

FLOW INTERNATIONAL CORP
Form 10-Q
December 14, 2001

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 31, 2001

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

FLOW INTERNATIONAL CORPORATION

WASHINGTON
(State or other jurisdiction
of incorporation or organization)

**23500 - 64th Avenue South
Kent, Washington 98032
(253) 850-3500**

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

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

The number of shares outstanding of common stock, as of November 29, 2001: 15,245,937 shares.

FLOW INTERNATIONAL CORPORATION

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FLOW INTERNATIONAL CORPORATION**CONSOLIDATED BALANCE SHEETS**

(in thousands, except share amounts)

	October 31, 2001	April 30, 2001
	(unaudited)	
ASSETS		
Current Assets:		
Cash	\$ 5,546	\$ 6,808
Receivables, net	66,967	63,104
Inventories	54,504	56,800
Deferred Income Taxes	1,783	1,882
Other Current Assets	8,940	8,607

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	October 31, 2001	April 30, 2001
	<u> </u>	<u> </u>
Total Current Assets	137,740	137,201
Equipment Held for Lease, net	5,553	5,438
Property and Equipment, net	16,545	15,935
Intangible Assets, net of Accumulated Amortization of \$9,004 and \$7,802, respectively	25,624	26,826
Goodwill	9,511	9,679
Deferred Income Taxes	3,183	3,173
Other Assets	14,675	10,617
	<u> </u>	<u> </u>
	\$ 212,831	\$ 208,869
	<u> </u>	<u> </u>
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes Payable	\$ 4,229	\$ 3,929
Current Portion of Long-Term Obligations	3,847	4,535
Accounts Payable	11,166	15,242
Accrued Payroll and Related Liabilities	6,516	6,422
Other Accrued Taxes	958	722
Deferred Revenue	3,790	3,843
Other Accrued Liabilities	19,257	11,410
	<u> </u>	<u> </u>
Total Current Liabilities	49,763	46,103
Long-Term Obligations	81,310	85,652
Customer Deposits	6,220	7,411
	<u> </u>	<u> </u>
Minority Interest	2,264	2,040
	<u> </u>	<u> </u>
Total Liabilities and Minority Interest	139,557	141,206
	<u> </u>	<u> </u>
Stockholders' Equity:		
Series A 8% Convertible Preferred Stock \$.01 par value, 1,000,000 shares authorized, none issued		
Common Stock \$.01 par value, 20,000,000 shares authorized, 15,245,342 shares outstanding at October 31, 2001 15,103,078 shares outstanding at April 30, 2001	152	151
Capital in Excess of Par	54,692	44,115
Retained Earnings	37,438	36,899
Accumulated Other Comprehensive Loss	(19,008)	(13,502)
	<u> </u>	<u> </u>
Total Stockholders' Equity	73,274	67,663
	<u> </u>	<u> </u>
	\$ 212,831	\$ 208,869
	<u> </u>	<u> </u>

See Accompanying Notes to Condensed Consolidated Financial Statements

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(unaudited; in thousands, except per share data)

	Three Months Ended October 31,	
	2001	2000
Revenues	\$ 44,238	\$ 47,980
Cost of Sales	25,649	26,580
Gross Profit	18,589	21,400
Expenses:		
Marketing	7,735	7,935
Research and Engineering	3,708	4,719
General and Administrative	4,365	5,187
	15,808	17,841
Operating Income	2,781	3,559
Interest Expense, net	(2,464)	(1,803)
Other Income (Expense), net	63	(36)
Income Before Provision for Income Taxes	380	1,720
Provision for Income Taxes	125	516
Net Income	\$ 255	\$ 1,204
Earnings Per Share		
Basic:		
Net Income	\$.02	\$.08
Diluted:		
Net Income	\$.02	\$.08

See Accompanying Notes to Condensed Consolidated Financial Statements

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	Six Months Ended October 31,	
	2001	2000
Revenues	\$ 90,840	\$ 102,968
Cost of Sales	53,477	58,405
Gross Profit	37,363	44,563
Expenses:		
Marketing	15,244	15,741
Research and Engineering	7,607	9,297
General and Administrative	8,848	10,111
	31,699	35,149
Operating Income	5,664	9,414
Interest Expense, net	(4,558)	(3,605)
Other Expense, net	(302)	(232)
Income Before Provision for Income Taxes	804	5,577
Provision for Income Taxes	265	1,673
Income Before Cumulative Effect of Change in Accounting Principle	539	3,904
Cumulative Effect of Change in Accounting Principle, Net of Tax		(2,652)
Net Income	\$ 539	\$ 1,252
Earnings Per Share		
Basic:		
Income Before Cumulative Effect of Change in Accounting Principle	\$.04	\$.26
Cumulative Effect of Change in Accounting Principle, Net of Tax		(.18)
Net Income	\$.04	\$.08
Diluted:		
Income Before Cumulative Effect of Change in Accounting Principle	\$.03	\$.26
Cumulative Effect of Change in Accounting Principle, Net of Tax		(.18)
Net Income	\$.03	\$.08

