FLOW INTERNATIONAL CORP
Form S-1/A
December 12, 2005

As filed with the Securities and Exchange Commission on December 9, 2005

Registration No. 333-125113

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3

to

Form S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Flow International Corporation

(Exact name of registrant as specified in its charter)

Washington	**3569**	**91-1104842**
(State or other jurisdiction of incorporation or organization)	***(Primary Standard Industrial Classification Code Number)***	***(I.R.S. Employer Identification Number)***

Stephen R. Light

President and Chief Executive Officer

23500 64th Avenue South

Kent, WA 98032

(253) 850-3500

(Address, including zip code and telephone number, including area code, of Registrant s principal executive offices)

PTSGE Corp.

925 Fourth Avenue, Suite 2900

Seattle, WA 98104

(206) 623-7580

(Name, address, including zip code and telephone number, including area code, of agent for service)

Copies to:

Robert S. Jaffe

William Gleeson

Preston Gates & Ellis LLP

925 Fourth Avenue, Suite 2900

Seattle, WA 98104

(206) 623-7580

Approximate date of commencement of proposed sale to the public:

From time to time after the effective date of this registration statement,

as determined by market conditions and other factors.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered(1)	Proposed Maximum Offering Price Per Security(4)	Proposed Maximum Aggregate Offering Price(4)	Amount of Registration Fee
Common Stock, $0.01 par value.	17,473,116 Shares(2)	$6.76	$118,118,264.16	$13,902.52(5)
Common Stock, $0.01 par value.	3,219,245(3)	$6.76	$21,762,096	$2,561.40(5)

(1) In accordance with Rule 416(a), the registrant is also registering hereunder an indeterminate number of shares that may be issued and resold resulting from stock splits, stock dividends or similar transactions.
(2) Represents shares of the registrant s common stock being registered for resale that have been issued to the selling shareholders named in this registration statement.
(3) Represents shares of the registrant s common stock being registered for resale that have been or may be acquired upon the exercise of warrants issued to the selling shareholders named in this registration statement.
(4) Estimated pursuant to Rule 457(c) under the Securities Act of 1933, solely for the purposes of calculating the registration fee, upon the basis of the average high and low prices of our common stock as reported on the Nasdaq National Market on May 16, 2005.
(5) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

PRELIMINARY PROSPECTUS

20,692,359 Shares

Common Stock

This prospectus relates to the offer and sale of up to 17,473,116 outstanding shares of the common stock of Flow International Corporation, a Washington corporation, and up to 3,219,245 shares that may be issued on the exercise of outstanding warrants. Such shares may be offered and sold from time to time by the persons described in this prospectus under the heading Selling Shareholders or by pledgees, donees, transferees, assignees or other successors-in-interest of such persons (collectively, the Selling Shareholders). As used in this prospectus, we, us, our and similar expressions refer to Flow International Corporation and its subsidiaries.

The Selling Shareholders may offer their shares from time to time through or to one or more underwriters, brokers or dealers, on the NASDAQ Stock National Market at market prices prevailing at the time of sale, in one or more negotiated transactions at prices acceptable to the Selling Shareholders or in private transactions. We will not receive any proceeds from the sale of shares by the Selling Shareholders. In connection with any sales, the Selling Shareholders and any underwriters, agents, brokers or dealers participating in such sales may be deemed to be underwriters within the meaning of the Securities Act.

We will pay the expenses related to the registration of the shares covered by this prospectus. The Selling Shareholders will pay commissions and selling expenses, if any, incurred by them.

Our common stock trades on the NASDAQ National Market under the symbol FLOW. On December 8, 2005, the closing price of one share of our common stock was $7.17.

Investing in our securities involves risks. See Risk Factors beginning on page 6 of this prospectus.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is , 2005.

Table of Contents

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. An offer to sell these securities is not being made in any state where the offer is not permitted. You should not assume that the information contained in this prospectus or any prospectus supplement is accurate as of any date other than the date of such documents. Our business, financial condition, results of operations and prospects may have changed since that date.

