

FLOW INTERNATIONAL CORP
Form 10-Q/A
February 01, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
(AMENDMENT NO. 1)

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

For the quarterly period ended October 31, 2005

OR

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

For the transition period from to

Commission file number 0-12448

FLOW INTERNATIONAL CORPORATION

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WASHINGTON
(State or other jurisdiction of
incorporation or organization)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicated by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares outstanding of common stock, as of January 20, 2006 is 34,661,613 shares.

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EXPLANATORY NOTE: As described in Note 2 to the Condensed Consolidated Financial Statements, Flow International Corporation has restated its previously filed Condensed Consolidated Financial Statements for the three and six months ended October 31, 2005 and 2004 included in its Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2005, which was filed with the Securities and Exchange Commission (SEC) on December 20, 2005. As reported in our April 30, 2005 Form 10-K/A Amendment No.1, we previously identified errors in our Consolidated Financial Statements related to the impairment of goodwill, the valuation of anti-dilution warrants, additional costs incurred on percentage-of-completion contracts and the presentation of percentage-of-completion related balances on the Consolidated Balance Sheet, the computation of stock compensation expense, the allocation of the valuation allowance to deferred tax asset and liability balances, the recording of straight-line rent expense, and the classification of technical service expenses. We previously restated our Consolidated Balance Sheet as of April 30, 2005 included in our originally filed Form 10-Q for these errors. We also determined, as disclosed in our original Form 10-Q filed with the SEC on December 20, 2005, that there was an error in the Condensed Consolidated Statement of Cash Flows for the six months ended October 31, 2004 related to our balance sheet presentation of accounts receivable and cash receipts relating to contracts accounted for using the percentage-of-completion method. We recorded a reduction in receivables and customer deposits of \$6.2 million. The effect of this error did not impact total cash flows from operating, investing and financing activities.

As reported in our April 30, 2005 Form 10-K/A Amendment No. 2, and subsequent to the filing of our original Form 10-Q for the fiscal quarter ended October 31, 2005, we also identified errors in our financial statements related to the income tax provision and the recording of minority interest. Our Condensed Consolidated Balance Sheet as of April 30, 2005, included in this Form 10-Q/A has been restated to correspond to the April 30, 2005 restated amounts in the Amendment No. 2 to our Form 10-K. We have also identified errors related to the classification of expenses in the Condensed Consolidated Statement of Operations for the three and six months ended October 31, 2005 and 2004.

We have reviewed our consolidated income tax provision and have concluded that it was incorrectly stated for the three and six months periods ended October 31, 2005 and 2004. These misstatements occurred because we incorrectly calculated the consolidated tax provision by an amount equal to the separate tax provision of Flow Autoclave Systems, Inc. (Flow Autoclave). In addition, we inappropriately allocated income taxes between Continuing and Discontinued Operations. We have also reviewed the accounting for minority interest in Flow Autoclave (included in Discontinued Operations) and determined that we had incorrectly recorded minority interest based on pre-tax income rather than on after-tax income. As a result of these errors, the Provision for Income Taxes for the three and six months ended October 31, 2005 was understated by \$106,000 and \$117,000, respectively, and for the three and six months ended October 31, 2004 by \$289,000 and \$181,000, respectively. Income (Loss) from Continuing Operations was misstated by the same amounts in the respective periods. Loss From Operations of Discontinued Operations for the three months ended October 31, 2005 was overstated by \$53,000 and Income from Operations of Discontinued Operations for the six months ended October 31, 2005 was understated by \$64,000, and (Loss) From Operations of Discontinued Operations for the three and six months periods ended October 31, 2004 was overstated by \$226,000 and \$118,000, respectively.

In addition, the cumulative errors related to the minority interest at Flow Autoclave impacted our calculation of the loss on the disposition of the Avure Business (see Note 5). The loss was increased from \$261,000 to \$1.1 million on an after tax basis.

As a result of the errors referred to above, Net Income for the three and six months periods ended October 31, 2005 was overstated by \$939,000 and Net Loss for the three and six month periods ended October 31, 2004 was understated by \$63,000.

