FLOW INTERNATIONAL CORP
Form 10-K/A
November 23, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(AMENDMENT No. 1)

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

For the fiscal year ended April 30, 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

WASHINGTON	**91-1104842**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

23500 - 64th Avenue South

Kent, Washington 98032

(253) 850-3500

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock $.01 Par Value

Preferred Stock Purchase Rights

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 x.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ¨ No x.

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

The aggregate market value of the registrant s common equity held by nonaffiliates of the registrant based on the last sale price of such stock on October 31, 2004 (the last day of the registrant s previously completed second quarter) was approximately $42,841,991.

The number of shares of common stock outstanding as of July 21, 2005 was 34,574,746 shares. The number of shares of common stock outstanding as of November 14, 2005 was 34,642,316 shares.

Documents Incorporated By Reference

Part I: None

Part II: None

Part III: The information required by these Items of Part III are incorporated by reference from the Registrant s definitive proxy statement which involves the election of directors and which was filed with the Commission on August 24, 2005.

Item 10 Directors and Executive Officers of the Registrant

Item 11 Executive Compensation

Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Item 13 Certain Relationships and Related Transactions

Item 14 Principal Accountant Fees and Services

Part IV: None

EXPLANATORY NOTE: As described in Note 2 to the Consolidated Financial Statements, Flow International Corporation has restated its previously filed consolidated financial statements as of April 30, 2005 and 2004 and for the year ended April 30, 2005 included in its Annual Report on Form 10-K for the fiscal year ended April 30, 2005, which was filed with the Securities and Exchange Commission on July 29, 2005. We have identified errors in our financial statements related to an impairment of the carrying amount 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 have reviewed our goodwill impairment analysis under Statement of Financial Accounting Standards No. 142 (FAS 142), Goodwill and Other Intangible Assets and concluded that our original determination that there was no impairment as of April 30, 2005 was incorrect. We had originally concluded that it was appropriate to carry-forward our valuation analysis from April 30, 2003 to April 30, 2005, because we believed there was a less than remote possibility that an updated analysis would result in a valuation of the reporting units goodwill being less than book value. Prior to the original filing of our Form 10-K, we had discussions with a potential buyer and had received an indication of intent to purchase three of our reporting segments for a value that was less than the related carrying value, thus indicating that using our April 30, 2003 analysis was no longer appropriate. We have prepared an updated valuation analysis on an individual reporting unit basis using the expected offer price which resulted in the determination that the goodwill for the International Press and North America Press reportable segments was fully impaired as of April 30, 2005. Accordingly, the restated financial statements reflect in the Consolidated Statement of Operations for the year ended April 30, 2005 an impairment charge and reduction in net income of $8.7 million and in the Consolidated Balance Sheet as of April 30, 2005 a reduction of $9.1 million in Goodwill and $383,000 reduction in Minority Interest. We expect to realize a gain on the disposition of the North America and International Press reportable segments as well as the non ultrahigh-pressure portion of the Food reportable segment upon consummation of this asset group on October 31, 2005, as discussed in Note 21 to the Consolidated Financial Statements.

We have assessed the valuation of anti-dilution warrants issued to our senior and subordinated lenders on March 21, 2005 and concluded that we computed the value of these warrants using the stock price as of an incorrect date. The correction of this under-valuation increased Interest Expense by $564,000 in our Consolidated Statement of Operations for the year ended April 30, 2005 and increased Prepaid Expenses by $44,000 and Capital In Excess of Par by $608,000 in our Consolidated Balance Sheet as of April 30, 2005.

We have determined that our Cost of Sales in the Consolidated Statement of Operations was understated for several loss contracts accounted for using the percentage-of-completion method as our estimates for cost to complete were not updated prior to the issuance of our financial statements. We have accrued an additional $261,000 in costs in Cost of Sales in our Consolidated Statement of Operations for the year ended April 30, 2005 and in Other Accrued Liabilities on the Consolidated Balance Sheet as of April 30, 2005. In addition, 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 our Consolidated Balance Sheet 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. The effect of these adjustments was to decrease Receivables, net and Customer Deposits by $4.5 million and $5.9 million as of April 30, 2005 and 2004, respectively.

We have also concluded that our computation of compensation expense for performance based equity awards and for stock awards for services was incorrect and understated the compensation amount. The correction increased General & Administrative Expense by $189,000 in our Consolidated Statement of Operations for the year ended April 30, 2005 and Capital In Excess of Par in our Consolidated Balance Sheet as of April 30, 2005.

We noted that our deferred tax valuation allowance had been inappropriately classified in our Consolidated Balance Sheet. Specifically, Financial Accounting Standard No. 109 (FAS 109), Accounting for Income Taxes , provides that the valuation allowance for a particular tax jurisdiction shall be allocated between current and noncurrent deferred tax assets on a pro rata basis, rather than against noncurrent then current deferred tax assets. Consequently, we have revised our Consolidated Balance Sheet to reflect the proper allocation of the valuation allowance between current and noncurrent deferred tax balances. This adjustment reduced current deferred tax assets by $923,000 and increased current deferred tax liability and noncurrent deferred tax assets by $609,000 and $1.5 million as of April 30, 2005, respectively. The reclassification as of April 30, 2004 increased current deferred tax assets and increased non-current deferred tax liabilities by $55,000.

Further, we have determined that we did not consistently apply Statement of Financial Accounting Standard No. 13 (FAS 13), Accounting for Leases , to leases with rent escalation clauses. As a result, we increased Cost of Sales and General & Administrative Expenses by $108,000 and $16,000, respectively, in the Consolidated Statement of Operations for the year ended April 30, 2005 to properly reflect rent on a straight-line basis. Other Accrued Liabilities and Other Long-Term Liabilities in our Consolidated Balance Sheet as of April 30, 2005 increased by $31,000 and $93,000 to reflect the corresponding deferred rent liability.

Lastly, we have reviewed the classification of our technical services expenses for North America Waterjet for the year ended April 30, 2005 and have concluded that $625,000 of expenses were improperly included as Research & Engineering Expenses. We have reclassified such expenses into Marketing Expenses consistent with prior period presentation in the Consolidated Statement of Operations.

Certain of the errors described above impacted our results for the quarter ended April 30, 2005. As a result, we have restated the unaudited selected quarterly financial data included in Note 21 to the Consolidated Financial Statements as appropriate.

Our September 20, 2005 Form 8-K disclosed that our Independent Registered Public Accounting Firm (IRPAF) had advised us that it was completing required audit procedures on the 2005 financial statements in conjunction with a Public Company Accounting Oversight Board s inspection of our IRPAF. Those procedures have been completed. The restatements referred to above arose in part as a result of findings during the completion of these procedures.

