FLOW INTERNATIONAL CORP
Form S-1/A
February 08, 2006
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As filed with the Securities and Exchange Commission on February 8, 2006

Registration No. 333-125113

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 4

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	$17,147,078	$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

19,987,336 Shares

Common Stock

This prospectus relates to the offer and sale of up to 17,717,718 outstanding shares of the common stock of Flow International Corporation, a Washington corporation, and up to 2,269,618 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 January 31, 2006, the closing price of one share of our common stock was $10.49.

Investing in our securities involves risks. See Risk Factors beginning on page 7 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 , 2006.

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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 17,717,718 outstanding shares of common stock and 2,269,618 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 6, 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 6, current events beginning on page 22 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 standard and specialized waterjet cutting and cleaning systems. In addition to UHP water pumps and related systems, we provide non-UHP automation and articulation systems, primarily to the automotive industry.

Our UHP technology has three broad applications: cutting, cleaning and 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 food processing, we supply UHP pumps to Avure Technologies, Inc., a company we recently sold, which uses pressure to kill spoilage bacteria and pathogens in food products placed inside a pressure vessel.

On October 31, 2005, consistent with our strategy to divest operations that are not part of our core UHP water pump business, we sold our General Press operations and the non UHP portion of our Food reportable segment (the Avure Disposition). Included in the Avure Disposition were our Avure Technologies, Incorporated, Flow International FPS AB, Avure Technologies AB subsidiaries, and our 51% interest in Flow Autoclave Systems (together, the Avure Business). The Avure Business became a discontinued operation in accordance with FAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* at the time it was sold and has been represented that way in the Consolidated Statements of Operations in the financial statements. In connection with the sale we agreed to continue to supply UHP pumps to the Avure Business.

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.

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.

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The Offering

Common Stock offered by the Selling Shareholders	19,987,336 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 6 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. The exercise price of the warrants is a negotiated price.
	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 ($3.70) was less than market price ($4.28), we issued approximately 304,000 anti-dilution $0.01 warrants to our lenders. These warrants had a Black-Scholes value of approximately $1.7 million. The majority of the charges resulting from the issuance of the additional warrants, $1.6 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, $126,000, was capitalized and amortized to interest expense through August 1, 2005.

(1) Includes 2,269,618 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 December 31, 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 were 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, second, and third quarter of fiscal 2006 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	$ 7.74	$ 5.98	$ 3.66	$ 2.15	$ 1.94	$ 1.13	$ 10.90	$ 5.05
Second Quarter	9.13	7.40	3.55	2.70	3.11	1.36	5.60	2.12
Third Quarter	10.49	6.89	3.18	2.71	4.11	2.40	3.80	2.13
Fourth Quarter			6.60	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 8, 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, 2005, 2004 and 2003 and the summary balance sheet data as of April 30, 2005 and 2004 are derived from our audited financial statements, which are included elsewhere in this prospectus. The summary statement of operations data for the fiscal years ended April 30, 2002 and 2001 and the summary balance sheet data as of April 30, 2003, 2002, and 2001 are derived from our unaudited financial statements which are not included in this prospectus. The summary statement of operations data for the six months ended October 31, 2005 and the summary balance sheet data as of October 31, 2005 are derived from our unaudited financial statements which are included in this prospectus.

(In thousands, except per share amounts)	Six Months Ended October 31, 2005 (restated)(4)(5) (unaudited)	Year Ended April 30, 2005 (restated)(4)(5)	2004(5) (restated)(4)	2003(3)(5) (restated)(4)	2002(2)(5) (restated)(4) (unaudited)	2001(1)(5) (restated)(4) (unaudited)
Statement of Operations Data:						
Sales	$ 92,671	$ 172,966	$ 132,861	$ 121,833	$ 116,386	$ 132,797
Income (Loss) Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	1,221	(12,174)	(10,668)	(43,965)	(7,966)	1,882
Net Income (Loss)	1,040	(21,197)	(11,274)	(67,813)	(8,024)	1,304
Basic Income (Loss) Per Share Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	0.04	(0.69)	(0.69)	(2.86)	(0.52)	0.13
Basic Earnings (Loss) Per Share	0.03	(1.19)	(0.73)	(4.42)	(0.53)	0.09
Diluted Income (Loss) Per Share Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	0.03	(0.69)	(0.69)	(2.86)	(0.52)	0.12
Diluted Income (Loss) Per Share	0.03	(1.19)	(0.73)	(4.42)	(0.53)	0.09

	October 31, 2005 (restated)(4) (unaudited)	April 30, 2005 (restated)(4)	2004 (restated)(4)	2003 (restated)(4) (unaudited)	2002 (restated)(4) (unaudited)	2001 (restated)(4) (unaudited)
Balance Sheet Data:						
Working Capital	$ 35,343	$ 6,154	$ (8,757)	$ (6,709)	$ 84,556	$ 95,322

Total Assets	108,862	118,467	129,272	147,088	205,572	206,270
Short-Term Debt	1,437	13,443	48,727	61,056	5,237	8,464
Long-Term Obligations, net	23,538	5,704	38,081	29,023	83,453	85,652
Shareholders Equity (Deficit)	28,499	29,464	(8,217)	5,959	69,967	67,839

(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.

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(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.