FLOW INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited; in thousands)

	Six Months Ended October 31,	
	2001	2000
Cash Flows from Operating Activities:		
Net Income	\$ 539	\$ 1,252
Adjustments to Reconcile Net Income to Cash		
Provided by Operating Activities:		
Cumulative Effect of Change in Accounting Principle		2,652
Depreciation and Amortization	4,055	4,144
Other Non-Cash Items	793	194
(Increase) Decrease in Assets	(6,036)	2,800
Increase (Decrease) in Liabilities	851	(7,750)
	<u>202</u>	<u>3,292</u>
Cash Flows from Investing Activities:		
Expenditures for Property and Equipment	(4,014)	(4,284)
Other	697	
	<u>(3,317)</u>	<u>(4,284)</u>
Cash Flows from Financing Activities:		
(Repayments) Borrowings under Line of Credit Agreements, Net	(27,477)	5,684
Payments of Long-Term Obligations	(3,288)	(810)
Proceeds from Long-Term Obligations	25,723	
Proceeds from Issuance of Warrants	9,277	
Proceeds from Issuance of Common Stock	1,164	294
	<u>5,399</u>	<u>5,168</u>
Effect of Exchange Rate Changes	(3,546)	(4,876)
Decrease in Cash and Cash Equivalents	(1,262)	(700)
Cash and Cash Equivalents at Beginning of Period	6,808	6,383
Cash and Cash Equivalents at End of Period	<u>\$ 5,546</u>	<u>\$ 5,683</u>

FLOW INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited, in thousands)

	Three Months Ended October 31,	
	2001	2000
Net Income	\$ 255	\$ 1,204
Other Comprehensive Loss:		
Unrealized Loss on Equity Securities Available for Sale, Net of Tax	(9)	(28)
Unrealized Loss on Cash Flow Hedges	(2,006)	
Cumulative Translation Adjustment	(2,327)	(3,367)
	\$ (4,087)	\$ (2,191)
Comprehensive Loss		
	Six Months Ended October 31,	
	2001	2000
Net Income	\$ 539	\$ 1,252
Other Comprehensive Loss:		
Unrealized Loss on Equity Securities Available for Sale, Net of Tax	(37)	(85)
Unrealized Loss on Cash Flow Hedges	(2,006)	
Cumulative Translation Adjustment	(3,463)	(4,876)
	\$ (4,967)	\$ (3,709)
Comprehensive Loss		

See Accompanying Notes to Condensed Consolidated Financial Statements

FLOW INTERNATIONAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Six Months Ended October 31, 2001
(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 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 disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, and should be read in conjunction with the April 30, 2001 consolidated financial statements included in the Company's Annual Report filed with the Securities and Exchange Commission on Form 10-K. The Company adopted Staff Accounting Bulletin 101 ("SAB 101") during the third quarter of fiscal 2001. Accordingly, the results of operations for the three and six months ended October 31, 2000 have been restated. Operating results for the three and six months ended October 31, 2001 may not be indicative of future results.

2. Earnings Per Share

Basic earnings per share represents net income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted earnings per share represents net income available to common stockholders divided by the weighted average number of shares outstanding including the potentially dilutive impact of stock options and warrants, where appropriate.

The table below summarizes the weighted average shares outstanding for the Company for the three and six months ended October 31, 2001 and 2000:

	Three Months Ended October 31,	
	2001	2000
Weighted Average Basic Shares Outstanding	15,236	14,793
Potential Dilutive Common Shares from Employee Stock Options	219	404
Potential Dilutive Common Shares from Warrants	860	
Weighted Average Diluted Shares Outstanding	16,315	15,197
	Six Months Ended October 31,	
	2001	2000
Weighted Average Basic Shares Outstanding	15,204	14,767
Potential Dilutive Common Shares from Employee Stock Options	320	383
Potential Dilutive Common Shares from Warrants	719	
Weighted Average Diluted Shares Outstanding	16,243	15,150

3. Segment Information

Based upon a change in reporting structure, the Company is now comprised of two reportable segments, Ultrahigh Pressure Systems (UHP Systems) and Fresher Under Pressure®, as opposed to one segment previously. The UHP Systems sector includes cutting, cleaning and isostatic presses operations, which are focused on providing total solutions for aerospace, automotive, job shop, surface preparation and paper industries. The Fresher Under Pressure sector is focused on providing food safety solutions for food producers. The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies. Segment operating results are measured based on operating income (loss). Comparative information for the new operating segments has been presented.

