

FLOW INTERNATIONAL CORP

Form 10-Q

March 06, 2008

**Table of Contents**

**UNITED STATES 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 January 31, 2008**

**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)**

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

As of February 29, 2008, there were 37,586,911 shares of common stock outstanding.

FLOW INTERNATIONAL CORPORATION  
INDEX

	<b>Page</b>
Part I FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements (unaudited)	
<u>Condensed Consolidated Balance Sheets January 31, 2008 and April 30, 2007</u>	3
<u>Condensed Consolidated Statements of Income Three and Nine Months Ended January 31, 2008 and 2007</u>	4
<u>Condensed Consolidated Statements of Cash Flows Nine Months Ended January 31, 2008 and 2007</u>	5
<u>Condensed Consolidated Statement of Shareholders Equity and Comprehensive Income Nine Months Ended January 31, 2008 and 2007</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	28
<u>Item 4. Controls and Procedures</u>	28
Part II OTHER INFORMATION	29
<u>Item 1. Legal Proceedings</u>	29
<u>Item 1A. Risk Factors</u>	29
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
<u>Item 3. Defaults Upon Senior Securities</u>	32
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	32
<u>Item 5. Other Information</u>	32
<u>Item 6. Exhibits</u>	32
<u>Signatures</u>	33
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 32.1</u>	

**Table of Contents**

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

	<b>January 31, 2008</b>	<b>April 30, 2007</b>
<b>ASSETS:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 20,397	\$ 38,146
Short-term Investments	45	750
Receivables, net	34,412	26,618
Inventories	29,876	26,635
Deferred Income Taxes	971	44
Deferred Acquisition Costs	7,219	
Other Current Assets	6,947	6,950
Total Current Assets	99,867	99,143
Property and Equipment, net	18,291	15,479
Intangible Assets, net	3,902	3,767
Goodwill	2,764	2,764
Deferred Income Taxes	382	305
Other Assets	738	682
	\$ 125,944	\$ 122,140
<b>LIABILITIES AND SHAREHOLDERS EQUITY:</b>		
Current Liabilities:		
Notes Payable	\$ 1,054	\$ 6,366
Current Portion of Long-Term Obligations	897	822
Accounts Payable	14,984	17,545
Accrued Payroll and Related Liabilities	9,234	6,291
Taxes Payable and Other Accrued Taxes	2,973	2,066
Deferred Income Taxes	1,098	1,627
Deferred Revenue	6,100	3,559
Customer Deposits	6,172	6,499
Other Accrued Liabilities	8,245	12,233
Total Current Liabilities	50,757	57,008
Long-Term Obligations, net	2,177	2,779
Other Long-Term Liabilities	1,328	573
	54,262	60,360
Commitments and Contingencies (Note 14)		
Shareholders Equity:		
Series A 8% Convertible Preferred Stock \$.01 par value, 1,000,000 shares authorized, none issued		
Common Stock \$.01 par value, 49,000,000 shares authorized, 37,585,741 and 37,268,037 shares issued and outstanding at January 31, 2008 and April 30, 2007,	371	367

respectively

Capital in Excess of Par	138,605	139,115
Accumulated Deficit	(60,721)	(68,747)
Accumulated Other Comprehensive Loss:		
Defined Benefit Plan Obligation, net of income tax of \$67 and \$67	(201)	(201)
Cumulative Translation Adjustment, net of income tax of \$221 and \$0	(6,372)	(8,754)
Total Shareholders' Equity	71,682	61,780
	\$ 125,944	\$ 122,140

See Accompanying Notes to  
Condensed Consolidated Financial Statements

3

---

**Table of Contents**

**FLOW INTERNATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(unaudited; in thousands, except per share amounts)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>January 31,</b>		<b>January 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Sales	\$ 66,271	\$ 56,038	\$ 184,111	\$ 163,851
Cost of Sales	38,293	32,294	108,098	93,464
Gross Margin	27,978	23,744	76,013	70,387
Expenses:				
Sales and Marketing	10,569	9,613	32,009	29,774
Research and Engineering	2,163	2,419	6,588	7,051
General and Administrative	6,421	9,267	26,112	25,269
	19,153	21,299	64,709	62,094
Operating Income	8,825	2,445	11,304	8,293
Interest Income	169	241	610	622
Interest Expense	(132)	(88)	(309)	(268)
Other Income (Expense), Net	(423)	846	(690)	1,871
Income Before Provision for Income Taxes	8,439	3,444	10,915	10,518
Provision for Income Taxes	(2,542)	(1,415)	(2,346)	(2,979)
Income From Continuing Operations	5,897	2,029	8,569	7,539
Loss on Sale of Discontinued Operations, Net of Income Tax of \$0				(726)
Net Income	\$ 5,897	\$ 2,029	\$ 8,569	\$ 6,813
Basic Income Per Share:				
Income From Continuing Operations	\$ 0.16	\$ 0.05	\$ 0.23	\$ 0.20
Loss From Discontinued Operations				(0.02)
Net Income	\$ 0.16	\$ 0.05	\$ 0.23	\$ 0.18
Diluted Income Per Share:				
Income From Continuing Operations	\$ 0.16	\$ 0.05	\$ 0.23	\$ 0.20
Loss From Discontinued Operations				(0.02)
Net Income	\$ 0.16	\$ 0.05	\$ 0.23	\$ 0.18
Weighted Average Shares Used in Computing Basic and Diluted Income (Loss) Per Share:				
Basic	37,471	37,238	37,366	37,169
Diluted	37,652	37,797	37,572	37,882