(4) As described in Note 2 to the April 30, 2005 Consolidated Financial Statements included elsewhere in this prospectus, we have restated our consolidated financial statements for the year ended April 30, 2005 in Amendment No. 1 to our April 30, 2005 Form 10-K to reflect additional charges in the Consolidated Statement of Operations associated with 1) the impairment of goodwill, 2) the revised valuation of anti-dilution warrants issued to our senior and subordinated lenders, 3) the revision of estimated losses on long-term contracts, 4) the correction of compensation expense for performance based equity awards and stock awards for services and 5) straight-line rent expense for leases with escalating rents. We identified errors in the Consolidated Financial Statements related to the presentation of percentage-of-completion related balances on the Consolidated Balance Sheet. Specifically, we noted inconsistencies between our divisions in the balance sheet presentation of accounts receivable and cash receipts relating to contracts accounted for using the percentage-of-completion method. We have, therefore, adjusted the financial statements to reflect a consistent presentation and comply with the provisions of SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts for all years presented. In addition, we restated certain balances for incorrect classification on our Consolidated Balance Sheet as of April 30, 2005 and 2004 and Consolidated Statement of Operations for the year ended April 30, 2005. We also restated our consolidated financial statements for all years presented in Amendment No. 2 to our April 30, 2005 Form 10-K to reflect corrections to our consolidated income tax provisions and recording of minority interest. These errors also resulted in a restatement of our interim financial statements as of and for the six months ended October 31, 2005.

The restated amounts above reflect the adjustments enumerated in Note 2 to the Consolidated Financial Statements in our Form 10-K/A Amendment No. 2 and the following adjustments for years prior to fiscal 2004;

	2002			2001		
	As previously reported	As Restated	Reclassified for Discontinued Operations	As previously reported	As Restated	Reclassified for Discontinued Operations
Statement of Operations Data:						
(Loss) Income Before Cumulative Effect of Change in Accounting Principle and Discontinued Operations	$ (8,244)	$ (8,415)	$ (7,966)	$ 4,038	$ 3,713	$ 1,882
Net (Loss) Income	(7,853)	(8,024)	(8,024)	1,630	1,304	1,304
Net (Loss) Income per share:						
Basic & Diluted						
Net Loss	(0.52)	(0.53)	(0.53)	0.11	0.09	0.09

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	2003		2002		2001	
	As previously reported	As Restated	As previously reported	As Restated	As previously reported	As Restated
Balance Sheet Data:						
Working Capital	$ (6,709)	$ (6,709)	$ 84,532	$ 84,556	$ 91,750	$ 95,322
Total Assets	147,701	147,088	208,674	205,572	209,309	206,270
Total Shareholders Equity	4,872	5,959	71,054	69,967	68,755	67,839

(5) Our consolidated statements of operations for all periods has been recast to give effect to the sale of the Avure Business and present the results for the Avure Business as discontinued operations.

Pro forma financial information is included in this prospectus to reflect the closing of the PIPE transaction on March 21, 2005. The following pro forma financial information is excerpted from the detailed presentation found on pages 14-17.

(In thousands, except per share amounts)	Year Ended April 30, 2005 (unaudited)
Pro forma Statement of Operations Data:	
Sales	$ 172,966
Income from Continuing Operations	3,874
Basic Income Per Share from Continuing Operations	0.12
Diluted Income Per Share from Continuing Operations	0.11

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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.

While we had income from continuing operations of $1.2 million for the six months ended October 31, 2005, our losses from continuing operations for each of the fiscal years ended April 30, 2005, 2004 and 2003 were $12.2 million, $10.7 million and $44.0 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 8, 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 our Form S-1 registration statement becomes ineffective for more than 40 days, after having gone effective, we may be subject to significant financial penalties.

Under terms of a Registration Rights Agreement entered into on March 20, 2005, as part of a Private Investment in Public Equity transaction (PIPE Transaction), we were required not to have the Form S-1, which registers the shares sold in the PIPE Transaction, become ineffective for more than 40 days (not necessarily consecutive). If this event occurs, 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.

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

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 15 to our April 30, 2005 and interim October 31, 2005 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 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 2004, 2003 and 2002 financial statements, and in November 2005 and January 2006, in connection with the restatement of our fiscal 2005, 2004 and 2003 financial statements, our former independent registered public accounting firm reported to management and to the Audit Committee material weaknesses in internal control over financial reporting. A material weakness is a control deficiency, or a combination of control 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 with and has responded to the Audit Committee with our plans to remediate the material weaknesses communicated by our former independent registered public accounting firm. Remediation of these material weaknesses is ongoing.

The material weaknesses in our internal control over financial reporting are as follows:

The Company did not maintain effective controls over the financial reporting process due to an insufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with its financial reporting requirements and the complexity of the Company s operations and transactions. Specifically, the Company incorrectly applied generally accepted accounting principles for (i) the impairment of goodwill, (ii) the classification of deferred tax balances, (iii) the valuation of anti-dilution warrants, (iv) the accrual of costs on contracts and balance sheet presentation of accounts receivable and cash receipts relating to contracts accounted for using the percentage-of-completion method, (v) leases with rent escalation clauses, (vi) the recording of minority interest, and (viii) the computation of the provision for income taxes, affecting receivables, deferred income taxes, prepaid expenses, goodwill, other accrued liabilities, other long-term liabilities and taxes payable, customer deposits, minority interest, capital in excess of par, accumulated deficit, cost of sales, general and administrative expenses, impairment charge, interest expense and other income, net and the provision for income taxes**.** This material weakness contributed to the material weakness discussed below.