A summary of operations by reportable segment is as follows:

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	Three Months Ended October 31,	
	2001	2000
(in thousands)		
Revenues		
UHP Systems	\$ 43,663	\$ 43,016
Fresher Under Pressure	575	4,964
	<u>\$ 44,238</u>	<u>\$ 47,980</u>
Operating Income (Loss)		
UHP Systems	\$ 5,241	\$ 5,482
Fresher Under Pressure	(2,460)	(1,923)
	<u>\$ 2,781</u>	<u>\$ 3,559</u>
Six Months Ended October 31,		
	2001	2000
Revenues		
UHP Systems	\$ 86,865	\$ 95,204
Fresher Under Pressure	3,975	7,764
	<u>\$ 90,840</u>	<u>\$ 102,968</u>
Operating Income (Loss)		
UHP Systems	\$ 10,075	\$ 13,544
Fresher Under Pressure	(4,411)	(4,130)
	<u>\$ 5,664</u>	<u>\$ 9,414</u>

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4. Receivables, net

Receivables consist of the following:

	October 31, 2001	April 30, 2001
(in thousands)		
Trade Accounts Receivable	\$ 37,063	\$ 49,415
Unbilled Revenues	30,704	14,555
	<u>67,767</u>	<u>63,970</u>

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	<u>October 31, 2001</u>	<u>April 30, 2001</u>
Less: Allowance for Doubtful Accounts	(800)	(866)
	<u>\$ 66,967</u>	<u>\$ 63,104</u>

8. Inventories

Inventories consist of the following:

	<u>October 31, 2001</u>	<u>April 30, 2001</u>
	(in thousands)	
Raw Materials and Parts	\$ 22,645	\$ 25,230
Work in Process	13,401	17,393
Finished Goods	18,458	14,177
	<u>\$ 54,504</u>	<u>\$ 56,800</u>

6. New Accounting Pronouncements

Effective May 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 ("FAS 133"), "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income (OCI) and are recognized in the statement of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

The Company uses derivative instruments to manage exposures to foreign currency risks. The Company's objective for holding derivatives is to minimize the risks using the most effective methods to eliminate or reduce the impacts of these exposures.

Certain forecasted transactions and assets are exposed to foreign currency risk. The Company monitors its foreign currency exposures regularly to maximize the overall effectiveness of its foreign currency hedge positions. The currency hedged is the Swedish Krona.

Hedge ineffectiveness, determined in accordance with FAS 133, had no impact on earnings for the three and six months ended October 31, 2001. No fair value hedges or cash flow hedges were derecognized or discontinued for the three and six months ended October 31, 2001.

Derivative gains and losses included in OCI are reclassified into earnings each period during the duration of the related foreign-currency denominated receivable. During the six months ended October 31, 2001 the amount transferred from OCI to other income (expense), net, was not material.

In July 2001, the Financial Accounting Standards Board ("FASB") issued FAS 141 "Business Combinations" and FAS 142 "Goodwill and Other Intangible Assets." FAS 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangibles assets in a business combination be recognized as assets separate from goodwill. FAS 142 requires ratable amortization of goodwill to be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill be amortized over their useful lives. FAS 141 is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for by the purchase method for which the date of acquisition is after June 30, 2001. The provisions of FAS 142 will be effective for fiscal years beginning after December 15, 2001; however the Company has elected to early adopt the provisions of FAS 142 effective May 1, 2001. There were no changes in the carrying amount of goodwill during the period.

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Intangible Assets:

	October 31, 2001	
	Gross Carrying Amount	Accumulated Amortization
(in thousands)		
Patents	\$ 26,553	\$ 7,196
Non-contractual customer relationships	5,500	1,134
Other	2,575	674
Total	\$ 34,628	\$ 9,004

Aggregate amortization expense:

For the six months ended October 31, 2001 \$1,370

Estimated annual amortization expense is \$2,160 for each year through April 30, 2006.

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The following table summarizes net income for all periods adjusted to exclude goodwill amortization expense, net of income taxes:

	Three Months Ended October 31,	
	2001	2000
(in thousands except per share amounts)		
Net income	\$ 255	\$ 1,204
Add back goodwill amortization		