our Other International Waterjet segment represents primarily sales in Europe and South America. Revenues from our European operations have improved by $6.2 million (25%) for the year ended April 30, 2005 to $30.7 million. Market specific pricing including some price reductions, standardization of system offerings, improved delivery and a recovering European marketplace have helped to increase our European sales. Sales in South America of $3.8 million for the year ended April 30, 2005 were comparable to the respective prior year period. The economic conditions in the South America region make it difficult to increase sales. We are typically able to sell our products at higher prices outside the U.S. due to the costs of servicing these markets. As much of our product is manufactured in the U.S., the weakness of the U.S. dollar also has helped strengthen our foreign revenues.

We also analyze our Waterjet revenues by looking at system sales and consumable sales. Systems revenues for the year ended April 30, 2005 were $122.1 million, an increase of $37.1 million or 44%, compared to the prior year same period due to both strong domestic and global sales from recovering economic conditions. The majority, $21.4 million, of the increase was generated domestically. Consumables revenues recorded an increase of $3.0 million or 6% to $50.8 million for the year ended April 30, 2005. The majority of the increase in spares sales is domestic and is the result of the increasing number of operating systems, increasing sales of our proprietary productivity enhancing kits, improved parts availability, as well as increased customer acceptance of Flowparts.com, our easy-to-use internet order entry system. We believe that spare parts sales should continue to increase as more systems are put into operation.

Avure. The Avure operation includes the Fresher Under Pressure technology (Food segment) as well as General Press operations (North America Press and International Press segments). These segments would be eliminated were we to sell Avure as described earlier. Revenue in the Avure operations is recorded on the percentage of completion basis. Fresher Under Pressure meets the increasing demand in the U.S. for a post

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packaging, terminal pasteurization-like step (e.g. packaged ready-to-eat meats); the demand for high quality, minimally processed foods (e.g. fresh guacamole and salsas); and the demand to utilize the productivity enhancing capabilities of UHP in food processing (e.g. shellfish shucking), while the General Press business manufactures systems that produce and strengthen advanced materials for the aerospace, automotive and medical industries. For the year ended April 30, 2005, sales for the Food segment decreased $.2 million or 1%.

General Press revenues vary from year to year due to the nature of its sales and production cycle. The sales and production cycle on a General Press can range from one to four years. As outlined in the table above, North American Press sales grew significantly in the year ended April 30, 2005 to $16.6 million as compared to the prior year period. This growth is the result of revenue recognized under two large contracts obtained in fiscal 2004 and manufactured in fiscal 2005.

International Press sales for the year ended April 30, 2005 decreased $7.3 million as compared to the prior year. The International Press sales are almost exclusively large contract sales in excess of $2 million per contract and accordingly revenue will vary depending on the number and stage of manufacture of these contracts.

Cost of Sales and Gross Margins. Our gross margin by segment for the periods noted below is summarized as follows:

	2005	2004	Difference	%
Gross Margin				
Waterjet:				
North America	$ 38,018	$ 25,170	$ 12,848	51%
Asia	11,682	9,762	1,920	20%
Other International	12,034	9,890	2,144	22%
Other	3,908	4,435	(527)	(12)%
Waterjet Total	65,642	49,257	16,385	33%
Avure:				
Food	2,185	1,788	397	22%
North America Press	2,124	1,109	1,015	92%
International Press	10,878	13,073	(2,195)	(17)%
Avure Total	15,187	15,970	(783)	(5)%
Consolidated Total	$ 80,829	$ 65,227	$ 15,602	24%

Our gross margin as a percent of sales by segment for the periods noted below is summarized as follows:

	2005	2004
Gross Margin Percentage		
Waterjet:		
North America	46%	43%

Asia	46%	48%
Other International	35%	35%
Other	13%	18%
Waterjet Total	38%	37%
Avure:		
Food	14%	12%
North America Press	13%	15%
International Press	74%	59%
Avure Total	33%	36%
Consolidated Total	37%	37%