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using the SEC s shelf registration rules. Under the shelf registration rules, using this prospectus and, if required, one or more prospectus supplements, the Selling Shareholders may sell from time to time, in one or more offerings, the shares of common stock covered by this prospectus. The shares covered by this prospectus include 17,473,116 outstanding shares of common stock and 3,219,245 shares of common stock issuable upon the exercise of warrants.

This prospectus also covers any shares of common stock that may become issuable pursuant to anti-dilution adjustment provisions that would increase the number of shares issuable upon exercise of the warrants as a result of stock splits, stock dividends or similar transactions.

A prospectus supplement may add, update or change information contained in this prospectus. We recommend that you read carefully this entire prospectus, especially the section entitled Risk Factors beginning on page 6, together with any supplements before making a decision to invest in our common stock.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights key aspects of the information contained elsewhere in this prospectus. This summary does not contain all the information you should consider before investing in our common stock. You should read this entire prospectus carefully, especially the risks of investing in our common stock discussed under Risk Factors beginning on page 6, current events beginning on page 26 and our consolidated financial statements and the notes to those consolidated financial statements beginning on page F-1, before making an investment decision.

THE COMPANY

We design, develop, manufacture, market, install and service ultrahigh-pressure, or UHP, water pumps and UHP water management systems. Our core competency is the design and manufacture of UHP water pumps. Our UHP water pumps pressurize water from 40,000 to over 100,000 pounds per square inch (psi) and are integrated with water delivery systems so that water can be used to cut or clean material or pressurize food. Our products include standard and specialized waterjet cutting and cleaning systems. In addition to UHP water pumps and related systems, we provide non UHP automation and articulation systems, primarily to the automotive industry.

Our UHP technology has three broad applications: cutting, cleaning and food processing. In cutting and cleaning applications, the ultrahigh-pressure created by our pumps is released through a small orifice to create a jet of water. In food processing, we supply UHP pumps to Avure Technologies, Inc., a company we recently sold, which uses pressure to kill spoilage bacteria and pathogens in food products placed inside a pressure vessel.

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

The primary application of our UHP water pumps is cutting. In cutting applications, pressures from 50,000 to 87,000 psi create a thin stream of water traveling at three or more times the speed of sound which can cut both metallic and nonmetallic materials. UHP water pumps are used in aerospace, automotive, disposable products, food, glass, job shop, sign, metal cutting, marble, tile and other stone cutting, and paper slitting and trimming applications. Waterjet cutting is recognized as a more flexible alternative to traditional cutting methods such as lasers, saws or plasma. It is often faster, has greater versatility in the types of materials it can cut and eliminates the need for secondary processing operations. We also manufacture a waterjet product line used in cleaning, where pressures in the range of 40,000 to 55,000 psi are used in industrial cleaning, surface preparation, construction, and petro-chemical and oil field applications.

Our principal executive offices are at 23500 64th Avenue South, Kent, WA 98032 and our telephone number is (253) 850-3500. We maintain a website at www.flowcorp.com. The contents of our website are not incorporated into this prospectus.