In addition, as described in Note 21 to the Consolidated Financial Statements, the North America Press and International Press reportable segments, as well as the non ultrahigh-pressure portion of the Food reportable segment were sold to the Gores Technology Group, LLC on October 31, 2005.

As reported in our original Item 9A, we previously reported two material weaknesses in our internal controls. We have determined that these weaknesses contributed to the restatement referred to above and we have not yet completed their remediation. We have updated our disclosures in our Item 9A report included in this Form 10-K/A to address this restatement.

Items in the Form 10-K/A affected by the restatement and amended by this filing are:

Part I:

Item 1	Business

Part II:

Item 6	Selected Financial Data
Item 7	Management s Discussion and Analysis of Financial Condition and Results of Operations
	Pages 15-30
Item 8	Financial Statements and Supplementary Data
	The consolidated financial statements appearing on pages 48-51 and Notes 1, 2, 3, 7, 9, 10, 11, 17, 18, 21 and 22 thereto
Item 9A	Controls and Procedures

Part IV:

Item 15	Exhibits, Financial Statement Schedules, and Reports on Form 8-K
	Exhibit 23.1
	Exhibit 31.1
	Exhibit 31.2
	Exhibit 32.1
	Exhibit 32.2

Except as described above, all other information is unchanged and reflects the disclosures made at the time of the original filing on July 29, 2005 and this Form 10-K/A does not otherwise reflect events occurring after the original filing or otherwise modify or update these disclosures. Accordingly, this Form 10-K/A should be read in conjunction with our filings with the Securities and Exchange Commission subsequent to the filing of the original Form 10-K.

Safe Harbor Statement

Statements made in this Form 10-K 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; governmental regulations, and consumer demand for higher quality, wholesome, and more natural convenience foods offer a long-term growth opportunity for the Fresher Under Pressure product line; 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 (Jobshop) 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 action to remedy our material weakness is to hire additional accounting staff with appropriate levels of experience in order to improve the reconciliation process and increase the oversight ability thereof; 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; our belief that our new control policies and procedures, when completed, will eliminate material weaknesses in our internal accounting controls; 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 April 30, 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.

PART I

Item 1. Business

We design, develop, manufacture, market, install and service ultrahigh-pressure, or UHP, water pumps and UHP water management systems. Our core competency is our 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 both standard and specialized waterjet cutting and cleaning systems and the Fresher Under Pressure® food processing products. In addition to UHP water pumps and related systems, we provide non UHP automation and articulation systems, primarily to the automotive industry, and isostatic and flexform press systems which produce and strengthen advanced materials for the aerospace, automotive and medical industries.

Our mission is to provide the highest value product in the UHP water pump market. This requires our products to be of the highest reliability and provide our customers with a system which maximizes productivity and profitability. We are a developer of productivity technologies, and we continually focus on customer support. Our brand promise is to provide reliability, superior value, service and technology through products based on UHP water pump technology. We will strive to continue to improve our customers profitability through investment in the development of innovative products and services that expand our customers markets and increase their productivity.

Our UHP technology has three broad applications: cutting, cleaning and Fresher Under Pressure or 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 Fresher Under Pressure, we utilize contained pressure. Food is put into a pressure vessel and UHP water is pumped into the vessel. This pressure is used to kill both spoilage bacteria and pathogens in the food.

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 for many industries, including aerospace, automotive, disposable products, food, glass, job shop, sign, metal cutting, marble, tile and other stone cutting, and paper slitting and trimming. 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 products it can cut and eliminates the need for secondary processing operations. We also manufacture a product line used in waterjet 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. In food pressurization applications pressures of between 87,000 to 100,000 psi, are used for our Fresher Under Pressure food processing technology to provide food safety, quality and productivity enhancements for food producers.

We analyze our business based on the utilization of UHP, either as released pressure or contained pressure, as follows: Flow Waterjet Systems, or Waterjet, for released pressure applications and Avure Technologies Incorporated, or Avure, for contained pressure applications. In addition to the cutting and cleaning operations, the Waterjet operation also includes the automotive and articulation applications while Avure includes the Fresher Under Pressure technology, as well as the General Press, operations.

Products and Services

We provide UHP systems and related products and services to our target markets: aerospace, automotive, food, job shops, pulp and paper and surface preparation. As previously described, we divide our business into its two UHP operations: Waterjet and Avure, representing the applications of released pressure and contained pressure, respectively.

Waterjet:

The Waterjet operation is comprised of the following segments: North America Waterjet, Asia Waterjet, Other International Waterjet and Other. The Other segment includes the sales of systems for automotive and articulation for non UHP applications.

Systems -

We offer a variety of UHP products, including both waterjet cutting and cleaning systems, as well as accessories and related robotic articulation equipment. UHP water pumps, as well as the related water management systems, are the core components of our technology. We utilize two different technologies to create the water pressure: intensifier and direct drive. In cutting applications a UHP pump pressurizes water up to 87,000 psi and forces it through a small orifice, generating a high-velocity stream of water traveling in excess of 3,000 feet per second. In order to cut metallic and other hard materials, an abrasive substance, usually garnet, is added to the waterjet stream creating an abrasivejet. Abrasivejets cut without heat, cause no metallurgical changes, and leave a high-quality edge that usually requires no secondary operation. In addition to our intensifier pumps which pressurize water up to 87,000 psi, we offer our unique and patented direct drive pressure-compensated pumps which pressurize water up to 55,000 psi utilizing triplex piston technology.

A UHP system consists of a UHP intensifier or direct drive pump and one or more waterjet cutting or cleaning heads with the necessary robotics, motion control and automation systems. We have sold UHP waterjet cutting and cleaning systems worldwide. Our cutting systems may also combine waterjet with other applications such as conventional machining, pick and place handling, inspection, assembly, and other automated processes. Our waterjet systems are also used in industrial cleaning applications such as paint removal, surface preparation, factory and industrial cleaning, ship hull preparation, and heat exchanger cleaning.

Our sales are affected by worldwide economic changes. However, we believe that the productivity enhancing nature of our UHP technology and the diversity of our markets enable us to absorb cyclical downturns with less impact than conventional machine tool manufacturers, and we are confident that we can continue to gain market share in the machine cutting tool market. Waterjet systems represented 71% of waterjet revenues in fiscal 2005.

Consumable Parts and Services -

Consumables represent parts used by the pump and cutting head during operation, such as seals, orifices and garnet. Every pump we sell will require consumables to operate, and the sale of consumables is a significant part of our revenues. Many of these consumable or spare parts are proprietary in nature and are patent protected. We also sell various tools and accessories which incorporate UHP technology, as well as aftermarket consumable parts and service for our products. Consumable parts and services represented 29% of waterjet revenues in fiscal 2005.