The Company did not maintain effective controls to ensure there is adequate (i) analysis, documentation, reconciliation and review of accounting records, and supporting data, and (ii) monitoring and oversight of the work performed by accounting and financial reporting personnel to ensure the accuracy and completeness of the consolidated financial statements in accordance with generally accepted accounting principles. Specifically, the Company did not have effective controls designed and in place over the consolidation of the financial statements of subsidiaries and the computation of minority interest, the reconciliation of inter-company accounts, the valuation of anti-dilution warrants, the accrual of costs on contracts and balance sheet presentation of accounts receivable and cash receipts relating to contracts accounted for using the percentage-of-completion method, the

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classification of technical service expenses, the accounting for performance based equity awards and the computation of income tax provisions, affecting receivables, prepaid expenses, other accrued liabilities, taxes payable, customer deposits, capital in excess of par, minority interest, accumulated deficit, cost of sales, marketing expense, research and engineering, general and administrative expense, interest expense, other income, net, and the provision for income taxes.

A review of the remediation process to date, as well as the steps remaining, can be found on page 21 under the heading Remediation of Material Weakness .

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 January 31, 2006, we had options outstanding to purchase 1,395,884 shares of our common stock, at exercise prices ranging from $2.00 to $12.25 per share. In addition, we currently have outstanding 2,269,618 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.

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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. Based on our results for the quarter ended October 31, 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 on an annualized basis by $1.4 million and other income (expense) by $740,000. Our financial position and cash flows could be similarly impacted.

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 that shareholders who have acquired or may acquire shares of our common stock (either directly or through the exercise of warrants, which are exercisable at $0.01 per share or less) in the PIPE Transaction or in connection with certain loans (the Selling Shareholders) acquired their shares 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 an offering could encourage short sales by the Selling Shareholders (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.

Under the terms of certain outstanding warrants, we could be required to make antidilution adjustments.

Certain of the Selling Shareholders (as defined above) hold warrants to purchase our common stock at a price of $.01 per share. Such warrants were originally issued to our lenders (Lender Warrants). While such Lender Warrants are outstanding customary anti-dilution adjustments will be made in the Lender Warrants, if we issue common stock (other than pursuant to the exercise of warrants or other rights or convertible securities) at a price less than then current market price, or we issue warrants or other rights or convertible securities to purchase or acquire common stock exercisable or convertible, at a price less than then current market price when the warrants, rights or convertible securities are issued. The customary anti-dilution adjustments will be made in the purchase price of the common stock under the Lender Warrants (multiplying the exercise price before the issuance by a fraction in which the numerator is the number of shares outstanding prior to the issuance and the denominator is the number of shares outstanding after the issuance) and the number of shares of common stock issuable in exercise of the Lender Warrants (multiplying the current number of shares subject to the warrants by a fraction in which the numerator is the purchase price before the issuance and the denominator is the purchase price after the issuance). The exercise of any currently outstanding warrants will not trigger any adjustments in the Lender Warrants because adjustments made to the extent required on the issuance of such warrants. We have no plans to issue any common stock, or warrants to purchase common stock exercisable, at a price below the then current market price, except to the extent we may be required to issue Common Stock under currently outstanding warrants.

Current Events

Avure Disposition. On October 31, 2005, consistent with our strategy to divest operations that are not part of our core UHP water pump business, we sold our General Press operations and the non UHP portion of our Food reportable segment (the Avure Disposition). Included in the Avure Disposition were our Avure Technologies, Incorporated, Flow International FPS AB, Avure Technologies AB subsidiaries, and our 51% interest in Flow Autoclave Systems (together, the Avure Business). The Avure Business became a discontinued operation in accordance with FAS 144 *Accounting for the Impairment or Statements of operations in the Disposal of Long-Lived Assets* at the time it was sold and has been presented as a discontinued operation in the Statements of Operations in the financial statements. In connection with the sale we agreed to continue to supply UHP pumps to the Avure Business.

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 8, 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 $2.5 million (excluding discontinued operations) for the year ended April 30, 2004 which are shown in the table below (in thousands):

	Year Ended April 30, 2004
Severance benefits	$ 217
Facility exit costs	867
Inventory write-down	1,384

	$ 2,468

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These charges included employee severance related costs for approximately 35 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 and vacating the manufacturing warehouse portion of our Flow Europe 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. See restructuring accrual information in Note 17 to Consolidated Financial Statements.

The Avure Business incurred restructuring charges of $239,000 and $788,000 for the years ended April 30, 2005 and 2004, respectively, which included employee severance costs for 15 individuals. In addition, the Avure Business reduced the space utilized in its Swedish manufacturing facility and closed the Memphis sales office for the food portion of the business.

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 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.

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. The Company terminated 25 employees and recorded associated severance benefits of $175,000 which were paid in the six month period ended October 31, 2005. The Company also wrote off $24,000 of inventory with no future value. In October 2005, once the facility was vacated, the Company recorded restructuring charges related to lease termination costs of $278,000, net of expected sublease income, and wrote-off leasehold improvements of $108,000 related to this leased space.

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

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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; 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 (Job shop) 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 actions to remedy our material weakness are to implement new control policies and procedures and to hire additional accounting staff with appropriate levels of experience in order to improve the reconciliation process; 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; 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 October 31, 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.

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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 $42.3 million in April 2005. The remaining proceeds were used to repay borrowings on our senior credit facility.