Table of Contents

The Offering

Common Stock offered by the Selling Shareholders	20,692,359 Shares(1)
Offering	The Selling Shareholders may offer their shares from time to time through one or more underwriters, brokers or dealers, on the NASDAQ Stock National Market at market prices prevailing at the time of sale, in one or more negotiated transactions at prices acceptable to the Selling Shareholders or in private transactions.
Use of Proceeds	The proceeds from the sale of the shares covered by this prospectus will be received by the Selling Shareholders. We will not receive any of the proceeds from the sales by the Selling Shareholders of the shares covered by this prospectus.
Nasdaq National Market symbol	FLOW
Risk Factors	See Risk Factors beginning on page 6 for a discussion of factors that you should consider carefully before deciding to purchase our common stock.
Offering-related Information	On March 21, 2005, in a Private Investment in Public Equity Transaction (PIPE Transaction), we sold 17,473,116 equity units at $3.72 per unit for gross proceeds of $65 million, and net proceeds of $59.3 million. A unit consists of one share of our common stock and one warrant to buy 1/10th of a share of our common stock. Ten warrants give the holder the right to purchase one share of common stock for $4.07. The closing price of our stock on Nasdaq National Market on the day before the agreement between the Company and the Selling Shareholders relating to the PIPE Transaction was entered into $3.70 per share. On the day that the agreement was entered into, the closing price was $4.28 per share. The exercise price of the warrants is a negotiated price.
	Proceeds of the PIPE were used to pay down existing debt of $59.3 million, including all of our subordinated debt. Under the terms of warrants previously issued to our senior and subordinated lenders, we are obligated to issue additional warrants if shares of our common stock are issued for prices less than market price. Because the issuance price of the common stock of the PIPE Transaction ($3.70) was less than market price ($4.28), we issued approximately 304,000 anti-dilution $0.01 warrants to our lenders. These warrants had a Black-Scholes value of approximately $1.7 million. The majority of the charges resulting from the issuance of the additional warrants, $1.5 million, were charged to interest expense in the fourth quarter of fiscal 2005 as the underlying debt associated with these warrants was retired in the fourth quarter of fiscal 2005. The remainder, $200,000, was capitalized and amortized to interest expense through August 1, 2005.

(1) Includes 3,219,245 shares of common stock issuable upon the exercise of outstanding warrants to purchase common stock.

Table of Contents

Under EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF 00-19), the fair value of the warrants sold to the PIPE investors will be reported initially as a liability due to liquidated damages of 1% of the gross proceeds per month ($650,000) which will be payable in the event that this Form S-1 is not be declared effective prior to December 31, 2005. Upon effectiveness of the Form S-1, the fair value of the warrants will be reclassified into Capital in Excess of Par in the Equity section of the Consolidated Balance Sheet. As of March 21, 2005, the warrants sold to the PIPE investors were valued at $6.4 million using the Black-Scholes method, and the shares have been recorded at $52.9 million, or the difference between the net proceeds and the value of the warrants. The warrants sold to the PIPE investors are considered a derivative financial instrument and will be marked to fair value quarterly until this Form S-1 is declared effective. Any changes in fair value of the warrants will be recorded through the Consolidated Statement of Operations.

Historical Stock Price

Our stock is traded on the NASDAQ National Market under the symbol FLOW. The range of high and low sales prices for our common stock for the first and second quarter of fiscal 2006 and the third quarter of fiscal 2006 through December 8, 2005 and the four quarters for fiscal 2005, 2004 and 2003 is set forth in the following table.

	Fiscal Year 2006		Fiscal Year 2005		Fiscal Year 2004		Fiscal Year 2003	
	High	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**
First Quarter	$ 7.83	$ 5.87	$ 3.66	$ 2.15	$ 1.94	$ 1.13	$ 10.90	$ 5.05
Second Quarter	9.39	7.43	3.55	2.70	3.11	1.36	5.60	2.12
Third Quarter(1)	9.25	6.40	3.18	2.71	4.11	2.40	3.80	2.13
Fourth Quarter			6.60	2.85	3.74	2.20	3.28	1.08

(1) Prices for fiscal year 2006 reflect trading through December 8, 2005.

We have not paid dividends to common shareholders in the past. Our Board of Directors intends to retain future earnings, if any, to finance development and expansion of our business and reduce debt and does not expect to declare dividends to common shareholders in the near future. The credit agreement entered into on July 8, 2005 does permit us to pay dividends, however. Prior to this date however, our credit agreements contained restrictions on our ability to pay dividends to our shareholders.

Table of Contents

Summary Financial Data

The following table provides summary historical financial data for the periods indicated. You should read this information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus.