Avure:

Avure has two primary product lines, food processing and General Press and is comprised of the Food, North America Press and International Press segments.

Fresher Under Pressure -

Our proprietary UHP water pump and pressure vessel technology is utilized by our customers for food processing and is marketed as Fresher Under Pressure. Our UHP technology exposes foods to pressures from 50,000 to over 100,000 psi for a short time, reducing food-borne pathogens such as *Camplyobacter, E. coli, Listeria monocytogenes, Salmonella and Vibro vulnificus*. While conventional thermal and chemical preservation methods can ensure safety and longevity, they have a negative impact on fresh foods nutrition and sensory qualities such as flavor, color and texture. Avure s technology, which uses UHP to destroy bacteria and other microorganisms found in food without using high temperatures or chemical additives, has minimal effects on the nutrition, taste, texture, or color of food and extends the shelf life of the food. UHP technology addresses: the increasing demand in the U.S. for a post packaging, terminal pasteurization-like step (e.g. packaged ready-to-eat meats); the demand for high quality, minimally processed foods (e.g. fresh guacamole and salsas); and the demand to utilize the productivity enhancing capabilities of UHP in food processing (e.g. shellfish). Our UHP technology can provide benefits to an array of food products including fruits, vegetables, seafood, processed meats and ready-to-eat meals. Governmental regulations, which took effect in October 2003, regarding food processor disclosure of safety methods utilized in the manufacturing process, as well as consumer demand for higher quality, wholesome and more natural convenience foods, offer a long-term growth opportunity for the Fresher Under Pressure product line. Our technology is also used in food applications where UHP provides some other benefit, such as shucking shellfish.

General Press -

Our isostatic press systems use large pressure vessels, similar to those used for food processing, ranging from 25 to 35 feet in height and weighing between 50 and 200 tons to apply a combination of heat and pressure to form and strengthen advanced materials for the aerospace, automotive and medical industries. These systems, however, do not use UHP water; they typically use pressurized oil or an inert gas. Examples of customary applications include jet engine components, automotive parts, high performance ceramics and hip joints. Our flexform presses are used to form sheet metal for flexible and cost-effective prototyping and low volume production of structural items, panels and engine components. Our General Presses offer several advantages over other methods for forming metal and composite parts. Isostatic presses produce lighter weight, higher strength parts that have a better metal consistency, density and uniformity as compared to forged or cast parts. Flexform presses allow for cost-effective production, lower tooling costs, flexibility and shorter lead times.

Marketing and Sales

We market and sell our products worldwide through our headquarters in Kent, Washington (a suburb of Seattle) and through subsidiaries, divisions and joint ventures located in Columbus, Ohio; Wixom, Michigan; Jeffersonville, Indiana; Birmingham, England; Bretten, Germany; Burlington and Windsor, Canada; Hsinchu, Taiwan; Shanghai and Beijing, China; Incheon, Korea; Sao Paulo, Brazil; Buenos Aires, Argentina; Lyon, France; Milan, Italy; Madrid, Spain; Yokohama, Nagoya and Tokyo, Japan and Västerås, Sweden. We sell directly to customers in North and South America, Europe, and Asia, and have distributors or agents covering most other countries. No single customer accounted for 10% or more of our revenues during any of the three years ended April 30, 2005.

In late fiscal 2004, we conducted an internal study of our installed waterjet cutting systems and the potential sale opportunities of the market. Based on the significant market potential relative to the installed base, we concluded that waterjet technology is in the early adoption phase of its product life cycle. To increase waterjet awareness, we have focused our marketing efforts on specific target industries, applications and markets. Marketing efforts include increased presence at regional tradeshows, increased advertising in print media and other product placement and demonstration/educational events as well as an increase in domestic sales representation, including distributors. To enhance the effectiveness of sales efforts, our marketing staff and sales force gather detailed information on the applications and requirements in targeted market segments. We also utilize telemarketing and the internet to generate sales leads in addition to lead generation through tradeshows and print media,. This information is used to develop standardized and customized solutions using UHP and robotics technologies. We provide turnkey systems, including system design, specification, hardware and software integration, equipment testing and simulation, installation, start-up services, technical training and service.

We offer our spare parts and consumables through the internet at our Flowparts.com website and strive to ensure that we are able to ship a large number of parts within 24 hours to our customers.

Patents

We hold a large number of UHP technology and related systems patents. While we believe the patents we hold protect our intellectual property, we do not consider our business dependent on patent protection. In addition, we have over the years developed non-patented proprietary trade secrets and know-how in UHP applications and in the manufacture of these systems, which we believe allows us to retain a technical lead over our competitors.

We believe the patents we hold and have in process, along with the proprietary application and manufacturing know-how, act as a barrier to entry for other competitors who may seek to provide UHP technology.

See Legal Proceedings below for a discussion of certain pending patent litigation.

Backlog

At April 30, 2005, our backlog was $64.4 million compared to the April 30, 2004 backlog of $47.1 million. Generally our products, exclusive of the aerospace and Avure product lines, which account for $42.4 million of the backlog, can be shipped within a four to 16 week period. The aerospace and Avure systems typically have lead times of six to 18 months. Our North American standard waterjet backlog increased $6.2 million over the prior year to $13.9 million. The changes in our backlog are not necessarily indicative of comparable variations in sales or earnings. The April 30, 2005 backlog represented 29% of our trailing twelve months sales. The unit sales price for most of our products and services is relatively high (typically ranging from tens of thousands to millions of dollars) and individual orders can involve the delivery of several hundred thousand dollars of products or services at one time. Furthermore, some items in backlog can be shipped more quickly than others, some have higher profit margins than others, and some may be cancelled by customers.

Competition Waterjet

Waterjet technology has been developed to provide manufacturers with an alternative to traditional cutting or cleaning methods, which utilize lasers, saws, knives, shears, plasma, routers, drills and abrasive blasting techniques. Many of the companies that provide these competing methods are larger and better funded than Flow. Within the manufacturing setting, several firms, including Flow, have developed tools for cleaning and cutting based on waterjet technology.

Waterjet cutting systems offer manufacturers many advantages over traditional cutting machines including an ability to cut in any direction, faster throughput times, minimal impact on the material being cut and a continuously expanding range of applications. These factors, in addition to the elimination of secondary processing in most circumstances, enhance the manufacturing productivity of our systems.

We believe increased market acceptance of waterjet cutting systems by the aerospace, automotive, and machining (job shop) industries will encourage other manufacturers, including those in other industries, to adopt waterjet solutions. We estimate the worldwide waterjet cutting systems market size at $350 million and the waterjet cleaning systems market at $335 million. The recent slowdown in many of the major world economies created a difficult operating environment for waterjet systems manufacturers, as new investments in infrastructure projects were curtailed and customers reduced capital expenditures. Low demand, coupled with price-based competition among waterjet manufacturers, caused many firms in the industry to restructure operations, lay off employees, and close plants.