See Accompanying Notes to  
Condensed Consolidated Financial Statements

4

---

**Table of Contents**

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

	<b>Nine Months Ended</b>	
	<b>January 31,</b>	
	<b>2008</b>	<b>2007</b>
Cash Flows from Operating Activities:		
Net Income	\$ 8,569	\$ 6,813
Noncash Charges (Credits) to Income:		
Depreciation and Amortization	2,636	2,196
Unrealized Foreign Currency (Gains), net (Note 6)	(85)	(2,042)
Incentive Stock Compensation Expense (Note 4)	675	1,904
Repurchase of Warrants (Note 15)	629	
Loss on Sale of Discontinued Operations		726
Deferred Income Taxes	(673)	523
Charges for Impairment of Inventory	1,151	260
Other	1,144	154
Decrease (Increase) in Working Capital:		
Receivables	(7,160)	7,505
Inventories	(3,499)	(3,854)
Prepaid Expenses	1,206	835
Other Operating Assets	(706)	(127)
Accounts Payable	(3,301)	(4,783)
Deferred Revenue	2,401	(3,644)
Customer Deposits	(647)	(351)
Other Operating Liabilities	(2,402)	(1,272)
Cash Provided by (Used in) Operating Activities	(62)	4,843
Cash Flows From Investing Activities:		
Expenditures for Property and Equipment and Intangible Assets	(4,733)	(4,447)
Proceeds from Sale of Short-term Investments	639	
Proceeds from Sale of Property and Equipment	247	
Payments for Pending Omax Acquisition	(6,430)	
Proceeds from Sale of Avure Business		990
Settlement on Sale of Avure Business		(1,026)
Cash Used in Investing Activities	(10,277)	(4,483)
Cash Flows from Financing Activities:		
Repayments Under Notes Payable	(5,892)	(1,225)
Borrowings Under Notes Payable	460	
Payments of Long-Term Obligations	(625)	(913)
Proceeds from Exercise of Stock Options	1,198	2,514
Payment for Warrant Repurchase	(3,010)	



Edgar Filing: FLOW INTERNATIONAL CORP - Form 10-Q

Cash Provided by (Used in) Financing Activities	(7,869)	376
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents	459	484
Decrease (Increase) in Cash And Cash Equivalents	(17,749)	1,220
Cash and Cash Equivalents at Beginning of Period	38,146	36,186
Cash and Cash Equivalents at End of Period	\$ 20,397	\$ 37,406

*Supplemental Disclosures of Noncash Investing and Financing Activities*

Operating Assets transferred to Property and Equipment	\$ 298	\$
Accounts Payable incurred to acquire Property and Equipment, and Intangible Assets	357	1,180
Accounts Payable incurred for pending acquisition of Omax (Note 16)	789	
Non-monetary exchange of assets		250
Issuance of compensatory common stock on executive incentive compensation plan		884

See Accompanying Notes to  
Condensed Consolidated Financial Statements

**Table of Contents**

**FLOW INTERNATIONAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**  
**AND COMPREHENSIVE INCOME**  
(unaudited, in thousands)

	<b>Common Stock</b>	<b>Capital</b>		<b>Accumulated</b>	<b>Other</b>	<b>Total</b>
	<b>Shares</b>	<b>Par Value</b>	<b>In Excess of Par</b>	<b>Deficit</b>	<b>Comprehensive Loss</b>	<b>Shareholders Equity</b>
Balances, April 30, 2007	37,268	\$ 367	\$ 139,115	\$ (68,747)	\$ (8,955)	\$ 61,780
Components of Comprehensive Income:						
Net Income				8,569		8,569
Cumulative Translation Adjustment, Net of Income Tax of \$288					2,382	2,382
Total Comprehensive Income						10,951
Cumulative effect upon adoption of FIN 48 (Note 7)				(543)		(543)
Exercise of Options	252	3	1,195			1,198
Repurchase of Warrants (Note 15)			(2,380)			(2,380)
Stock Compensation	66	1	675			676
Balances, January 31, 2008	37,586	\$ 371	\$ 138,605	\$ (60,721)	\$ (6,573)	\$ 71,682
Balances, April 30, 2006	36,943	\$ 364	\$ 137,192	\$ (72,417)	\$ (7,999)	\$ 57,140
Cumulative effect of the adoption of FAS 123R			(313)			(313)
Components of Comprehensive Income:						
Net Income				6,813		6,813
Reclassification Adjustment for Settlement of Cash Flow Hedges, net of income tax of \$0					273	273
Cumulative Translation Adjustment, Net of Income Tax of \$0					(1,875)	(1,875)
Total Comprehensive Income						5,211