The summary statement of operations data for each of the fiscal years ended April 30, 2003, 2004 and 2005 and the summary balance sheet data as of April 30, 2004 and 2005 are derived from our audited financial statements, which are included elsewhere in this prospectus. The summary statement of operation data for the fiscal year ended April 30, 2002 and the summary balance sheet data as of April 30, 2003 are derived from our audited financial statements which are not included in this prospectus. The summary statement of operation data for the fiscal year ended April 30, 2001 and the summary balance sheet data as of April 30, 2001 and 2002 are derived from our unaudited financial statements which are not included in this prospectus.

(In thousands, except per share amounts)	Three Months Ended July 31, 2005 (unaudited)	Year Ended April 30, 2005 (restated)(4)	2004	2003(3)	2002(2)	2001(1) (unaudited)
Statement of Operations Data:						
Sales	$ 49,729	$ 219,365	$ 177,609	$ 144,115	$ 176,890	$ 204,854
(Loss) Income Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	22	(20,616)	(12,048)	(69,464)	(8,244)	4,038
Net (Loss) Income	22	(20,616)	(11,522)	(69,987)	(7,853)	1,630
Basic (Loss) Income Per Share Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	0.00	(1.16)	(0.78)	(4.53)	(0.54)	0.27
Basic (Loss) Earnings Per Share	0.00	(1.16)	(0.75)	(4.56)	(0.52)	0.11
Diluted (Loss) Income Per Share Before Cumulative Effect of Change in Accounting Principles and Discontinued Operations	0.00	(1.16)	(0.78)	(4.53)	(0.54)	0.27
Diluted (Loss) Income Per Share	0.00	(1.16)	(0.75)	(4.56)	(0.52)	0.11

	July 31, 2005 (unaudited)	April 30, 2005 (restated)(4)	2004 (restated)(4)	2003 (restated)(5) (unaudited)	2002 (restated)(5) (unaudited)	2001 (restated)(5) (unaudited)
Balance Sheet Data:						
Working Capital	$ 14,497	$ 6,233	$ (9,060)	$ (6,709)	$ 84,532	$ 91,750
Total Assets	112,512	118,467	129,272	147,088	205,572	206,270
Short-Term Debt	4,316	13,443	48,727	61,056	5,237	8,464
Long-Term Obligations, net	13,301	5,704	38,081	29,023	83,453	85,652
Shareholders Equity (Deficit)	28,178	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 April 30, 2005 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.

(5) As reported in the Company s April 30, 2005 Form 10-K/A, the Company has identified errors in the Consolidated Financial Statements related to the presentation of percentage-of-completion related balances on the Consolidated Balance Sheet. Specifically, the Company noted inconsistencies between its divisions in the balance sheet presentation of accounts receivable and cash receipts relating to contracts accounted for using the percentage-of-completion method. The Company has, therefore, adjusted its financial statements to reflect a consistent presentation and comply with the provisions of SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts as of April 30, 2003, 2002 and 2001.

Pro forma financial information is included in this prospectus to reflect the sale of the Avure Business, which took place on October 31, 2005, and the closing of the PIPE transaction on March 21, 2005. The unaudited pro forma balance sheet data assumes the disposition occurred on July 31, 2005. Such pro forma information is based upon the historical balance sheet data of the Company as of that date. The unaudited pro forma statement of operations data give effect to the treatment of the Avure Business as a discontinued operation for the three months ended July 31, 2005 and for the year ended April 30, 2005. The following pro forma financial information is excerpted from the detailed presentation found on pages 14-21.