562,608 shares are issuable on the exercise of warrants issued to lenders, including approximately 217,000 warrants issued for anti-dilution. The exercise price of the shares issuable on the exercise of warrants issued to lenders is $0.01 per share and the exercise price of the anti-dilution 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. Our previous credit agreements contained restrictions on our ability to pay dividends to our shareholders. However, the Current Senior Credit Agreement does permit us to pay dividends.

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PRO FORMA INFORMATION

The unaudited pro forma consolidated statement of operations for the fiscal year ended April 30, 2005 gives effect to the PIPE Transaction. The PIPE Transaction, as described on page 2, was completed in March 2005, and the transaction was reported in the Company s financial statements for the year ended April 30, 2005. In the PIPE Transaction, as described on page 2, we sold 17,473,116 shares of common stock and warrants to purchase 1,747,310 shares of common stock. The PIPE Transaction gross proceeds of $65 million, less investment banking fees of $5.1 million and other costs of $626,000 resulted in net cash proceeds of $59.3 million. The pro forma presentation reflects application of all of the net proceeds to pay down debt as if the transaction occurred on May 1, 2004. In this presentation, we have assumed that 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. We issued 304,000 anti-dilution warrants to our senior and subordinated lenders in connection with the PIPE transaction. The fair value of these warrants was $1.7 million. The pro forma presentation includes the amortization of these debt issue costs as if the transaction occurred on May 1, 2004.

These unaudited pro forma financial statements should be read in conjunction with the accompanying notes to unaudited pro forma financial statements, our historical financial statements and related notes, the sections of this prospectus entitled Selected Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations , and the consolidated financial statements and related notes appearing elsewhere in this prospectus.

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Unaudited Pro Forma Consolidated Statements of Operations for the Year Ended April 30, 2005

(In thousands, except share amounts)

	Restated Consolidated(1)	PIPE Transaction	Pro Forma Consolidated
Sales	$ 172,966		$ 172,966
Cost of Sales	106,943		106,943
Gross Margin	66,023		66,023
Operating Expenses:			
Marketing	28,371		28,371
Research and Engineering	5,889		5,889
General and Administrative	22,849		22,849
Financial Consulting Charges	623		623
	57,732		57,732
Operating Income	8,291		8,291
Interest Expense	(20,342)	16,048(a)	(4,294)
Interest Income	106		106
Other Income, net	1,705		1,705
(Loss) Income from Continuing Operations Before Income Taxes	(10,240)	16,048	5,808
Provision for Income Taxes	(1,934)	(b)	(1,934)
(Loss) Income from Continuing Operations	$ (12,174)	$ 16,048	$ 3,874
(Loss) Income Per Share from Continuing Operations			
Basic	$ (0.69)		$ 0.12
Diluted	$ (0.69)		$ 0.11
Weighted Average Shares Used in Computing (Loss) Income per Share from Continuing Operations			
Basic	17,748		33,402 (c)
Diluted	17,748		35,427 (c)

(1) As described in Note 2 to the Consolidated Financial Statements, we restated our consolidated financial statements for the year ended April 30, 2005.

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Notes to Unaudited Pro Forma Consolidated Statements of Operations

(a) To record the interest expenses reduced due to the PIPE Transaction.

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. No pro forma impact was ascribed to the antidilution warrants issued in conjunction with the PIPE Transaction as such impact is not determinable. 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	5,281
Exclude charges for the antidilution warrants	1,534
Total pro forma adjustment to interest expense	$ 16,048

The pro forma presentation also excludes the write off of unamortized debt discount, write-off of any capitalized fees. These fees were expensed in the fourth quarter of fiscal 2005 when the underlying debt was retired. They amounted to $5.3 million in additional charges. Charges taken in the fourth quarter of fiscal 2005 for the portion of the warrants ($1,534,000) 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.

(b) 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.

(c) The pro forma weighted average number of shares outstanding includes the following adjustments:

	Year Ended April 30, 2005	
In Thousands	Basic	Diluted
Common shares issued in PIPE Transaction	15,654	15,654
Dilutive potential common shares from warrants and options		2,025

Total additional shares included in weighted average shares outstanding	15,654	17,679

The weighted average shares are adjusted for the additional shares issued in the PIPE Transaction, as if they were issued May 1, 2004. Diluted income (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.

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The Company s potential common stock equivalents were:

	April 30, 2005
	Actual
In Thousands	
Common stock options	2,035
Warrants	3,219
Total	5,254

1,982,046 options are excluded from dilutive potential common shares in the pro forma presentation because they are out-of-the-money.

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Controls and Procedures

In December 2004, in connection with the restatement of our fiscal 2004, 2003 and 2002 financial statements, in November 2005 and January 2006, in connection with our restatement of our fiscal 2005, 2004 and 2003 financial statements, our former independent registered public accounting firm reported to management and to the Audit Committee material weaknesses in internal control over financial reporting. A material weakness is a control deficiency, or a combination of control 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 with and has responded to the Audit Committee with our plans to remediate the material weaknesses communicated by our former independent registered public accounting firm. Remediation of these material weaknesses is ongoing.

The material weaknesses in our internal control over financial reporting are as follows:

The Company did not maintain effective controls over the financial reporting process due to an insufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with its financial reporting requirements and the complexity of the Company s operations and transactions. Specifically, the Company incorrectly applied generally accepted accounting principles for (i) the impairment of goodwill, (ii) the classification of deferred tax balances, (iii) the valuation of anti-dilution warrants, (iv) the accrual of costs on contracts and balance sheet presentation of accounts receivable and cash receipts relating to contracts accounted for using the percentage-of-completion method, (v) leases with rent escalation clauses, (vi) the recording of minority interest, and (viii) the computation of the provision for income taxes, affecting receivables, deferred income taxes, prepaid expenses, goodwill, other accrued liabilities, other long-term liabilities and taxes payable, customer deposits, minority interest, capital in excess of par, accumulated deficit, cost of sales, general and administrative expenses, impairment charge, interest expense and other income, net and the provision for income taxes**.** This material weakness contributed to the material weakness discussed below.

