

## Document and Entity Information

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	Jul. 31, 2010	Aug. 16, 2010
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Entity Central Index Key	0000713002	
Current Fiscal Year End Date	--04-30	
Entity Filer Category	Accelerated Filer	
Entity Common Stock, Shares Outstanding		47,150,218

## CONDENSED CONSOLIDATED BALANCE SHEETS

CONDENSED CONSOLIDATED BALANCE SHEETS (USD \$) In Thousands	3 Months Ended		12 Months Ended	
	Jul. 31, 2010		Apr. 30, 2010	
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 7,224		\$ 6,367	
Restricted Cash	743		639	
Receivables, net	35,008		35,749	
Inventories, net	24,642		22,503	
Deferred Income Taxes, net	2,406		2,486	
Other Current Assets	6,036		6,351	
<b>Total Current Assets</b>	<b>76,059</b>		<b>74,095</b>	
Property and Equipment, net	20,345		21,769	
Intangible Assets, net	4,587		4,504	
Deferred Income Taxes, net	25,283		26,330	
Other Long-Term Assets	4,353		4,511	
<b>Total Assets</b>	<b>130,627</b>		<b>131,209</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>				
Notes Payable (Note 7)			350	
Current Portion of Long-Term Obligations	47		61	
Accounts Payable	14,581		15,306	
Accrued Payroll and Related Liabilities	5,960		5,938	
Taxes Payable and Other Accrued Taxes	1,438		1,329	
Deferred Income Taxes	1,066		1,086	
Deferred Revenue and Customer Deposits	11,163		10,146	
Other Accrued Liabilities	7,680		7,966	
<b>Total Current Liabilities</b>	<b>41,935</b>		<b>42,182</b>	
Long-Term Obligations, net	11		18	
Deferred Income Taxes	3,800		3,856	
Subordinated Notes (Note 6)	8,138		7,954	
Other Long-Term Liabilities	1,594		1,575	
<b>Total Liabilities</b>	<b>55,478</b>		<b>55,585</b>	
Commitments and Contingencies (Note 8)				
<b>Shareholders' Equity:</b>				
Series A 8% Convertible Preferred Stock - \$.01 par value, 1,000 shares authorized, none issued				
Common Stock - \$.01 par value, 84,000 shares authorized, 47,150 and 46,927				

shares issued and outstanding at July 31, 2010 and April 30, 2010, respectively	467	465
Capital in Excess of Par	159,945	159,605
Accumulated Deficit	(80,427)	(79,887)
Accumulated Other Comprehensive Income (Loss):		
Defined Benefit Plan Obligation, net of income tax	9	9
Cumulative Translation Adjustment, net of income tax	(4,845)	(4,568)
Total Shareholders' Equity	75,149	75,624
Total Liabilities and Shareholders' Equity	\$ 130,627	\$ 131,209

#### CONDENSED CONSOLIDATED BALANCE SHEETS (Parenthetical)

CONDENSED CONSOLIDATED BALANCE SHEETS (Parenthetical) (USD \$) In Thousands, except Per Share data	Jul. 31, 2010	Apr. 30, 2010
Par value of Preferred Stock	\$ 0.01	\$ 0.01
Preferred Stock, Shares Authorized	1,000	1,000
Preferred Stock, Shares Issued	0	0
Par Value of Common Stock	\$ 0.01	\$ 0.01
Common Stock, Shares Authorized	84,000	84,000
Common Stock, Shares Issued	47,150	46,927
Common Stock, Shares Outstanding	47,150	46,927

#### CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (USD \$) In Thousands, except Per Share data	3 Months Ended	
	Jul. 31, 2010	Jul. 31, 2009
Sales	\$ 46,580	\$ 37,752
Cost of Sales	27,247	23,776
Gross Margin	19,333	13,976
Operating Expenses:		
Sales and Marketing	10,596	7,916
Research and Engineering	2,146	1,697
General and Administrative	5,958	7,122
Restructuring and Other Operating Charges		4,823
Total Operating Expenses	18,700	21,558
Operating Income (Loss)	633	(7,582)
Interest Income	21	40
Interest Expense	(413)	(964)
Other Income, net	292	502
Income (Loss) Before Benefit (Provision) Income Taxes	533	(8,004)
Benefit (Provision) for Income Taxes	(1,064)	606
Loss from Continuing Operations	(531)	(7,398)
Loss from Discontinued Operations, net of income tax of \$0 and \$0	(9)	(1,148)
Net Loss	\$ (540)	\$ (8,546)
Basic and Diluted Loss Per Share:		
Loss from Continuing Operations	\$ (0.01)	\$ (0.2)
Discontinued Operations	\$ 0	\$ (0.03)