(In thousands, except per share amounts)	Three Months Ended July 31, 2005 (unaudited)	Year Ended April 30, 2005 (unaudited)
Pro forma Statement of Operations Data:		
Sales	$ 41,986	$ 172,966
(Loss) Income from Continuing Operations	(1,327)	3,126
Basic (Loss) Income Share from Continuing Operations	(0.04)	0.09
Diluted (Loss) Income from Continuing Operations	(0.04)	0.09

	July 31, 2005 (unaudited)
Pro forma Balance Sheet Data:	
Working Capital	$ 22,241
Total Assets	91,607
Short-Term Debt	2,816
Long-Term Obligations	13,301
Shareholders Equity	27,043

Table of Contents

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with the financial and other information contained in this prospectus, before making a decision to buy our common stock from the Selling Shareholder. If any of the following risks actually occur, our business, financial condition and results of operations could suffer. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment in our common stock.

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

While we had net income of $22,000 for the three months ended July 31, 2005, 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 11, 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 the registration statement of which this prospectus is a part does not become effective by December 31, 2005, or becomes ineffective for more than 40 days, after having gone effective, we may be subject to significant financial penalties.

Under terms of the 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 and the related warrants, become effective no later than September 17, 2005. We have amended the Registration Rights Agreement to grant an extension until December 31, 2005 for the effective date of the registration of the shares and warrants issued in the PIPE Transaction. 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.

Table of Contents

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.

Table of Contents

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 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 on page 22.

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 noncompliance with Section 404 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 July 31, 2005, we had options outstanding to purchase 1,962,380 shares of our common stock, at exercise prices ranging from $2.00 to $12.25 per share of which 1,849,587 are fully vested. In addition, we currently have outstanding 2,309,764 fully vested 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

Table of Contents

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, and the New Taiwan dollar. 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.

Sales of registered stock could exert downward pressure on the market price of our stock and could encourage short selling that could exert further downward pressure.

To the extent the Selling Stockholders acquired their shares (whether such shares were acquired in the PIPE transaction or on the exercise of warrants, which are exercisable at $0.01 per share) at prices less than the then current trading price of our common stock, they may have an incentive to immediately resell material amounts of such shares in the market which may, in turn, cause the trading price of our common stock to decline. Significant downward pressure on our stock price caused by the sale of stock registered in this offering could encourage short sales by the Selling Stockholders (and in particular short sales by warrant holders in anticipation of exercising their warrants) or third parties that would place further downward pressure on our stock price. In an ordinary or uncovered short sale, a seller causes his or her executing broker to borrow the shares to be delivered at the completion of the sale from another broker, subject to an agreement to return them upon request, thereby avoiding the need to deliver any shares actually owned by the seller stockholder on the settlement date for the sale. Since the seller does not own the shares that are sold, the seller must subsequently purchase an equivalent number of shares in the market to complete or cover the transaction. The seller stockholder will realize a profit if the market price of the shares declines after the time of the short sale, but will incur a loss if the market price rises and he or she is forced to buy the replacement shares at a higher price. Accordingly, a declining trend in the market price of our common stock may stimulate short sales.

The Company has advised each Selling Shareholder that it may not use shares registered on this Registration Statement to cover short sales of Common Stock made prior to the date on which this Registration Statement shall have been declared effective by the Commission. See Selling Shareholders on page 67.

10

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

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

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

SAFE HARBOR STATEMENT:

Statements made in this prospectus that are not historical facts are forward-looking statements that involve risks and uncertainties. Forward-looking statements typically are identified by the use of such terms as may, will, expect, believe, anticipate, estimate, plan and similar words, although some forward-looking statements are expressed differently. You should be aware that our actual results could differ materially from those contained in any forward-looking statement due to a number of factors, which include, but are not limited to the following: the special risk factors and uncertainties set forth in this document; our striving to continue to improve our customer s profitability through investment in the development of innovative products and services; our ability to absorb cyclical downturns through the flexibility of our UHP technology and market diversity; our confidence that we can continue to gain market share; our conclusion that waterjet technology is in the early adoption phase of its product life cycle; our ability to retain a technical lead over our competitors through non-patented proprietary trade secrets and know-how in UHP applications; the ability of our patents to act as a barrier to entry for competitors in the UHP technology field; increased market acceptance of waterjet cutting systems by the aerospace, automotive, and machine (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 actions to remedy our material weakness are to implement new control policies and procedures and to hire additional accounting staff with appropriate levels of experience in order to improve the reconciliation process; our belief that our restructuring activities and related cost-cutting initiatives will reduce overall spending; our belief that the benefits of our restructuring activities will continue into fiscal 2006; spare parts sales will continue to increase as more systems are put into operation; expected severance and relocation costs; our belief that our existing cash and credit facilities at July 31, 2005 are adequate to fund our operations through April 30, 2006; our belief that compliance with covenants in the current senior credit agreement is achievable; our expectation that the funds necessary for capital expenditures will be generated internally and through available credit facilities; the strengthening of global economies; and global economic conditions and additional threatened terrorist attacks and responses thereto, including war. Additional information on these and other factors that could affect our financial results is set forth below. Finally, there may be other factors not mentioned above or included in our SEC filings that may cause our actual results to differ materially from those in any forward-looking statement. You should not place undue reliance on these forward-looking statements. We assume no obligation to update any forward-looking statements as a result of new information, future events or developments, except as required by federal securities laws.

All references to fiscal years are references to our fiscal year end of April 30.

Table of Contents

USE OF PROCEEDS

The proceeds from the sale of the shares covered by this prospectus will be received by the Selling Shareholders. We will not receive any of the proceeds from the sales by the Selling Shareholders of the shares covered by this prospectus.

We originally received gross proceeds of $65 million and net proceeds of $59.3 million on March 21, 2005 when we sold 17,473,116 equity units at $3.72 per unit in the PIPE Transaction. A unit consists of one share of our common stock and one warrant to buy $1/10^{th}$ of a share of our common stock. Ten warrants give the holder the right to purchase one share of common stock for $4.07. We will receive an aggregate of up to $7.1 million if the selling shareholders who participated in the PIPE Transaction, exercise all of their warrants to purchase common stock.

We used the gross proceeds to pay the entire balance of our subordinated debt and accrued interest totaling $42.3 million in April 2005. The remaining proceeds were used to repay borrowings on our senior credit facility.

1,471,933 shares are issuable on the exercise of warrants issued to lenders, including approximately 304,000 warrants issued for anti-dilution. The exercise price of such warrants is $0.008 per share.

We would expect to use any such proceeds for general corporate purposes.

DIVIDEND POLICY

We have not paid dividends to common shareholders in the past. Our Board of Directors intends to retain future earnings, if any, to finance development and expansion of our business and reduce debt and does not expect to declare dividends to common shareholders in the near future. The credit agreement entered into on July 11, 2005 does permit us to pay dividends however. Prior to this date however, our credit agreements contained restrictions on our ability to pay dividends to our shareholders.

Table of Contents

PRO FORMA INFORMATION

During the second quarter of fiscal 2006, the Board of Directors approved the sale of the Company s Avure Business consistent with the Company s strategy to divest itself of operations that are not part of its core ultrahigh-pressure water pump business. On September 30, 2005, the Company entered into an agreement to sell the Avure Business. The business was acquired by Quintus Holdings, LLC, an affiliate of the Gores Technology Group, LLC (Gores), a Los Angeles-based private equity firm. On October 31, 2005, the Company and Gores consummated the purchase and sale transaction. The consideration includes cash of $6 million at closing, a promissory note of $8 million due 90 days after closing at a simple interest rate of 10% per annum, and a promissory note of $2 million due 3 years after closing at a simple interest rate of 6% per annum. The net proceeds received by the Company will be subject to adjustment for changes in the net working capital, pension balance and excess cash at time of the closing.

The Avure Business became a discontinued operation as of October 31, 2005 in accordance with FAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*. It is, therefore, not presented as a discontinued operation in the historical financial statements presented elsewhere in this prospectus. Beginning with the second quarter of fiscal 2006, however, we will present the Avure Business as discontinued operations and will reclassify all historical financial periods to reflect this treatment.