Edgar Filing: FLOW INTERNATIONAL CORP - Form 10-Q

Exercise of Options	152	2	1,425			1,427
Stock Compensation	151	1	2,237			2,238
Balances, January 31, 2007	37,246	\$ 367	\$ 140,541	\$ (65,604)	\$ (9,601)	\$ 65,703

See Accompanying Notes to  
Condensed Consolidated Financial Statements

6

---

**Table of Contents**

**FLOW INTERNATIONAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(All tabular dollar amounts in thousands, except per share amounts)  
(Unaudited)

**Note 1 Basis of Presentation**

In the opinion of the management of Flow International Corporation (the Company), the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring items and accruals necessary to fairly present the financial position, results of operations and cash flows of the Company. The financial information as of April 30, 2007 is derived from the Company's audited consolidated financial statements and notes for the fiscal year ended April 30, 2007 included in Item 8 in the fiscal 2007 Annual Report on Form 10-K (10-K). These interim financial statements do not include all information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, and should be read in conjunction with the Company's fiscal 2007 Form 10-K. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the Company's financial statements. Actual results may differ from these estimates. Operating results for the three and nine months ended January 31, 2008 may not be indicative of future results.

**Note 2 Recently Issued Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 on May 1, 2007. FASB Staff Position No. 48-1, Definition of Settlement in FASB Interpretation No. 48 (FSP FIN 48-1) provides a set of conditions that must be evaluated when determining whether a tax position has been effectively settled. We contemplated the provisions of FSP FIN 48-1 upon the initial adoption of FIN 48. Additional discussion and the impact of adopting FIN 48 are included in Note 7 to the Condensed Consolidated Financial Statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 Defining Fair Value Measurement (FAS 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The Company is currently evaluating the impact of adopting FAS 157 on its financial statements, which is effective for the Company at the beginning of its fiscal year 2009.

In February 2007, the FASB issued Statement of Financial Accounting Standards (FAS 159) The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. FAS 159 provides entities with an option to choose to measure eligible items at fair value at specified election dates. If elected, an entity must report unrealized gains and losses on the item in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method, is irrevocable (unless a new election date occurs); and is applied only to entire instruments and not to portions of instruments. The Company is currently evaluating the potential impact of adopting FAS 159 on its financial statements, which is effective for the Company at the beginning of its fiscal year 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (FAS 141R) and Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (FAS 160). These new standards are the U.S. GAAP outcome of a joint project with the International Accounting Standards Board (IASB). FAS 141R applies prospectively to business combinations for which the acquisition date is on or after December 15, 2008 and will significantly change the accounting for business combinations in a number of areas, including the treatment of contingent consideration, acquisition costs, intellectual property, research and development, and restructuring costs. FAS 160 establishes reporting requirements that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently evaluating the impact of adopting FAS

141R and FAS 160 on its financial statements which are effective for the Company at the beginning of its fiscal year 2010.

**Table of Contents****Note 3 Segment Information**

The Company has identified four reportable segments based on the manner in which internal financial information is produced and evaluated by its chief operating decision maker (the Company's Chief Executive Officer). These segments, North America Waterjet, Asia Waterjet, Other International Waterjet (together known as Waterjet), and Applications, utilize the Company's high pressure technology. The Waterjet operation includes cutting and cleaning operations, which are focused on providing total solutions for many industries including aerospace, automotive, semiconductor, disposable products, food, glass, job shop, metal cutting, stone, tile, surface preparation, and paper. The Applications operation provides specialty engineered robotic systems designed for material removal and separation of various materials and for factory automation. These systems are primarily used in automotive applications. Segment operating results are measured based on sales, gross margin and operating income (loss). Effective September 2007, the Company's Application segment ceased the pursuit of sales of non-waterjet automation systems and will focus on increasing revenue from systems that integrate waterjet cutting technology. A summary of operations by reportable segment is as follows:

	<b>North America Waterjet</b>	<b>Asia Waterjet</b>	<b>Other International Waterjet</b>	<b>Applications</b>	<b>Inter- segment Eliminations</b>	<b>Total</b>
<b>Three Months Ended January 31, 2008</b>						
External sales	\$ 33,125	\$ 9,821	\$ 17,548	\$ 5,777	\$	\$ 66,271
Inter-segment sales	18,797	231	1,064	113	(20,205)	
Gross margin **	17,576	4,673	6,018	1,123	(1,412)	27,978
Operating income (loss) *	3,789	2,324	1,630	(330)	1,412	8,825
<b>Nine Months Ended January 31, 2008</b>						
External sales	\$ 96,459	\$ 22,569	\$ 48,941	\$ 16,142	\$	\$ 184,111
Inter-segment sales	50,285	1,085	2,784	710	(54,864)	
Gross margin **	45,554	10,499	19,573	2,397	(2,010)	76,013
Operating income (loss) *	1,852	2,920	6,394	(1,872)	2,010	11,304