We also reclassified certain costs and expenses in the Condensed Consolidated Statements of Operations for the three and six months periods ended October 31, 2005 and 2004. These adjustments had no impact on Income (Loss) from Continuing Operations or Net Income (Loss).

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The Condensed Consolidated Balance Sheet at October 31, 2005 reflects the cumulative effect of the errors referred to above. Taxes Payable and Other Accrued Taxes in the Condensed Consolidated Balance Sheets as of October 31, 2005 were understated by \$185,000 and the Accumulated Deficit was understated by \$185,000. The Accumulated Deficit in the Condensed Consolidated Statements of Shareholders' Equity (Deficit) and Comprehensive Loss as of April 30, 2004 was overstated by \$1,335,000.

As reported in our original Item 4, we previously reported two material weaknesses in our internal controls. We have determined that these weaknesses contributed to the restatements referred to above and we have not yet completed their remediation. We have updated our disclosures in our Item 4 report included in this Form 10-Q/A to address this restatement.

Items in the Form 10-Q/A amended by this filing are:

Part I: Financial Information

Item 1 Condensed Consolidated Financial Statements (Unaudited)

The Condensed Consolidated Financial Statements appearing on pages 5-9 and Notes 2, 5, 6, 7, 11 and 14 thereto

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Pages 25-38

Item 4 Controls and Procedures

Part II:

Item 6 Exhibits

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Except as described above, all other information is unchanged and reflects the disclosures made at the time of the original filing on December 20, 2005 and this Form 10-Q/A does not otherwise reflect events occurring after the original filing or otherwise modify or update these disclosures. Accordingly, this Form 10-Q/A should be read in conjunction with our filings with the Securities and Exchange Commission subsequent to the filing of the original Form 10-Q.

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| | October 31, 2005 | April 30, 2005 |
|--|-----------------------------|---------------------------|
| | (restated) | (restated) |
| ASSETS: | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 24,436 | \$ 12,976 |
| Restricted Cash | 921 | 469 |
| Receivables, Net | 28,150 | 38,325 |
| Receivable from Purchaser of Avure Business | 13,049 | |
| Inventories, Net | 19,402 | 24,218 |
| Prepaid Expenses | 4,340 | 6,046 |
| Other Current Assets | 549 | 2,632 |
| | <hr/> | <hr/> |
| Total Current Assets | 90,847 | 84,666 |
| Property and Equipment, Net | 10,111 | 12,634 |
| Intangible Assets, Net | 3,057 | 14,644 |
| Goodwill | 2,764 | 2,764 |
| Deferred Income Taxes | 63 | 1,532 |
| Other Assets | 2,020 | 2,227 |
| | <hr/> | <hr/> |
| | \$ 108,862 | \$ 118,467 |
| | <hr/> | <hr/> |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current Liabilities: | | |
| Notes Payable | \$ 1,011 | \$ 3,531 |
| Current Portion of Long-Term Obligations | 426 | 9,912 |
| Accounts Payable | 17,224 | 20,842 |
| Accrued Payroll and Related Liabilities | 5,372 | 8,819 |
| Taxes Payable and Other Accrued Taxes | 2,921 | 2,370 |
| Deferred Income Taxes | 49 | 609 |
| Deferred Revenue | 3,487 | 4,646 |
| Customer Deposits | 7,582 | 10,606 |
| Warrant Obligation | 11,531 | 6,696 |
| Other Accrued Liabilities | 5,901 | 10,481 |
| | <hr/> | <hr/> |
| Total Current Liabilities | 55,504 | 78,512 |
| Long-Term Obligations | 23,538 | 5,704 |
| Other Long-Term Liabilities | 1,321 | 3,219 |
| | <hr/> | <hr/> |
| Total Liabilities | 80,363 | 87,435 |
| | <hr/> | <hr/> |
| Commitments and Contingencies | | |
| Minority Interest | | 1,568 |
| | <hr/> | <hr/> |