The following unaudited pro forma financial statements give effect to the disposition of the Avure Business to be accounted for as a discontinued operation in accordance the FAS 144. The unaudited pro forma consolidated balance sheet assumes the disposition occurred on July 31, 2005. Such pro forma information is based upon the historical balance sheet data of the Company as of that date. The unaudited pro forma consolidated statements of operations give effect to the treatment of the Avure Business as a discontinued operation for the three months ended July 31, 2005 and for each of the three years ended April 30, 2005.

The unaudited pro forma consolidated statement of operations for the fiscal year ended April 30, 2005 also gives effect to the PIPE Transaction. The PIPE Transaction, as described on page 2, was completed in March 2005, and the transaction was reported in the Company s financial statements for the year ended April 30, 2005 and in the Company s Form 10-Q for the quarter ended July 31, 2005. There is, therefore, no impact on our pro forma balance sheet at of July 31, 2005 or our pro forma statement of operations for the quarter ended July 31, 2005. In addition, the effects of this transaction are not reflected in the pro forma statement of operations for the fiscal years ended April 30, 2004 and 2003 as this is not allowed by Article 11 of Regulation S-X.

In the PIPE Transaction, as described on page 2, we sold 17,473,116 shares of common stock and warrants to purchase 1,747,312 shares of common stock. The PIPE Transaction gross proceeds of $65 million, less investment banking fees of $5.1 million and other costs of $626,000 resulted in net cash proceeds of $59.3 million. As further described below, the pro forma presentation reflects application of all of the net proceeds to pay down debt. Our subordinated debt and related accrued interest was paid off in its entirety and the remaining net proceeds were used to pay down our Senior debt. In addition, the pro forma presentation includes the issuance of approximately 304,000 anti-dilution warrants. The warrants were issued to our senior and subordinated lenders. The fair value of these warrants was $1.7 million.

The pro forma does not purport to be indicative of the results which would actually have been reported if the Avure disposition had occurred on such dates or which may be reported in the future. For example, the net working capital adjustment as of the actual closing date may be materially different from the pro forma adjustments as of July 31, 2005. These unaudited pro forma financial statements should be read in conjunction with the accompanying notes to unaudited pro forma financial statements, our historical financial statements and related notes, the sections of this prospectus entitled Selected Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations , and the consolidated financial statements and related notes appearing elsewhere in this prospectus.

Table of Contents

Unaudited Pro Forma Consolidated Balance Sheet as of July 31, 2005

(In thousands)

	Historical Consolidated	Adjustments for the Avure Disposition	Pro Forma Consolidated
ASSETS:			
Current Assets:			
Cash & Cash Equivalent	$ 15,219	$ (642)(b)	$ 15,384
		6,000 (a)	
		(1,241)(c)	
		(3,952)(a)	
Restricted Cash	2,527	(1,500)(b)	1,027
Receivables, Net	28,047	(6,142)(b)	29,905
		8,000 (a)	
Inventories, Net	26,034	(8,156)(b)	17,878
Prepaid Expenses	6,487	(502)(b)	5,985
Other Current Assets	2,052		2,052
Total Current Assets	80,366	(8,135)	72,231
Property, Plant & Equipment, Net	12,227	(1,403)(b)	10,824
Intangible Assets, Net	13,600	(10,723)(b)	2,877
Goodwill	2,764		2,764
Deferred income tax	1,527	(625)(b)	902
Other Assets	2,028	(1,269)(b)	2,009
		2,000 (a)	
		(750)(a)	
	$ 112,512	$ (20,905)	$ 91,607
LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIT):			
Current Liabilities:			
Notes Payable	$ 3,841	$ (1,500)(b)	$ 2,341
Current Portion of Long-Term Obligations	475		475
Accounts Payable	14,606	(2,141)(b)	12,465
Accrued Payroll and Related Liabilities	7,265	(1,904)(b)	5,361
Taxes Payable and Other Accrued Taxes	2,452	(91)(b)	1,920
		(441)(b)	
Deferred Income Taxes	839		839
Deferred Revenue	2,995	(250)(b)	2,745
Customer Deposits	14,509	(3,017)(b)	11,492
Warrant Obligation	7,374		7,374
Other Accrued Liabilities	11,513	(6,535)(b)	4,978
Total Current Liabilities	65,869	(15,879)	49,990
Long-Term Obligations	13,301		13,301
Other Long-Term Liabilities	2,986	(1,713)(b)	1,273
Total Liabilities	82,156	(17,592)	64,564