The Company did not maintain effective controls to ensure there is adequate (i) analysis, documentation, reconciliation and review of accounting records, and supporting data, and (ii) monitoring and oversight of the work performed by accounting and financial reporting personnel to ensure the accuracy and completeness of the consolidated financial statements in accordance with generally accepted accounting principles. Specifically, the Company did not have effective controls designed and in place over the consolidation of the financial statements of subsidiaries and the computation of minority interest, the reconciliation of inter-company accounts, the valuation of anti-dilution warrants, the accrual of costs on contracts and balance sheet presentation of accounts receivable and cash receipts relating to contracts accounted for using the percentage-of-completion method, the classification of technical service expenses, the accounting for performance based equity awards and the computation of income tax provisions, affecting receivables, prepaid expenses, other accrued liabilities, taxes payable, customer deposits, capital in excess of par, minority interest, accumulated deficit, cost of sales, marketing expense, research and engineering, general and administrative expense, interest expense, other income, net, and the provision for income taxes.

These control deficiencies resulted in the restatement of the Company s consolidated financial statements for the years ended April 30, 2005, 2004 and 2003, and certain quarters in these years and in the restatement of the condensed consolidated financial statements for the first and second quarters of fiscal 2006. Additionally, each of these control deficiencies could result in a material misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Accordingly, management has determined that each of the above control deficiencies represents a material weakness.

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Remediation of Material Weakness

Our management and Audit Committee have dedicated significant resources to assessing the underlying internal control deficiencies giving rise to the restatements and to ensure that proper steps have been and are being taken to improve our internal control over financial reporting. 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. The remedial measures include the following:

Insufficient compliment of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles.

We have filled several 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. During August 2005, we hired a technical accounting manager to ensure compliance with all current and future accounting rules. Prior to that date the existing staff was addressing our application of technical accounting literature. We will continue to assess staffing needs at both corporate and our subsidiaries, and have identified the need for additional staff in the areas of accounting supervision and financial analysis. We have applied additional resources and time to improve the appropriateness and documentation of our conclusions on technical accounting issues. This will be enhanced with the addition of our technical accounting manager and other planned additions.

Lack of effective controls to ensure adequate analysis, documentation, reconciliation and review of accounting records. Lack of effective controls to ensure adequate monitoring and oversight of work performed by accounting and financial reporting personnel.

We engaged a financial consulting firm to assist in both 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 checklist to ensure all required reconciliations are completed, as well as help ensure adherence to corporate policies and procedures. We have begun to improve the documentation of our accounting policies and procedures to ensure that all transactions are recorded consistently and with the appropriate level of documentation. As is described in the above paragraph, we still need to hire additional experienced staff to provide enhanced review, analysis and documentation of accounting transactions and of the consolidated financial statements.

The implementation of the initiatives described above, 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 control over financial reporting as described above.

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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, 2005, 2004 and 2003 and the selected consolidated balance sheet data as of April 30, 2005 and 2004 are derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The selected consolidated statement of operations data of each of the fiscal years ended April 30, 2002 and 2001 and the balance sheet as of April 30, 2003, 2002 and 2001 are derived from our unaudited financial statements that are not included in this prospectus. The selected consolidated statement of operations data for the six months ended October 31, 2005 and the selected consolidated balance sheet data as of October 31, 2005 are derived from our unaudited condensed consolidated financial statements which are included in this prospectus. Our unaudited financial statements have been prepared on the same basis as our audited consolidated financial statements included elsewhere in this prospectus and, in the opinion of our management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly our financial position and results of operations as of and for those periods.

(In thousands, except per share amounts)	Six Months Ended October 31, 2005 (restated)(4)(5) (unaudited)	Year Ended April 30, 2005 (restated)(4)(5)	2004(5) (restated)(4)	2003(3)(5) (restated)(4)	2002(2)(5) (restated)(4) (unaudited)	2001(1)(5) (restated)(4) (unaudited)
Statement of Operations Data:						
Sales	$ 92,671	$ 172,966	$ 132,861	$ 121,833	$ 116,386	$ 132,797
Income (Loss) Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	1,221	(12,174)	(10,668)	(43,965)	(7,966)	1,882
Net Income (Loss)	1,040	(21,197)	(11,274)	(67,813)	(8,024)	1,304
Basic Income (Loss) Per Share Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	0.04	(0.69)	(0.69)	(2.86)	(0.52)	0.13
Basic Earnings (Loss) Per Share	0.03	(1.19)	(0.73)	(4.42)	(0.53)	0.09
Diluted Income (Loss) Per Share Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	0.03	(0.69)	(0.69)	(2.86)	(0.52)	0.12
Diluted Income (Loss) Per Share	0.03	(1.19)	(0.73)	(4.42)	(0.53)	0.09

(In thousands)	October 31, 2005 (restated)(4) (unaudited)	April 30, 2005 (restated)(4)	2004 (restated)(4)	2003 (restated)(4) (unaudited)	2002 (restated)(4) (unaudited)	2001 (restated)(4) (unaudited)
Balance Sheet Data:						
Working Capital	$ 35,343	$ 6,154	$ (8,757)	$ (6,709)	$ 84,556	$ 95,322
Total Assets	108,862	118,467	129,272	147,088	205,572	206,270
Short-Term Debt	1,437	13,443	48,727	61,056	5,237	8,464
Long-Term Obligations, net	23,538	5,704	38,081	29,023	83,453	85,652
Shareholders Equity (Deficit)	28,499	29,464	(8,217)	5,959	69,967	67,839

(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.

