

FLOW INTERNATIONAL CORP

Form 10-Q

December 06, 2007

FLOW INTERNATIONAL CORPORATION
INDEX

	Page
Part I FINANCIAL INFORMATION	
<u>Item 1.</u> <u>Condensed Consolidated Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets October 31, 2007 and April 30, 2007</u>	3
<u>Condensed Consolidated Statements of Operations Three and Six Months Ended October 31, 2007 and 2006</u>	4
<u>Condensed Consolidated Statements of Cash Flows Six Months Ended October 31, 2007 and 2006</u>	5
<u>Condensed Consolidated Statement of Shareholders Equity and Comprehensive Income Six Months Ended October 31, 2007 and 2006</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
<u>Item 4.</u> <u>Controls and Procedures</u>	27
Part II OTHER INFORMATION	
<u>Item 1.</u> <u>Legal Proceedings</u>	28
<u>Item 1A.</u> <u>Risk Factors</u>	28
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	30
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	30
<u>Item 5.</u> <u>Other Information</u>	30
<u>Item 6.</u> <u>Exhibits</u>	30
<u>Signatures</u>	31
<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)

	October 31, 2007	April 30, 2007
<i>ASSETS:</i>		
Current Assets:		
Cash and Cash Equivalents	\$ 26,928	\$ 38,146
Short-term Investments		750
Receivables, net	28,699	26,618
Inventories	30,988	26,635
Deferred Income Taxes	1,243	44
Other Current Assets	7,440	6,950
 Total Current Assets	 95,298	 99,143
Property and Equipment, net	17,716	15,479
Intangible Assets, net	3,861	3,767
Goodwill	2,764	2,764
Deferred Income Taxes	256	305
Other Assets	385	682
	 \$ 120,280	 \$ 122,140
 <i>LIABILITIES AND SHAREHOLDERS EQUITY:</i>		
Current Liabilities:		
Notes Payable	\$ 1,049	\$ 6,366
Current Portion of Long-Term Obligations	837	822
Accounts Payable	18,166	17,545
Accrued Payroll and Related Liabilities	7,276	6,291
Taxes Payable and Other Accrued Taxes	2,644	2,066
Deferred Income Taxes	260	1,627
Deferred Revenue	4,943	3,559
Customer Deposits	4,926	6,499
Other Accrued Liabilities	13,000	12,233
 Total Current Liabilities	 53,101	 57,008
Long-Term Obligations, net	2,459	2,779
Other Long-Term Liabilities	1,175	573
	 56,735	 60,360
 Commitments and Contingencies (Note 14)		
Shareholders Equity:		
Series A 8% Convertible Preferred Stock \$0.01 par value, 1,000,000 shares authorized, none issued		
	368	367

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Common Stock \$.01 par value, 49,000,000 shares authorized, 37,328,946 and 37,268,037 shares issued and outstanding at October 31, 2007 and April 30, 2007, respectively

Capital in Excess of Par	137,274	139,115
Accumulated Deficit	(66,617)	(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	(7,279)	(8,754)
Total Shareholders' Equity	63,545	61,780
	\$ 120,280	\$ 122,140

See Accompanying Notes to
Condensed Consolidated Financial Statements

Table of Contents

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

	Three Months Ended		Six Months Ended	
	October 31,		October 31,	
	2007	2006	2007	2006
Sales	\$ 59,174	\$ 54,404	\$ 117,840	\$ 107,814
Cost of Sales	34,739	30,792	69,805	61,171
Gross Margin	24,435	23,612	48,035	46,643
Expenses:				
Sales and Marketing	10,983	10,563	21,440	20,160
Research and Engineering	2,145	2,339	4,425	4,633
General and Administrative	7,275	8,982	19,691	16,002
	20,403	21,884	45,556	40,795
Operating Income	4,032	1,728	2,479	5,848
Interest Income	251	153	442	382
Interest Expense	(95)	(46)	(177)	(181)
Other Income (Expense), Net	(579)	399	(267)	1,025
Income Before Provision for Income Taxes	3,609	2,234	2,477	7,074
Provision/Benefit for Income Taxes	(1,314)	(492)	196	(1,564)
Income From Continuing Operations	2,295	1,742	2,673	5,510
Loss on Sale of Discontinued Operations, Net of Income Tax of \$0				(726)
Net Income	\$ 2,295	\$ 1,742	\$ 2,673	\$ 4,784
Basic Income Per Share:				
Income From Continuing Operations	\$ 0.06	\$ 0.05	\$ 0.07	\$ 0.15
Loss From Discontinued Operations				(0.02)
Net Income	\$ 0.06	\$ 0.05	\$ 0.07	\$ 0.13
Diluted Income Per Share:				
Income From Continuing Operations	\$ 0.06	\$ 0.05	\$ 0.07	\$ 0.15
Loss From Discontinued Operations				(0.02)
Net Income	\$ 0.06	\$ 0.05	\$ 0.07	\$ 0.13
Weighted Average Shares Used in Computing Basic and Diluted Income (Loss) Per Share:				
Basic	37,326	37,194	37,314	37,134
Diluted	37,511	37,879	37,540	37,887