Commitments and Contingencies

Minority Interest	2,178	(2,178)(b)	
Shareholders' Equity:			
Common Stock	346		346
Capital in Excess of Par	114,022		114,022
Accumulated Deficit	(80,559)	353 (d)	(80,206)
Accumulated Other Comprehensive Loss:			
Cumulative Translation Adjustment	(5,194)	(1,925)(b)	(7,119)
Unrealized Loss on Cash Flow Hedges	(437)	437 (b)	
Total Shareholders Equity	28,178	(1,135)	27,043
	$ 112,512	$ (20,905)	$ 91,607

Table of Contents

Notes to Unaudited Pro Forma Consolidated Balance Sheet as of July 31, 2005

(a) To record proceeds of the sale of the Avure Business.

In accordance with purchase and sale agreement, the proceeds consist of cash of $6 million at closing, a promissory note of $8 million due 90 days after closing at a simple interest rate of 10% per annum, and a promissory note of $2 million due 3 years after closing at a simple interest rate of 6% per annum. Cash proceeds received by the Company at closing will be subject to adjustment for changes in net working capital and excess cash at time of closing. The $2 million promissory note is also subject to an adjustment related to a pension obligation balance at closing. The Pro Forma Consolidated Balance Sheet reflects the adjustments for the items based on the balances at July 31, 2005. The actual adjustments upon closing at October 31, 2005 will be different based on balance sheet as of that date.

(b) To record the elimination of the assets and liabilities and certain other comprehensive income balances of the Avure Business sold.
(c) To record the estimated transaction costs incurred from the sale.
(d) To record loss on the disposition (in thousands):

Total Proceeds:	
Cash at closing	$ 6,000
Promissory note due 90 days after closing	8,000
Promissory note due 3 years after closing	2,000
	16,000
Less: Transaction costs	(1,241)
Less: Adjustment for net working capital and pension balance	(4,702)
Net Proceeds	10,057
Less: Net book value of Avure Business sold	(9,704)
Pro forma gain, net of income tax $0	$ 353

Because we have provided for full valuation allowances for our deferred tax assets in the United States, the pro forma gain would not trigger an income tax expense. Therefore we have not adjusted the impact of this pro forma item to reflect any tax effect.

Table of Contents

Unaudited Pro Forma Consolidated Statements of Operations for the Three Months Ended July 31, 2005

(In thousands, except in share amounts)

	Historical Consolidated	Adjustments for the Avure Disposition	Pro Forma Consolidated
Sales	$ 49,729	$ (7,743)(a)	$ 41,986
Cost of Sales	29,106	(4,854)(a)	24,252
Gross Margin	20,623	(2,889)	17,734
Operating Expenses:			
Marketing	8,545	(969)(a)	7,576
Research and Engineering	2,691	(813)(a)	1,878
General and Administrative	7,366	(1,151)(a)	6,215
Restructuring Charges	98	(a)	98
		(a)	
	18,700	(2,933)	15,767
Operating Income	1,923	44	1,967
Interest Expense	(798)	(128)(a)	(926)
Other Expense, net	(226)	(1,559)(a)	(1,785)
Income (Loss) from Continuing Operations Before Income Taxes	899	(1,643)	(744)
Provision for Income Taxes	(877)	294 (a)	(583)
Income (Loss) from Continuing Operations	$ 22	$ (1,349)	$ (1,327)