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Gross margin for the year ended April 30, 2005 amounted to $80.8 million or 37% of sales as compared to gross margin of $65.2 million or 37% of sales in the prior year period. Generally, gross margin rates will vary period over period depending on the mix of sales, which includes special system, standard system and consumables sales. Gross margin rates on our systems sales are typically less than 45% as opposed to consumables sales which are in excess of 50%. On average, standard systems which are included in the North America, Asia and Other International Waterjet segments carry higher margins than the custom engineered systems, which are represented by the Other, Food, North America Press and International Press segments. In addition, gross margin as a percent of sales will vary amongst segments due to inter-company sales and the related inter-company transfer pricing.

For the year ended April 30, 2005, waterjet margins represented $65.6 million of the overall consolidated margin or 38% of Waterjet sales. The waterjet operations gross margin percentage increased one percentage point from 37% of sales in fiscal 2004. The increase in North American waterjet margins were offset in part by the decrease of five percentage points in the Other segment in fiscal 2005. This weakness stems from a number of very low margin contracts built in fiscal 2005, including several loss contracts which totaled $.8 million in losses. All loss contracts were non-waterjet related systems. We have consolidated the management of this division within the Other segment and current contracts appear to be in line with historical gross margins in the automotive industry, between 15% and 25%.

Avure margins amounted to $15.2 million of the overall consolidated margin or 33% of Avure sales. Food segment margin percentages improved in the current year as the prior year included several strategic sales at almost a zero margin. These sales represented the initial sale of equipment into the Ready-to Eat meat industry made in an effort to try and accelerate market adoption and the sale of a development project into the seafood industry that has other industry applications. The North America Press segment margin dollars have increased; however, the margin percentage has decreased for the year ended April 30, 2005 compared to the prior year period. This is the result of a shift in product mix in fiscal 2005 towards equipment manufactured by the International Press segment, for which the margins recognized by North America Press are lower due to our inter-company transfer pricing policies. The International Press margin is the result of gross profit on external sales and gross profit on inter-company sales. Our segment reporting excludes inter-company sales, but not the related margins. For fiscal 2005, inter-company production is up which has resulted in an increase in the International Press margin percentage to 74%. Gross margin percentages on similar type projects remain the same year over year.

Marketing Expenses. Our marketing expenses by segment for the periods noted below are summarized as follows:

	2005	2004	Difference	%
Marketing				
Waterjet:				
North America	$ 14,042	$ 10,109	$ 3,933	39%
Asia	3,704	3,022	682	23%
Other International	8,161	7,750	411	5%
Other	1,789	1,822	(33)	(2)%
Waterjet Total	27,696	22,703	4,993	22%
Avure:				
Food	1,324	1,658	(334)	(20)%
North America Press	602	499	103	21%
International Press	2,410	3,562	(1,152)	(32)%
Avure Total	4,336	5,719	(1,383)	(24)%
Consolidated Total	$ 32,032	$ 28,422	$ 3,610	13%

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Marketing expenses increased $3.6 million or 13% to $32.0 million for the year ended April 30, 2005 as compared to the prior year period. Waterjet increased $5.0 million or 22% and Avure decreased $1.4 million or 24% as compared to the prior year period. The Waterjet increase in North America was the result of improved sales and the market awareness programs. Fiscal 2005 also includes over $.5 million in costs associated with the bi-annual International Manufacturing Technology Show held during the second quarter ended October 31, 2004. Asia and Other International Waterjet recorded cost increases in line with changes in sales and the Other segment held marketing costs constant. Within Avure, the majority of the decrease is attributable to International Press, due to both cost cutting and lower sales. Expressed as a percentage of sales, consolidated marketing expenses were 15% for fiscal 2005, as compares to 16% of sales for fiscal 2004.