We believe we are the leader in the global waterjet cutting systems market with a market share estimated at more than 40%. In North America, together with another supplier, we have a combined market share of approximately 75%. The remaining 25% of the market is divided among 10 firms. The European market is also highly concentrated, with the top three companies controlling 50% of the market. We compete in the high-end and mid-tier segments of the waterjet cutting market.

In addition, we sell spare parts and consumables. While we believe our on-time delivery and internet parts ordering web site combine for the best all around value for our customers, we do face competition from numerous other companies who sell replacement parts for our machines. While they generally offer a lower price, we believe the quality of our parts, coupled with our service, makes us the value leader in spares and consumables.

Waterjet cleaning offers many advantages over other cleaning methods, such as the ability to remove difficult coatings or deposits from a surface without damaging such surface or adding potentially hazardous chemicals to the cleaning process. A UHP waterjet system is an environmentally-friendly answer to many difficult cleaning applications and can often be justified solely on the basis of hazardous material containment or reduction of secondary operations in the cleaning process.

We believe we are a major competitor in the ultrahigh-pressure (equal to or greater than 40,000 psi) segment of the waterjet cleaning systems market with an estimated global market share of 27%. We have a significant share of the market in North and South America and Asia. We also have an opportunity to build share and grow our business in Europe where waterjet cleaning had not previously been a market priority for us.

The automobile and aerospace industry and other industries that rely heavily on assembly-based manufacturing processes are primary consumers of robotics systems equipment and services. Using waterjet and other suitable technologies such as laser, robotics systems manufacturers provide custom engineered robotic systems designed for material separation and removal. The market for robotic systems is concentrated among a few companies in the U.S. and Europe.

Competition Avure

Pasteurization is the primary method used to help ensure that food is safe to eat. Avure s Fresher Under Pressure represents a break-through technology which destroys harmful pathogens and increases shelf life while ensuring a safe, healthy product. There are other companies developing a similar UHP processing technology. To date, these companies have had little commercial success, and we believe our patents and know-how make us the world leader in this technology. There are also other technologies being developed for food safety, including irradiation and ultra-violet light. Of the alternative technologies, irradiation is the most developed. The primary target market for irradiation is the raw meat industry, while Avure is targeting the ready-to-eat meat market, i.e., sliced deli meats, etc., as well as the premium food market, such as fresh fruits and vegetables.

Our General Presses represent a niche segment of the industrial press market that use our technology for specialized applications, primarily to produce high strength and precision or low volume parts. We compete in this market against forging and casting methods of production which currently represent a significantly larger market than our technology. However, our press technology is necessary to produce high quality parts with high material density, no internal voids or cracks and beneficial isotropic properties.

Overall, we believe that Flow s consolidated competitive position is enhanced by:

Technically advanced, proprietary products that provide excellent reliability, low operating costs, and user-friendly features;

A strong application-oriented, problem-solving marketing and sales approach;

An active research and development program that allows us to maintain technological leadership;

The ability to provide complete turnkey systems;

A physical presence in key markets, such as in the U.S., Canada, Japan, southeast Asia and Europe;

Strong OEM customer ties, and

Efficient production facilities.

Research and Engineering

We have devoted between 4% and 9% of revenues to research and engineering during each of the three years ended April 30, 2005. Research and engineering expenses were $9.1 million, $10.7 million, and $13.5 million, in fiscal 2005, 2004 and 2003, respectively. While we will continue a robust research and engineering program to maintain our technological leadership position through development of new products and applications, as well as enhancement of our current product lines, a more focused effort has allowed us to decrease our research and engineering expenses as a percent of revenue to 4% for the fiscal year ended April 30, 2005.

Employees

As of April 30, 2005, we employed 776 full time and 30 part time personnel. We are not a party to any material collective bargaining agreements.

Foreign and Domestic Operations

See Note 18 to Consolidated Financial Statements for information regarding foreign and domestic operations.

Available Information

Our Internet website address is *www.flowcorp.com*. We make available at this address, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Information available on our website is not incorporated by reference in and is not deemed a part of this Form 10-K.

Item 2. Properties

Our headquarters and primary manufacturing facilities are located in a leased facility in Kent, Washington. We also manufacture product in Wixom, Michigan; Jeffersonville, Indiana; Columbus, Ohio; Burlington, Canada; Hsinchu, Taiwan and Västerås, Sweden. We sell products through all of these locations, in addition to sales offices located in Bretten, Germany; Birmingham, England; Milan, Italy; Madrid, Spain; Lyon, France; Yokohama, Nagoya and Tokyo, Japan; Shanghai and QuangChou and Beijing, China; Incheon, Korea; Sao Paulo, Brazil; and Buenos Aires; Argentina.

All of our facilities are leased with the exception of our manufacturing facilities in Jeffersonville, Indiana and Hsinchu, Taiwan.

We believe that our facilities are suitable for our current operations and any increase in production in the near term will not require additional space.

Item 3. Legal Proceedings

At any time, we may be involved in certain legal proceedings. As of April 30, 2005, we have accrued our estimate of the probable costs for the resolution of these claims. This estimate has been developed in consultation with outside legal counsel and is based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies. We do not believe these proceedings will have a material adverse effect on our consolidated financial position. However, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by changes in our assumptions, or the effectiveness of our strategies, related to these proceedings. See Notes 1 and 15 of Notes to Consolidated Financial Statements for a description of our product liability claims and litigation.

Omax Corporation (Omax) filed suit against us on November 18, 2004. The case, *Omax Corporation v. Flow International Corporation*, United States District Court, Western Division at Seattle, Case No. CV04-2334, was filed in federal court in Seattle, Washington. The suit alleges that our products infringe Omax s Patent Nos. 5,508,596 entitled Motion Control with Precomputation and 5,892,345 entitled Motion Control for Quality in Jet Cutting. The suit also seeks to have our Patent No. 6,766,216 entitled Method and System for Automated Software Control of Waterjet Orientation Parameters declared invalid, unenforceable and not infringed. Omax manufactures waterjet equipment that competes with our equipment. Both the Omax and our patents are directed at the software that controls operation of the waterjet equipment. 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.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

The principal market for our common stock is the over-the-counter market. 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 last two fiscal years is set forth in the following table.