(4) As described in Note 2 to the April 30, 2005 Consolidated Financial Statements included elsewhere in this prospectus, we have restated our consolidated financial statements for the year ended April 30, 2005 to reflect additional charges in the Consolidated Statement of Operations associated with 1) the impairment of goodwill, 2) the revised valuation of anti-dilution warrants issued to our senior and subordinated lenders, 3) the revision of estimated losses on long-term contracts, 4) the correction of compensation expense for performance based equity awards and stock awards for services and 5) straight-line rent expense for leases with escalating rents. We have identified errors in the Consolidated Financial Statements related to the presentation of percentage-of-completion related balances on the Consolidated Balance Sheet. Specifically, we noted inconsistencies between our divisions in the balance sheet presentation of accounts receivable and cash receipts relating to contracts accounted for using the percentage-of-completion method. We have, therefore, adjusted the financial statements to reflect a consistent presentation and comply with the provisions of SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts for all years presented. In addition, we restated certain balances for incorrect classification on our Consolidated Balance Sheet as of April 30, 2005 and 2004 and Consolidated Statement of Operations for the year ended April 30, 2005. We also restated our consolidated financial statements in Amendment No. 2 to our April 30, 2005 Form 10-K to reflect corrections to our consolidated income tax provisions and recording of minority interest for all years presented. These errors also resulted in a restatement of our interim financial statements as of and for the six months ended October 31, 2005.

The restated amounts above reflect the adjustments enumerated in Note 2 to the Consolidated Financial Statements in our Form 10-K/A Amendment No. 2 and the following adjustments for years prior to fiscal 2004;

	2002			2001		
	As previously reported	As Restated	Reclassified for Discontinued Operations	As previously reported	As Restated	Reclassified for Discontinued Operations
Statement of Operations Data:						
(Loss) Income Before Cumulative Effect of Change in Accounting Principle and Discontinued Operations	$ (8,244)	$ (8,415)	$ (7,966)	$ 4,038	$ 3,713	$ 1,882
Net (Loss) Income	(7,853)	(8,024)	(8,024)	1,630	1,304	1,304
Net (Loss) Income per share:						
Basic & Diluted						
Net Loss	(0.52)	(0.53)	(0.53)	0.11	0.09	0.09

	2003		2002		2001	
	As previously reported	As Restated	As previously reported	As Restated	As previously reported	As Restated

Balance Sheet Data:						
Working Capital	$ (6,709)	$ (6,709)	$ 84,532	$ 84,556	$ 91,750	$ 95,322
Total Assets	147,701	147,088	208,674	205,572	209,309	206,270
Total Shareholders Equity	4,872	5,959	71,054	69,967	68,755	67,839

(5) Our consolidated statement of operations for all periods has been recast to give effect to the sale of the Avure Business and present the results for the Avure Business as discontinued operations.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Current Events

Avure Disposition

On October 31, 2005, consistent with our strategy to divest operations that are not part of our core UHP water pump business, we sold our General Press operations and the non UHP portion of our Food reportable segment (the Avure Disposition). Included in the Avure Disposition were our Avure Technologies, Incorporated, Flow International FPS AB, Avure Technologies AB subsidiaries, and our 51% interest in Flow Autoclave Systems (together, the Avure Business). The Avure Business became a discontinued operation in accordance with FAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* at the time it was sold and has been presented as a discontinued operation in the Statements of Operations in the financial statements.

Barton

On August 26, 2005, we received $2.5 million for giving the exclusive right to Barton Mines Company to sell abrasive to our customers. Under a Purchase Agreement, we are also entitled to future annual payments of up to $250,000 for the next three years based on achievement of system sales targets and royalty payments for systems sold over the next 10 years.

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 8, 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 $2.5 million for the year ended April 30, 2004 which are shown in the table below (in thousands):

	Year Ended April 30, 2004
Severance benefits	$ 217
Facility exit costs	867
Inventory write-down	1,384
	$ 2,468

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These charges included employee severance related costs for approximately 35 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 and vacating the manufacturing warehouse portion of our Flow Europe 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. See restructuring accrual information in Note 17 to Consolidated Financial Statements.

The Avure Business incurred restructuring charges of $239,000 and $788,000 for the years ended April 30, 2005 and 2004, respectively, which included employee severance costs for 15 individuals. In addition, the Avure Business reduced the space utilized in its Swedish manufacturing facility and closed the Memphis sales office for the food portion of the business.

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 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.

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 was completed by the second quarter of fiscal 2006 with restructuring expenses of approximately $600,000. 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.