Research and Engineering Expenses. Our research and engineering expenses by segment for the periods noted below are summarized as follows:

	2005	2004	Difference	%
Research and Engineering				
Waterjet:				
North America	$ 4,808	$ 4,082	$ 726	18%
Asia	348	295	53	18%
Other International	712	737	(25)	(3)%
Other	224	337	(113)	(34)%
Waterjet Total	6,092	5,451	641	12%
Avure:				
Food	1,685	1,583	102	6%
North America Press				%
International Press	1,915	3,617	(1,702)	(47)%
Avure Total	3,600	5,200	(1,600)	(31)%
Consolidated Total	$ 9,692	$ 10,651	$ (959)	(9)%

Research and engineering expenses decreased $1.0 million or 9% for fiscal 2005 as compared to fiscal 2004. Waterjet expenses were up slightly associated with our aerospace programs, while Avure decreased $1.6 million. The overall decreases were related to the timing of research and development work, the increased use of engineers on revenue generating projects and continued cost cutting across most segments. Expressed as a percentage of revenue, research and engineering expenses were 4% in fiscal 2005, as compared to 6% in fiscal 2004.

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General and Administrative Expenses. Our general and administrative expenses by segment for the periods noted below are summarized as follows:

	2005	2004	Difference	%
General and Administrative				
Waterjet:				
North America	$ 16,431	$ 12,767	$ 3,664	29%
Asia	1,381	1,146	235	21%
Other International	2,653	3,064	(411)	(13)%
Other	1,850	1,842	8	%
Waterjet Total	22,315	18,819	3,496	19%
Avure:				
Food	1,075	1,245	(170)	(14)%
North America Press	716	601	115	19%
International Press	2,677	2,596	81	3%
Avure Total	4,468	4,442	26	1%
Consolidated Total	$ 26,783	$ 23,261	$ 3,522	15%

General and administrative expenses increased $3.5 million or 15% for the year ended April 30, 2005, as compared to the prior year. The North America Waterjet segment increased $3.7 million. This includes increased professional fees of $900,000 associated with patent litigation, $600,000 for increased audit fees and Sarbanes Oxley consulting fees, increased incentive compensation of $1.3 million and increased labor and miscellaneous other costs associated with strengthening key corporate functions of $900,000. As a percent of sales, however, North America Waterjet general and administrative expenses decreased from 22% to 20% in fiscal 2005. Expressed as a percentage of revenue, consolidated general and administrative expenses were 12% in fiscal 2004 as compared to 13% for the prior year period.

Restructuring Charges. During fiscal 2005, we incurred $.2 million of severance benefits and facility exit costs in the Food segment. During fiscal 2004, we incurred $3.3 million of restructuring-related costs, including severance, lease termination and inventory related charges, primarily in the U.S., Germany and Sweden. The most significant parts of this total being incurred in the North America Waterjet segment, $1.1 million, Other International Waterjet, $1.3 million and International Press, $.8 million.

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The following table summarizes accrued restructuring activity for fiscal 2004 and 2005 (in thousands):

	North America Waterjet		Other International Waterjet			Other Waterjet	Food		International Press		Consolidated			
	Facility Exit Costs	Other	Severance Benefits	Facility Exit Costs	Other	Severance Benefits	Severance Benefits	Facility Exit Costs	Severance Benefits	Facility Exit Costs	Severance Benefits	Facility Exit Costs	Other	Total
Q1 restructuring charge	$	$	$ 248	$	$	$	$	$	$	$	$ 248	$	$	$ 248
Q1 cash payments			(128)								(128)			(128)
Balance, July 31, 2003			120								120			120
Q2 restructuring charge		178	(120)	105	302				201	191	81	296	480	857
Q2 cash payments		(178)			(47)								(225)	(225)
Q2 charge-offs					(255)								(255)	(255)
Balance, October 31, 2003				105					201	191	201	296		497
Q3 restructuring charge	407	170		85	484	89					89	492	654	1,235
Q3 cash payments	(270)	(160)		(14)					(121)		(121)	(284)	(160)	(565)
Q3 charge-offs		(10)		(85)	(484)							(85)	(494)	(579)
Balance, January 31, 2004	137			91		89			80	191	169	419		588
Q4 restructuring charge	15	412		255					234		234	270	412	916
Q4 cash payments	(13)	(126)		(13)										