	Fiscal Year 2005		Fiscal Year 2004	
	High	Low	High	Low
First Quarter	$ 3.66	$ 2.15	$ 1.94	$ 1.13
Second Quarter	3.55	2.70	3.11	1.36
Third Quarter	3.18	2.71	4.11	2.40
Fourth Quarter	6.60	2.85	3.74	2.20

Holders of the Company s Common Stock

There were 989 shareholders of record as of July 21, 2005.

Dividends

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. As of April 30, 2005, our financing agreements contained restrictions on our ability to pay dividends to our shareholders. These restrictions were eliminated by the credit agreement executed on July 8, 2005. See Note 10 to Consolidated Financial Statements for a description of the previous restrictions.

Recent Sales of Unregistered Securities

We have entered into a Consulting Agreement effective March 1, 2003 pursuant to which we have engaged Mr. Chrismon Nofsinger to provide executive coaching and organizational services. In partial consideration for such services, we issued 7,006 unregistered shares of our common stock to Mr. Nofsinger in April 2005. The issuance of shares to Mr. Nofsinger was exempt from registration under Section 4(2) of the Securities Act of 1933 because it was a transaction not involving a public offering.

Equity Compensation Plan Information

We have a shareholder-approved equity plan that enables the Compensation Committee of the Board of Directors to make awards of equity-based compensation, which we believe are an important tool to attract and retain key employees.

The table below provides information, as of the end of the most recently completed fiscal year, concerning securities authorized for issuance under current and former equity compensation plans.

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	2,034,546	$ 9.20	1,368,218

1987 Stock Option Plan for Nonemployee Directors (the 1987 Nonemployee Directors Plan)

The 1987 Nonemployee Director Plan was approved in 1987 and provided for the automatic grant of nonqualified options for 10,000 shares our stock to a nonemployee director when initially elected or appointed, and the grant of 10,000 shares annually thereafter during the term of directorship. There are no further options being granted under this plan.

1991 Stock Option Plan (the 1991 SO Plan)

The 1991 SO Plan was adopted in October 1991 and amended in August 1993. Incentive and nonqualified stock options up to 700,000 shares could be issued under this plan. There are no further options being granted under this plan.

1995 Long-Term Incentive Plan (the 1995 LTI Plan)

The 1995 LTI Plan was adopted in August 1995 and amended in fiscal 2000 to increase the number of shares available for grant to 3,350,000. Under the 1995 LTI Plan, awards can be made to any board director, executive officer or employee of the Company. Awards can be made in the form of stock options, SARs or stock awards. The Compensation Committee of the Board of Directors administers the 1995 LTI Plan.

Issuer Purchases of Equity Securities

None.

Item 6. Selected Financial Data

(In thousands, except per share amounts)	Year Ended April 30,				
	2005 (restated)(4)	2004	2003(3)	2002(2)	2001 (unaudited)(1)
Income Statement Data:					
Sales	$ 219,365	$ 177,609	$ 144,115	$ 176,890	$ 204,854
(Loss) Income Before Cumulative Effect of Change in Accounting Principle and Discontinued Operations	(20,616)	(12,048)	(69,464)	(8,244)	4,038
Net (Loss) Income	(20,616)	(11,522)	(69,987)	(7,853)	1,630
Basic (Loss) Earnings Per Share Before Cumulative Effect of Change in Accounting Principle and Discontinued Operations	(1.16)	(0.78)	(4.53)	(0.54)	0.27
Basic (Loss) Earnings Per Share	(1.16)	(0.75)	(4.56)	(0.52)	0.11
Diluted (Loss) Earnings Per Share Before Cumulative Effect of Change in Accounting Principle and Discontinued Operations	(1.16)	(0.78)	(4.53)	(0.54)	0.27
Diluted (Loss) Earnings Per Share	(1.16)	(0.75)	(4.56)	(0.52)	0.11

(In thousands)	As of April 30,				
	2005 (restated)(4)	2004 (restated)(4)	2003	2002	2001 (unaudited)
Balance Sheet Data:					
Working Capital	$ 6,233	$ (9,060)	$ (6,709)	$ 84,532	$ 91,750
Total Assets	118,467	129,272	147,701	208,674	209,309
Short-Term Debt	13,443	48,727	61,056	5,237	8,464
Long-Term Obligations, net	5,704	38,081	29,023	83,453	85,652
Shareholders Equity (Deficit)	28,710	(9,552)	4,872	71,054	68,755

(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 Consolidated Financial Statements, 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. 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.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

As described in the explanatory note above and in Note 2 to the Consolidated Financial Statements, we have restated our consolidated financial statements as of April 30, 2005 and 2004 and for the year ended April 30, 2005. Amounts in this section have been updated to reflect these restatements.

Risk Factors and Uncertainties

We have incurred losses in recent years and we may be unable to achieve profitability.

Our net losses for each of the fiscal years ended April 30, 2003, 2004 and 2005 were $70.0 million, $11.5 million and $20.6 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 which will contain fiscal 2005 results, does not become effective by September 17, 2005 or 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 to have the Form S-1, which registers the shares sold in the PIPE Transaction, become effective no later that September 17, 2005. In addition, the registration statement cannot become ineffective for more than 40 days (not necessarily consecutive). If either of these events occur, 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. We have subsequently amended the Registration Rights Agreement to grant an extension until December 31, 2005 to the effective date of the registration of the shares.

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 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, in connection with the restatement of our fiscal 2005 and 2004 financial statements, our 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 independent registered public accounting firm. Remediation of 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 accounted for using the percentage-of-completion method and (v) leases with rent escalation clauses, affecting goodwill, capital in excess of par, minority interest, deferred income taxes, prepaid expenses, cost of sales, interest expense and other accrued liabilities**.** 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, the reconciliation of inter-company accounts, the valuation of anti-dilution warrants, the accrual of costs on contracts accounted for using the percentage-of-completion method and the accounting for performance based equity awards, affecting goodwill, capital in excess of par, minority interest, general and administrative expense, interest expense, prepaid expenses, cost of sales, accounts receivables and customer deposits.

An in-depth review of the remediation process to date, as well as the steps remaining, can be found in Item 9A. of this Form 10-K/A.

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 April 30, 2005, we had options outstanding to purchase 2,034,546 shares of our common stock, at exercise prices ranging from $2.00 to $12.25 per share. In addition, we currently have outstanding 3,219,000 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.

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. Aggregate net foreign exchange gains included in the determination of net loss amounted to $531,000 for the year ended April 30, 2005. Based on our results for the year ended April 30, 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 by $1.2 million and other income (expense) by $3.7 million. 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.