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| | | |
|--|---|-------------------|
| Shareholders' Equity: | | |
| Series A 8% Convertible Preferred Stock | \$0.01 par value, 1,000,000 shares authorized, none issued | |
| Common Stock | \$0.01 par value, 49,000,000 shares authorized, 34,614,261 shares outstanding at October 31, 2005 and 33,495,479 shares outstanding at April 30, 2005 | |
| | 346 | 335 |
| Capital in Excess of Par | 114,614 | 112,512 |
| Accumulated Deficit | (78,787) | (79,827) |
| Accumulated Other Comprehensive Loss | | |
| Cumulative Translation Adjustment, net of income tax of \$0 | (7,674) | (3,506) |
| Unrealized Loss on Cash Flow Hedges, net of income tax of \$0 and \$19 | | (50) |
| | <u> </u> | <u> </u> |
| Total Shareholders' Equity | 28,499 | 29,464 |
| | <u> </u> | <u> </u> |
| | \$ 108,862 | \$ 118,467 |
| | <u> </u> | <u> </u> |

See Accompanying Notes to
Condensed Consolidated Financial Statements

Table of Contents**FLOW INTERNATIONAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited; in thousands, except per share data)**

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|-----------------------------------|------------|---------------------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| | (restated) | (restated) | (restated) | (restated) |
| Revenues | \$ 50,685 | \$ 44,087 | \$ 92,671 | \$ 82,386 |
| Cost of Sales | 28,351 | 28,696 | 52,404 | 52,823 |
| Gross Margin | 22,334 | 15,391 | 40,267 | 29,563 |
| Expenses: | | | | |
| Sales and Marketing | 7,873 | 7,056 | 15,449 | 13,292 |
| Research and Engineering | 1,692 | 1,255 | 3,570 | 2,877 |
| General and Administrative | 7,135 | 4,838 | 13,350 | 9,496 |
| Restructuring | 487 | | 585 | |
| Financial Consulting | | | | 623 |
| | 17,187 | 13,149 | 32,954 | 26,288 |
| Operating Income | 5,147 | 2,242 | 7,313 | 3,275 |
| Interest Expense, Net | (437) | (3,700) | (1,363) | (6,712) |
| Other (Expense) Income, Net | (1,129) | 2,655 | (2,914) | 2,561 |
| Income (Loss) Before Provision for Income Taxes | 3,581 | 1,197 | 3,036 | (876) |
| Provision for Income Taxes | (1,232) | (531) | (1,815) | (1,129) |
| Income (Loss) From Continuing Operations | 2,349 | 666 | 1,221 | (2,005) |
| Income (Loss) From Operations of Discontinued Operations, Net of Income Tax of \$194, \$53, \$488 and \$161 | (184) | (1,004) | 966 | (673) |
| Loss on Sale of Discontinued Operations, Net of Income Tax of \$334 | (1,147) | | (1,147) | |
| Net Income (Loss) | \$ 1,018 | \$ (338) | \$ 1,040 | \$ (2,678) |
| Income (Loss) Per Share From Continuing Operations Basic: | \$ 0.07 | \$ 0.04 | \$ 0.04 | \$ (0.13) |
| Income (Loss) Per Share From Discontinued Operations Basic: | \$ (0.04) | \$ (0.06) | \$ (0.01) | \$ (0.04) |
| Net Income (Loss) Per Share Basic: | \$ 0.03 | \$ (0.02) | \$ 0.03 | \$ (0.17) |
| Income (Loss) Per Share From Continuing Operations Diluted: | \$ 0.07 | \$ 0.04 | \$ 0.03 | \$ (0.13) |
| Income (Loss) Per Share From Discontinued Operations Diluted: | \$ (0.04) | \$ (0.06) | \$ 0.00 | \$ (0.04) |
| Net Income (Loss) Per Share Diluted: | \$ 0.03 | \$ (0.02) | \$ 0.03 | \$ (0.17) |

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Weighted Average Shares Used in Computing Basic and Diluted
Net Income (Loss) Per Share

| | | |
|-------|--------|--------|
| Basic | 34,597 | 15,905 |
|-------|--------|--------|