Other

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

Three and Six Months Ended October 31, 2005 Compared to Three and Six Months Ended October 31, 2004

Changes in Financial Condition

We generated $9.2 million of cash from operating activities during the six months ended October 31, 2005 compared to $6.7 million of cash generated for the six months ended October 31, 2004. The current period s operating cash flow includes $2.5 million of cash received related to the Purchase Agreement with Barton referred to earlier. Customer deposits increased $4.7 million further contributing to the cash flow from operations. These deposits provide the funding for the manufacturing of our systems and primarily relate to large aerospace contracts that we have been awarded. The revenue associated with these deposits is expected to be recognized in the next twelve months. Offsetting these inflow is a $1.2 million increase in Receivables, net from progress made on percentage-of-completion projects during the six months ended October 31, 2005. Trade receivables accounted for cash generation of $1.8 million in the year ago comparable period. Additionally, increases in inventory of $4.1 million during the six months ended October 31, 2005 offset the cash generated by the Barton transaction and customer deposits. These increases were the result of additional inventory purchases in our core business to meet upcoming demand in the third quarter of fiscal 2006 as well as inventory changes in the Avure business prior to the disposition.

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Net receivables are comprised of trade accounts and unbilled revenues. At October 31, 2005, the net receivables balance decreased $10.2 million or 27% from April 30, 2005. The decrease in net receivables stemmed from the reduction in trade receivables of $8.9 million or 24% from $37.2 million at April 30, 2005 to $28.3 million at October 31, 2005 on sale of the Avure Business which reduced trade receivables by $7.5 million and on collection of standard waterjet system sales for the six months ended October 31, 2005. Receivables days sales outstanding (including unbilled revenues and excluding the Avure business for the comparative periods) increased to 55 days at October 31, 2005 from 49 as of April 30, 2005. This decrease in Trade Receivables was compounded by a reduction in unbilled revenues from $5.0 million at April 30, 2005 to $3.4 million at October 31, 2005, a $1.6 million or 32% decrease. The Avure Business accounted for $4.6 million of the decrease which was offset by an increase in the percentage complete on our aerospace contracts as well as a higher number of automation contracts being worked on. Our unbilled receivables relate to equipment and systems sales accounted for on a percentage of completion basis. Unbilled revenues fluctuate due to the scheduling of production and achievement of certain billing milestones. In general, receivables can be negatively affected by the traditionally longer payment cycle outside the United States and the timing of billings and payments on large special system orders. We do not believe these timing issues will present a material adverse impact on our short-term liquidity requirements. Because of the lead-time to build and deliver such equipment, ultimate collection of such accounts can be subject to changing customer business and economic conditions.

Inventories, net at October 31, 2005 decreased $4.8 million or 20% from April 30, 2005 driven by the sale of the Avure Business which accounted for $6.2 million. This was offset by an increase in Waterjet inventory of $1.3 million primarily related to some equipment for our aerospace contracts which we anticipate shipping in our fourth fiscal quarter of 2006.

Customer deposits were $7.6 million at October 31, 2005, versus the $10.6 million balance at April 30, 2005. The disposition of the Avure Business accounted for a decrease of $3.1 million which was offset by the receipt of milestone advances due under the significant aerospace contracts which we were awarded in fiscal 2005.

Liquidity and Capital Resources

Approximately $20.3 million of our cash and restricted cash is held by divisions outside the United States. The repatriation of offshore cash balances from certain divisions will trigger tax liabilities. In fiscal 2004, we recorded a $1.9 million liability for withholding taxes on future repatriation of historical foreign earnings. In fiscal 2005, we repatriated $4.8 million from certain foreign subsidiaries. During the six months ended October 31, 2005, we repatriated $1.4 million from a foreign subsidiary and we plan to continue repatriating additional funds in the future.

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 more than $59 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. If all the warrant holders opted to exercise their warrants, we would receive $7.1 million in cash proceeds.

Because the market price of the common stock was greater than $3.70, we issued approximately 304,000 anti-dilution warrants to current warrant holders prior to the PIPE Transaction which have a Black-Scholes value of approximately $1.7 million. Approximately $1.5 million of this amount relates to warrants issued under subordinated debt agreements and $0.2 million relates to warrants issued under senior debt agreements. Proceeds of the PIPE were used to pay down existing debt, including all of the subordinated debt.

Under terms of the PIPE Transaction, we were required to file an initial Form S-1 registration of the shares issued and issuable in the PIPE Transaction on or before May 20, 2005 and were required to cause the Form S-1 to become effective on or before September 17, 2005. We subsequently amended the Registration Rights

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Agreement to grant us an extension until March 10, 2006 for the effective date of the registration of the shares and warrants issued in the PIPE Transaction. We are subject to liquidated damages of $650,000 per month, if we fail to meet the March 10, 2006 deadline.

Our domestic senior credit agreement (Credit Agreement) is our primary source of external funding. Effective July 8, 2005, we executed a new $30 million, three year senior credit agreement with Bank of America N.A. and U.S. Bank N.A. This credit agreement expires July 8, 2008 and bears interest at the bank s prime rate (6.75% at October 31, 2005) or is linked to LIBOR plus a percentage depending on 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. At October 31, 2005, the balance outstanding on the Credit Agreement was $18.5 million against a maximum borrowing of $30 million. Our available credit at October 31, 2005, net of $2.3 million in outstanding letters of credit, was $9.2 million.

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

On August 26, 2005, we received $2.5 million for giving the exclusive right to Barton Mines Company to sell abrasive to our customers. Under a Purchase Agreement, we are also entitled to future annual payments of up to $250,000 for the next three years based on achievement of system sales targets and royalty payments for systems sold over the next 10 years.