Current Events

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 $3.3 million and $239,000 for the years ended April 30, 2004 and 2005, respectively, which are shown in the table below (in thousands):

	Year Ended April 30, 2005	Year Ended April 30, 2004
Severance benefits	$ 120	$ 652
Facility exit costs	119	1,058
Inventory write-down		1,546
	$ 239	$ 3,256

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These charges included employee severance related costs for approximately 50 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, vacating the manufacturing warehouse portion of our Flow Europe facility and reducing the space utilized in our Swedish manufacturing 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. The fiscal 2005 restructuring related to employee reductions in the Food segment as well as closure of our Memphis sales office. See restructuring accrual information in Note 17 to Consolidated Financial Statements.

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.

Avure. The General Press operations, which consist of the North America Press and the International Press segments, as well as the non ultrahigh-pressure portion of the food business, which is included in the Food segment, are not considered core to our business and it is our intent to divest ourselves of these operations. However, there can be no assurance we will find a suitable buyer at an acceptable price. If we do divest these businesses, it is anticipated that we will enter into a manufacturing agreement to provide the purchaser with the ultrahigh-pressure pump components and related spare parts for the Fresher Under Pressure business. These segments do not meet the accounting criteria to be considered assets held for sale as of April 30, 2005 and accordingly the results of operations are shown as continuing operations and the related assets have not been reported as held for sale in our financial statements.

On October 31, 2005, we completed the sale of the North America Press and International Press segments, as well as the non ultrahigh-pressure portion of the Food segment with the Gores Technology Group, LLC (Gores) for estimated net proceeds of $14.0 million, comprised of cash and notes. At closing, we also entered into a Supply Agreement with Gores whereby we have agreed to supply certain high pressure pump products on an exclusive basis to Gores. We expect to record a gain on the sale transaction.

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 is expected to be completed by the second quarter of fiscal 2006 with restructuring expenses of approximately $1,000,000. 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.

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

Operational and Financial

As described in Note 2 to the Consolidated Financial Statements, we have restated our consolidated financial statements for the year ended April 30, 2005 to reflect additional charges on 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. In addition, we restated certain balances for incorrect classification on our Consolidated Balance Sheet and Consolidate Statement of Operations as of April 30, 2005 and 2004 and for the year ended April 30, 2005.

Operational Data as a Percentage of Sales

	Year Ended April 30,		
	2005 (restated)	**2004**	**2003**
Sales	100%	100%	100%
Cost of Sales	63%	63%	75%
Gross Margin	37%	37%	25%
Expenses:			
Marketing	15%	16%	26%
Research & Engineering	4%	6%	9%
General & Administrative	12%	13%	16%
Restructuring Charges	%	2%	%
Financial Consulting Charges	%	1%	%
Impairment Charges	5%	%	8%
	36%	38%	59%
Operating Income (Loss)	1%	(1)%	(34)%
Interest Expense	(9)%	(7)%	(8)%
Interest Income	%	%	1%
Other Income (Expense), net	%	4%	2%
Loss Before Provision for Income Taxes	(8)%	(4)%	(39)%
Provision for Income Taxes	(1)%	(3)%	(9)%
Loss Before Discontinued Operations	(9)%	(7)%	(48)%
Discontinued Operations, Net of Tax	%	1%	(1)%
Net Loss	(9)%	(6)%	(49)%

Operational Overview:

Dollars in thousands	Year ended April 30, 2005			Year ended April 30, 2004			Year ended April 30, 2003		
	Waterjet (restated)	Avure (restated)	Consolidated (restated)	Waterjet	Avure	Consolidated	Waterjet	Avure	Consolidated
Sales	$ 172,966	$ 46,399	$ 219,365	$ 132,861	$ 44,748	$ 177,609	$ 121,833	$ 22,282	$ 144,115
Cost of Sales	107,693	31,212	138,905	83,604	28,778	112,382	88,620	19,454	108,074
Gross Margin	65,273	15,187	80,460	49,257	15,970	65,227	33,213	2,828	36,041
Operating Expenses	56,931	21,707	78,638	50,934	16,176	67,110	60,335	24,405	84,740
Operating (Loss) Income	$ 8,342	$ (6,520)	$ 1,822	$ (1,677)	$ (206)	$ (1,883)	$ (27,122)	$ (21,577)	$ (48,699)

Sales Summary:

Dollars in thousands	Year ended April 30,			Year ended April 30,		
	2005	2004	% Change	2004	2003	% Change
Operational breakdown:						
Waterjet:						
Systems	$ 122,129	$ 85,015	44%	$ 85,015	$ 76,346	11%
Consumable parts and services	50,837	47,846	6%	47,846	45,487	5%
Total	172,966	132,861	30%	132,861	121,833	9%
Avure:						
Fresher Under Pressure	15,072	15,296	(1)%	15,296	4,851	215%
General Press	31,327	29,452	6%	29,452	17,431	69%
Total	46,399	44,748	4%	44,748	22,282	101%
	$ 219,365	$ 177,609	24%	$ 177,609	$ 144,115	23%
Geographic breakdown:						
United States	$ 128,975	$ 92,799	39%	$ 92,799	$ 79,450	17%
Rest of Americas	19,468	17,751	10%	17,751	15,673	13%
Europe	45,417	46,557	(2)%	46,557	31,326	49%
Asia	25,505	20,502	24%	20,502	17,666	16%
	$ 219,365	$ 177,609	24%	$ 177,609	$ 144,115	23%

Results of Operations

We analyze our business based on the utilization of ultrahigh-pressure, either as released pressure or contained pressure. The released pressure portion of our UHP business which we call Waterjet, is comprised of the following segments: North America Waterjet, Asia Waterjet, Other International Waterjet and Other. The contained pressure operation which is what we call Avure, is made up of the Food, North America Press and International Press segments.

Fiscal 2005 Compared to Fiscal 2004

(Tabular amounts in thousands)

Sales.

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

	2005	2004	Difference	%
Sales				
Waterjet:				
North America	$ 82,381	$ 59,044	$ 23,337	40%
Asia	25,505	20,502	5,003	24%
Other International	34,530	28,160	6,370	23%
Other	30,550	25,155	5,395	21%
Waterjet Total	172,966	132,861	40,105	30%
Avure:				
Food	15,072	15,296	(224)	(1)%
North America Press	16,617	7,445	9,172	123%
International Press	14,710	22,007	(7,297)	(33)%
Avure Total	46,399	44,748	1,651	4%
Consolidated Total	$ 219,365	$ 177,609	$ 41,756	24%

Waterjet. The Waterjet operation 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 cells, as well as non-waterjet systems, which are sold primarily into the North American automotive industry. For the fiscal year ended April 30, 2005, we reported a $40.1 million, or 30%, increase in revenue to $173.0 million versus the prior year comparative period. All four segments reported an increase in revenue; however $23.3 million of the $40.1 million increase was recognized in our North America Waterjet segment. At the end of fiscal 2004, 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 two machine tool distributors, acting as agents, 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. There were no significant price increases year over year, however a price increase of 4% on selected systems was implemented on February 1, 2005. Aerospace sales, which are also included in the North America segment, were $5.5 million, up $1.4 million (33%) from the prior year. The growth in our Other segment results from improved non-waterjet automated robotic system demand in the domestic automotive industry. We have not increased our marketing and sales staff in this segment year over year. Our waterjets are experiencing growing acceptance in the marketplace because of their flexibility and superior machine performance.