See Accompanying Notes to
Condensed Consolidated Financial Statements

4

Table of Contents

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

	Six Months Ended	
	October 31,	
	2007	2006
Cash Flows from Operating Activities:		
Net Income	\$ 2,673	\$ 4,784
Adjustments to Reconcile Net Income to Cash Used in Operating Activities:		
Depreciation and Amortization	1,780	1,413
Unrealized Foreign Currency (Gains), net	(905)	(1,690)
Incentive Stock Compensation Expense	1,101	1,405
Repurchase of Warrants	629	
Loss on Sale of Discontinued Operations		726
Deferred Income Taxes	(1,618)	330
Other	892	403
Changes in Operating Assets and Liabilities:		
Receivables	(1,172)	6,180
Inventories	(3,804)	(5,737)
Prepaid Expenses	500	1,321
Other Operating Assets	(255)	236
Accounts Payable	(848)	(5,573)
Deferred Revenue	1,216	(3,661)
Customer Deposits	(1,788)	(2,175)
Other Operating Liabilities	(104)	(1,427)
Cash Used in Operating Activities	(1,703)	(3,465)
Cash Flows From Investing Activities:		
Expenditures for Property and Equipment and Intangible Assets	(2,541)	(2,561)
Proceeds from Sale of Short-term Investments	650	
Proceeds from Sale of Property and Equipment	219	
Proceeds from Sale of Avure Business		990
Settlement on Sale of Avure Business		(985)
Restricted Cash		(125)
Cash Used in Investing Activities	(1,672)	(2,681)
Cash Flows from Financing Activities:		
Repayments Under Notes Payable	(5,857)	(1)
Borrowings Under Notes Payable	457	
Payments of Long-Term Obligations	(391)	(499)
Proceeds from Exercise of Stock Options	424	2,498
Payment for Warrant Repurchase	(3,006)	
Cash Provided by (Used in) Financing Activities	(8,373)	1,998
Effect of Changes in Exchange Rates	530	610

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Decrease in Cash And Cash Equivalents	(11,218)	(3,538)
Cash and Cash Equivalents at Beginning of Period	38,146	36,186
Cash and Cash Equivalents at End of Period	\$ 26,928	\$ 32,648

Supplemental Disclosures of Noncash Investing and Financing Activities

Operating Assets transferred to Property and Equipment	\$ 417	\$
Accounts Payable incurred to acquire Property and Equipment, and Intangible Assets	1,208	871
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)

	Common Stock	Capital	Accumulated	Accumulated	Total
	Shares	Par Value	In Excess of Par	Deficit	Shareholders Equity
Balances, April 30, 2007	37,268	\$ 367	\$ 139,115	\$ (68,747)	\$ 61,780
Components of Comprehensive Income:					
Net Income				2,673	2,673
Cumulative Translation Adjustment, Net of Income Tax of \$288					1,475
Total Comprehensive Income					4,148
Cumulative effect upon adoption of FIN 48 (Note 7)				(543)	(543)
Exercise of Options	41	1	423		424
Repurchase of Warrants (Note 15)			(2,377)		(2,377)
Stock Compensation	20	0	113		113
Balances, October 31, 2007	37,329	\$ 368	\$ 137,274	\$ (66,617)	\$ 63,545
Balances, April 30, 2006	36,943	\$ 364	\$ 137,192	\$ (72,417)	\$ 57,140
Cumulative effect of the adoption of FAS 123R			(313)		(313)
Components of Comprehensive Income:					
Net Income				4,784	4,784
Reclassification Adjustment for Settlement of Cash Flow Hedges, net of income tax of \$0					273
Cumulative Translation Adjustment, Net of Income Tax of \$0					(1,184)
Total Comprehensive Income					3,873

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Exercise of Options	151	2	1,410				1,412
Stock Compensation	131	1	1,822				1,823
Balances, October 31, 2006	37,225	\$ 367	\$ 140,111	\$ (67,633)	\$ (8,910)	\$	63,935

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 six months ended October 31, 2007 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. FAS 157 is effective for financial statements issued for fiscal years beginning after December 15, 2007, which is the beginning of the Company's fiscal year 2009. The Company is currently evaluating the impact of adopting FAS 157 on its financial statements.

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 fiscal years beginning after November 15, 2007, which is the beginning of the Company's fiscal year 2009.

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 the 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).

Table of Contents

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:

	North America Waterjet	Asia Waterjet	Other International Waterjet	Applications	Inter- segment Eliminations	Total
Three Months Ended October 31, 2007						
External sales	\$ 32,276	\$ 5,721	\$ 16,083	\$ 5,094	\$	\$ 59,174
Inter-segment sales	14,705	259	849	233	(16,046)	
Gross margin **	14,567	2,654	7,182	463	(431)	24,435
Operating income (loss) *	1,752	111	2,848	(1,110)	431	4,032
Six Months Ended October 31, 2007						
External sales	\$ 63,334	\$ 12,748	\$ 31,393	\$ 10,365	\$	\$ 117,840
Inter-segment sales	31,416	854	1,735	590	(34,595)	
Gross margin **	27,978	5,826	13,555	1,274	(598)	48,035
Operating income (loss) *	(1,937)	597	4,764	(1,543)	598	2,479

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