Since fiscal 2004, we had been investigating, with approval from our Board, alternatives for our non-core operations. On October 31, 2005, we completed the sale of our Avure Business with Gores Technology for estimated net proceeds of $14.4 million, comprised of cash and notes. The Avure Business was comprised of the International and North America Press reporting segments as well as the non ultrahigh-pressure portion of our Food reportable segment. The ultrahigh-pressure portion of our Food segment will be reported under North America Waterjet on a go-forward basis. The results of operations are shown as discontinued operations in our financial statements.

Off-Balance Sheet Arrangements

We do not have any special purpose entities or off-balance sheet financing arrangements.

Contractual Obligations

During the quarter ended October 31, 2005, there were no material changes outside the ordinary course of business in our contractual obligations and minimum commercial commitments as reported in Amendment No. 2 to our Annual Report on Form 10-K for the year ended April 30, 2005.

Critical Accounting Policies and Judgments and New Accounting Pronouncements

There are no material changes in our critical accounting policies as disclosed in Amendment No. 2 to our Annual Report on Form 10-K for the year ended April 30, 2005. New accounting pronouncements are disclosed in Note 16 to the Condensed Consolidated Financial Statements.

Results of Operations

Our ultrahigh-pressure (UHP) business which we call Waterjet is comprised of the following segments: North America Waterjet, Asia Waterjet, Other International Waterjet and Other.

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Sales Summary:

Dollars in thousands

	Three months ended October 31,			Six months ended October 31,		
	2005	2004	% Change	2005	2004	% Change
Operational breakdown:						
Waterjet:						
Systems	$ 36,950	$ 31,274	18 %	$ 65,671	$ 57,174	15 %
Consumable parts and services	13,735	12,813	7 %	27,000	25,212	7 %
	$ 50,685	$ 44,087	15 %	$ 92,671	$ 82,386	13 %
Geographic breakdown:						
United States	$ 28,992	$ 25,308	15%	$ 53,492	$ 45,826	17%
Rest of Americas	6,828	4,710	45%	11,009	9,605	15%
Europe	7,397	7,616	(3)%	14,934	14,151	6%
Asia	7,468	6,453	16%	13,236	12,804	3%
	$ 50,685	$ 44,087	15 %	$ 92,671	$ 82,386	13 %

Three and Six Months Ended October 31, 2005 Compared to Three and Six Months Ended October 31, 2004

(Tabular amounts in thousands)

Sales.

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

	Three Months Ended October 31,				Six Months Ended October 31,			
	2005	2004	Difference	%	2005	2004	Difference	%
Sales								
Waterjet:								
North America	28,644	20,663	7,981	39%	51,571	36,563	15,008	41%
Asia	7,468	6,453	1,015	16%	13,236	12,804	432	3%

Other International	8,789	8,396	393	5%	17,242	15,532	1,710	11%
Other	5,784	8,575	(2,791)	(33)%	10,622	17,487	(6,865)	(39)%
Waterjet Total	50,685	44,087	6,598	15%	92,671	82,386	10,285	12%

Our Waterjet business 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 sells which are sold primarily into the North American automotive industry.

For the three months ended October 31, 2005, total Waterjet sales of $50.6 million increased $6.6 million or 15% as compared to the prior year same period. For the six months ended October 31, 2005, total Waterjet sales of $92.7 million increased $10.3 million or 12% as compared to the prior year same period of which $15.0 million was recognized in our North America Waterjet segment. Last year 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 of two

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machine tool distributors 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 as well as increased revenue recognition on large percentage-of-completion aerospace contracts. There were no significant price increases year over year; however, a price increase of 4% on selected systems was instituted on February 1, 2005. Aerospace sales, which are also included in the North America segment, were $7.5 million and $9.6 million for the three and six months ended October 31, 2005, respectively, up $6.7 million and $8.4 million from the prior year same respective periods from work completed on aerospace contracts awarded in fiscal 2005.

For the three and six months ended October 31, 2005, Asia Waterjet segment revenue increased $1.0 million and $0.4 million, or 16% and 3% for the prior year same respective periods. This increase was fueled by expansion of waterjet systems into the electronics industry in Taiwan. Growth in the Other International Waterjet segment represents primarily sales into Europe and South America. Revenues from our European operations have declined $219,000 to $7.4 million during the three months ended October 31, 2005 on a strengthening dollar while improving by $783,000 for the six months ended October 31, 2005 to $14.9 million. Sales into South America of $1.4 million and $2.3 million for the three and six months ended October 31, 2005 improved $612,000 and $927,000 over the respective prior year same periods on higher standard shapecutting system sales as the Company focused its efforts in this area. We typically sell our products at higher prices outside the U.S. due to the costs of servicing these markets.

The growth in our North America, Asia Waterjet, and Other International Waterjet segments were offset by declines in the Other segments. The Other segment recorded a $2.8 million and a $6.9 million decline for the three and six months ended October 31, 2005 from the prior year same periods from a softness in the domestic automotive industry as well as from the closing and relocation of our Wixom, Michigan facility to our Burlington, Ontario facility. This shutdown was completed to combine like businesses and reduce operating costs.

We also analyze our Waterjet revenues by looking at system sales and consumable sales. Systems sales were $37.0 million, up $5.7 million or 18%, for the three months ended October 31, 2005 and up $8.5 million or 15%, for the six months ended October 31, 2005 due to strong domestic shapecutting sales as well as increased aerospace revenue. Consumables revenues recorded an increase of $922,000 or 7.2% to $13.7 million for the three months ended October 31, and $1.8 million or 7.1% to