Outside the U.S., Waterjet revenue growth was positively influenced by growth in Asia Waterjet sales which were $25.5 million, up $5.0 million or 24% for the year ended April 30, 2005. This increase was driven largely by sales in China where we experienced strong demand for shapecutting and cutting cell systems from a strengthening automotive industry.

Our Other International Waterjet segment represents primarily sales in Europe and South America. Revenues from our European operations have improved by $6.2 million (25%) for the year ended April 30, 2005 to $30.7 million. Market specific pricing including some price reductions, standardization of system offerings, improved delivery and a recovering European marketplace have helped to increase our European sales. Sales in South America of $3.8 million for the year ended April 30, 2005 were comparable to the respective prior year period. The economic conditions in the South America region make it difficult to increase sales. We are typically able to sell our products at higher prices outside the U.S. due to the costs of servicing these markets. As much of our product is manufactured in the U.S., the weakness of the U.S. dollar also has helped strengthen our foreign revenues.

We also analyze our Waterjet revenues by looking at system sales and consumable sales. Systems revenues for the year ended April 30, 2005 were $122.1 million, an increase of $37.1 million or 44%, compared to the prior year same period due to both strong domestic and global sales from recovering economic conditions. The majority, $21.4 million, of the increase was generated domestically. Consumables revenues recorded an increase of $3.0 million or 6% to $50.8 million for the year ended April 30, 2005. The majority of the increase in spares sales is domestic and is the result of the increasing number of operating systems, increasing sales of our proprietary productivity enhancing kits, improved parts availability, as well as increased customer acceptance of Flowparts.com, our easy-to-use internet order entry system. We believe that spare parts sales should continue to increase as more systems are put into operation.

Avure. The Avure operation includes the Fresher Under Pressure technology (Food segment) as well as General Press operations (North America Press and International Press segments). These segments would be eliminated were we to sell Avure as described earlier. Revenue in the Avure operations is recorded on the percentage of completion basis. Fresher Under Pressure meets the increasing demand in the U.S. for a post packaging, terminal pasteurization-like step (e.g. packaged ready-to-eat meats); the demand for high quality, minimally processed foods (e.g. fresh guacamole and salsas); and the demand to utilize the productivity enhancing capabilities of UHP in food processing (e.g. shellfish shucking), while the General Press business manufactures systems that produce and strengthen advanced materials for the aerospace, automotive and medical industries. For the year ended April 30, 2005, sales for the Food segment decreased $.2 million or 1%.

General Press revenues vary from year to year due to the nature of its sales and production cycle. The sales and production cycle on a General Press can range from one to four years. As outlined in the table above, North American Press sales grew significantly in the year ended April 30, 2005 to $16.6 million as compared to the prior year period. This growth is the result of revenue recognized under two large contracts obtained in fiscal 2004 and manufactured in fiscal 2005.

International Press sales for the year ended April 30, 2005 decreased $7.3 million as compared to the prior year. The International Press sales are almost exclusively large contract sales in excess of $2 million per contract and accordingly revenue will vary depending on the number and stage of manufacture of these contracts.

Cost of Sales and Gross Margins. Our gross margin by segment for the periods noted below is summarized as follows:

	2005 (restated)	2004	Difference	%
Gross Margin				
Waterjet:				
North America	$ 38,018	$ 25,170	$ 12,848	51%
Asia	11,682	9,762	1,920	20%
Other International	12,034	9,890	2,144	22%
Other	3,539	4,435	(896)	(20)%
Waterjet Total	65,273	49,257	16,016	33%
Avure:				
Food	2,185	1,788	397	22%
North America Press	2,124	1,109	1,015	92%
International Press	10,878	13,073	(2,195)	(17)%
Avure Total	15,187	15,970	(783)	(5)%
Consolidated Total	$ 80,460	$ 65,227	$ 15,233	23%

Our gross margin as a percent of sales by segment for the periods noted below is summarized as follows:

	2005 (restated)	2004
Gross Margin Percentage		
Waterjet:		
North America	46%	43%
Asia	46%	48%
Other International	35%	35%
Other	12%	18%
Waterjet Total	38%	37%
Avure:		
Food	14%	12%
North America Press	13%	15%
International Press	74%	59%
Avure Total	33%	36%
Consolidated Total	37%	37%

Gross margin for the year ended April 30, 2005 amounted to $80.5 million or 37% of sales as compared to gross margin of $65.2 million or 37% of sales in the prior year period. Generally, gross margin rates will vary period over period depending on the mix of sales, which includes special system, standard system and consumables sales. Gross margin rates on our systems sales are typically less than 45% as opposed to consumables sales which are in excess of 50%. On average, standard systems which are included in the North America, Asia and Other International Waterjet segments carry higher margins than the custom engineered systems, which are represented by the Other, Food, North America Press and International Press segments. In addition, gross margin as a percent of sales will vary amongst segments due to inter-company sales and the related inter-company transfer pricing.

For the year ended April 30, 2005, Waterjet margins represented $65.3 million of the overall consolidated margin or 38% of Waterjet sales. The waterjet operations gross margin percentage increased one percentage point from 37% of sales in fiscal 2004. The increase in North American waterjet margins were offset in part by the decrease of six percentage points in the Other segment in fiscal 2005. This weakness stems from a number of very low margin contracts built in fiscal 2005, including several loss contracts which totaled $1.2 million in losses. All loss contracts were non-waterjet related systems. We have consolidated the management of this division within the Other segment, and current contracts appear to be in line with historical gross margins in the automotive industry, between 15% and 25%.

Avure margins amounted to $15.2 million of the overall consolidated margin or 33% of Avure sales. Food segment margin percentages improved in the current year as the prior year included several strategic sales at almost a zero margin. These sales represented the initial sale of equipment into the Ready-to Eat meat industry made in an effort to try and accelerate market adoption and the sale of a development project into the seafood industry that has other industry applications. The North America Press segment margin dollars have increased; however, the margin percentage has decreased for the year ended April 30, 2005 compared to the prior year period. This is the result of a shift in product mix in fiscal 2005 towards equipment manufactured by the International Press segment, for which the margins recognized by North America Press are lower due to our inter-company transfer pricing policies. The International Press margin is the result of gross profit on external sales and gross profit on inter-company sales. Our segment reporting excludes inter-company sales, but not the related margins. For fiscal 2005, inter-company production is up which has resulted in an increase in the International Press margin percentage to 74%. Gross margin percentages on similar type projects remain the same year over year.

Marketing Expenses. Our marketing expenses by segment for the periods noted below are summarized as follows:

	2005 (restated)	2004	Difference	%
Marketing				
Waterjet:				
North America	$ 14,667	$ 10,109	$ 4,558	45%
Asia	3,704	3,022	682	23%
Other International	8,161	7,750	411	5%
Other	1,789	1,822	(33)	(2)%
Waterjet Total	28,321	22,703	5,618	25%
Avure:				
Food	1,324	1,658	(334)	(20)%
North America Press	602	499	103	21%
International Press	2,410	3,562	(1,152)	(32)%
Avure Total	4,336	5,719	(1,383)	(24)%
Consolidated Total	$ 32,657	$ 28,422	$ 4,235	15%

Marketing expenses increased $4.2 million or 15% to $32.7 million for the year ended April 30, 2005 as compared to the prior year period. Waterjet increased $5.6 million or 25% and Avure decreased $1.4 million or 24% as compared to the prior year period. The Waterjet increase in North America was the result of improved sales and the market awareness programs. Fiscal 2005 also includes over $.5 million in costs associated with the bi-annual International Manufacturing Technology Show held during the second quarter ended October 31, 2004. Asia and Other International Waterjet recorded cost increases in line with changes in sales and the Other segment held marketing costs constant. Within Avure, the majority of the decrease is attributable to International Press, due to both cost cutting and lower sales. Expressed as a percentage of sales, consolidated marketing expenses were 15% for fiscal 2005, as compares to 16% of sales for fiscal 2004.

Research and Engineering Expenses. Our research and engineering expenses by segment for the periods noted below are summarized as follows:

	2005 (restated)	2004	Difference	%
Research and Engineering				
Waterjet:				
North America	$ 4,183	$ 4,082	$ 101	2%
Asia	348	295	53	18%
Other International	712	737	(25)	(3)%
Other	224	337	(113)	(34)%
Waterjet Total	5,467	5,451	16	%
Avure:				
Food	1,685	1,583	102	6%
North America Press				%
International Press	1,915	3,617	(1,702)	(47)%
Avure Total	3,600	5,200	(1,600)	(31)%
Consolidated Total	$ 9,067	$ 10,651	$ (1,584)	(15)%

Research and engineering expenses decreased $1.6 million or 15% for fiscal 2005 as compared to fiscal 2004. Waterjet expenses were up slightly associated with our aerospace programs, while Avure decreased $1.6 million. The overall decreases were related to the timing of research and development work, the increased use of engineers on revenue generating projects and continued cost cutting across most segments. Expressed as a percentage of revenue, research and engineering expenses were 4% in fiscal 2005, as compared to 6% in fiscal 2004.

General and Administrative Expenses. Our general and administrative expenses by segment for the periods noted below are summarized as follows:

	2005 (restated)	2004	Difference	%
General and Administrative				
Waterjet:				
North America	$ 16,620	$ 12,767	$ 3,853	30%
Asia	1,381	1,146	235	21%
Other International	2,653	3,064	(411)	(13)%
Other	1,866	1,842	24	1%
Waterjet Total	22,520	18,819	3,701	20%
Avure:				
Food	1,075	1,245	(170)	(14)%
North America Press	716	601	115	19%
International Press	2,677	2,596	81	3%

Avure Total	4,468	4,442	26	1%
Consolidated Total	$ 26,988	$ 23,261	$ 3,727	16%

General and administrative expenses increased $3.7 million or 16% for the year ended April 30, 2005, as compared to the prior year. The North America Waterjet segment increased $3.9 million. This includes increased professional fees of $900,000 associated with patent litigation, $600,000 for increased audit fees and Sarbanes Oxley consulting fees, increased incentive compensation of $1.5 million and increased labor and miscellaneous other costs associated with strengthening key corporate functions of $900,000. As a percent of sales, however, North America Waterjet general and administrative expenses decreased from 22% to 20% in fiscal 2005. Expressed as a percentage of revenue, consolidated general and administrative expenses were 12% in fiscal 2004 as compared to 13% for the prior year period.

Restructuring Charges. During fiscal 2005, we incurred $.2 million of severance benefits and facility exit costs in the Food segment. During fiscal 2004, we incurred $3.3 million of restructuring-related costs, including severance, lease termination and inventory related charges, primarily in the U.S., Germany and Sweden. The most significant parts of this total being incurred in the North America Waterjet segment, $1.1 million, Other International Waterjet, $1.4 million and International Press, $.8 million.

The following table summarizes accrued restructuring activity for fiscal 2004 and 2005 (in thousands):

	North America Waterjet		Other International Waterjet			Other Waterjet	Food		International Press		Consolidated			
	Facility Exit Costs	**Other**	**Severance Benefits**	**Facility Exit Costs**	**Other**	**Severance Benefits**	**Severance Benefits**	**Facility Exit Costs**	**Severance Benefits**	**Facility Exit Costs**	**Severance Benefits**	**Facility Exit Costs**	**Other**	**Total**
Q1 restructuring charge	$	$	$ 248	$	$	$	$	$	$	$	$ 248	$	$	$ 248
Q1 cash payments			(128)								(128)			(128)
Balance, July 31, 2003			120								120			120
Q2 restructuring charge		178	(120)	105	302				201	191	81	296	480	857
Q2 cash payments		(178)			(47)								(225)	(225)
Q2 charge-offs					(255)								(255)	(255)
Balance, October 31, 2003				105					201	191	201	296		497
Q3 restructuring charge	407	170		85	484	89					89	492	654	1,235
Q3 cash payments	(270)	(160)		(14)					(121)		(121)	(284)	(160)	(565)
Q3 charge-offs		(10)		(85)	(484)							(85)	(494)	(579)
Balance, January 31, 2004	137			91		89			80	191	169	419		588
Q4 restructuring charge	15	412		255					234		234	270	412	916
Q4 cash payments	(13)	(126)		(13)		(89)			(70)		(159)	(26)	(126)	(311)
Q4 charge-offs		(286)											(286)	(286)
Balance, April 30, 2004	139			333					244	191	244	663		907
Q1 restructuring charge														
Q1 cash payments	(9)			(4)					(68)	(3)	(68)	(16)		(84)
Balance, July 31, 2004	130			329					176	188	176	647		823
Q2 restructuring charge														
Q2 cash payments	(9)			(4)					(64)	(3)	(64)	(16)		(80)