Net Loss	\$ (0.01)	\$ (0.23)
Weighted Average Shares Used in Computing Basic and Diluted Loss Per Share:		
Basic and Diluted	47,044	37,748

#### CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Parenthetical)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Parenthetical) (USD \$) In Thousands	3 Months Ended	
	Jul. 31, 2010	Jul. 31, 2009
Income Tax effect on Loss from Discontinued Operations	\$ 0	\$ 0

#### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (USD \$) In Thousands	3 Months Ended	
	Jul. 31, 2010	Jul. 31, 2009
Cash Flows from Operating Activities:		
Net Loss	\$ (540)	\$ (8,546)
Adjustments to Reconcile Net Loss to Cash Provided by Operating Activities:		
Depreciation and Amortization	1,622	1,232
Deferred Income Taxes	1,035	(1,061)
Provision for Slow Moving and Obsolete Inventory	102	123
Bad Debt Expense	31	170
Warranty Expense	767	651
Incentive Stock Compensation Expense	643	365
Unrealized Foreign Exchange Currency (Gains)	(368)	(457)
Write-off and Amortization of Deferred Debt Issuance Costs	110	253
OMAX Termination Charge		3,219
Indemnification Charge	9	1,148
Interest Accretion on Subordinated Notes	183	214
Other	9	51
Changes in Operating Assets and Liabilities:		
Receivables	653	1,584
Inventories	(2,395)	1,895
Other Operating Assets	415	(669)
Accounts Payable	(388)	3,590
Accrued Payroll and Related Liabilities	(73)	(903)
Deferred Revenue and Customer Deposits	1,074	(446)
Release of Funds from Escrow		17,000
Payment for Patent Litigation Settlement		(15,000)
Payment for OMAX Termination		(2,000)
Other Operating Liabilities	(1,078)	267
Cash Provided by Operating Activities	1,811	2,680
Cash Flows From Investing Activities:		
Expenditures for Property and Equipment	(508)	(4,294)
Expenditures for Intangible Assets	(189)	(178)

Proceeds from Sale of Property and Equipment	17	5
Restricted Cash	(116)	(303)
Cash (Used in) Investing Activities	(796)	(4,770)
Cash Flows from Financing Activities:		
Borrowings under Senior Credit Agreement	12,000	2,250
Repayments under Senior Credit Agreement	(12,350)	
Repayments Under Other Financing Arrangements	(22)	(130)
Repayments of Long-Term Obligations		(2,862)
Payments for Debt Issuance Costs		(362)
Cash (Used in) Financing Activities	(372)	(1,104)
Effect of Changes in Exchange Rates	214	(162)
Increase (Decrease) in Cash And Cash Equivalents	857	(3,356)
Cash and Cash Equivalents at Beginning of Period	6,367	10,117
Cash and Cash Equivalents at End of Period	7,224	6,761
Supplemental Disclosures of Cash Flow Information:		
Interest	83	674
Income Taxes	382	487
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Accounts Payable incurred to acquire Property and Equipment, and Intangible Assets	\$ 180	\$ 2,379

#### CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS (USD \$) In Thousands	Common Stock	Capital In Excess of Par	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balances, at Apr. 30, 2009	\$ 372	\$ 140,634	\$ (71,403)	\$ (6,892)	\$ 62,711
Balances, Shares, at Apr. 30, 2009	37,705				
Components of Comprehensive Loss:					
Net Loss			(8,546)		(8,546)
Adjustment to Minimum Pension Liability, Net of Income Tax of \$5				(5)	(5)
Cumulative Translation Adjustment, Net of Income Tax				446	446
Total Comprehensive Loss					(8,105)
Stock Compensation, Value	1	364			365
Stock Compensation, Shares	48				
Balances, at Jul. 31, 2009	373	140,998	(79,949)	(6,451)	54,971
Balances, Shares, at Jul. 31, 2009	37,753				
Balances, at Apr. 30, 2010	465	159,605	(79,887)	(4,559)	75,624
Balances, Shares, at Apr. 30, 2010	46,927				46,927
Components of Comprehensive Loss:					
Net Loss			(540)		(540)
Cumulative Translation Adjustment, Net of Income Tax				(277)	(277)
Total Comprehensive Loss					(817)
Stock Compensation, Value	2	340			342

Stock Compensation, Shares	223				
Balances, at Jul. 31, 2010	\$ 467	\$ 159,945	\$ (80,427)	\$ (4,836)	\$ 75,149
Balances, Shares, at Jul. 31, 2010	47,150				47,150

## CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS (Parenthetical)

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS (Parenthetical) (USD \$) In Thousands	3 Months Ended	
	Jul. 31, 2010	Jul. 31, 2009
Income tax on Cumulative Translation Adjustment	\$ 21	\$ 264
Income tax on Adjustment to Minimum Pension Liability		\$ 5

## Basis of Presentation

Basis of Presentation	3 Months Ended	
	Jul. 31, 2010	
Basis of Presentation	<b>Note 1—Basis of Presentation</b>	
	<p>In the opinion of the management of Flow International Corporation (the "Company"), the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring items and accruals necessary to fairly present the financial position, results of operations and cash flows of the Company. The financial information as of April 30, 2010 is derived from the Company's audited consolidated financial statements and notes thereto for the fiscal year ended April 30, 2010 included in Item 8 in the fiscal year 2010 Annual Report on Form 10-K ("10-K"). These interim condensed consolidated financial statements do not include all information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in the United States, and should be read in conjunction with the Company's fiscal year 2010 Form 10-K. The preparation of these interim condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the Company's financial statements. Operating results for the three months ended July 31, 2010 may not be indicative of future results.</p>	
	<p><b>Fair Value of Financial Instruments</b></p> <p>The carrying value of the Company's current assets and liabilities due within one-year approximate fair values due to the short-term maturity of these instruments. Nonfinancial assets and liabilities measured on a nonrecurring basis included on the Company's Condensed Consolidated Balance Sheets consist of long-lived assets, including cost-method investments and long-term subordinated notes issued to OMAX that are measured at fair value when impairment indicators exist. Due to significant unobservable inputs, the fair value measures used to evaluate impairment and to calculate a prevailing market interest rate, respectfully, are a Level 3 input. The carrying amount of these nonfinancial assets and liabilities measured on a nonrecurring basis approximates fair value unless otherwise disclosed in these financial statements.</p>	
	<p><b>Reclassification</b></p> <p>Certain amounts within the fiscal year 2010 Condensed Consolidated Balance Sheet have been reclassified to conform to fiscal year 2011 presentation. These reclassifications did not impact total assets or total liabilities of the Company.</p>	

## Recently Issued Accounting Pronouncements

Recently Issued Accounting Pronouncements	3 Months Ended	
	Jul. 31, 2010	
Recently Issued Accounting Pronouncements	<b>Note 2—Recently Issued Accounting Pronouncements</b>	
	<p>In September 2009, the Financial Accounting Standards Board ("FASB") ratified the consensus reached by the EITF regarding multiple-deliverable revenue arrangements. The new guidance:</p> <ul style="list-style-type: none"> <li>provides principles and application guidance on whether a revenue arrangement contains multiple deliverables,</li> </ul>	

how the arrangement should be separated, and how the arrangement consideration should be allocated;

- requires an entity to allocate revenue in a multiple-deliverable arrangement using estimated selling prices of the deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price;
- eliminates the use of the residual method and, instead, requires an entity to allocate revenue using the relative selling price method; and
- expands disclosure requirements with respect to multiple-deliverable revenue arrangements.

This new guidance applies to multiple-deliverable revenue arrangements that contain both software and hardware elements, focusing on determining which revenue arrangements are within the scope of software revenue guidance. This new guidance removes tangible products from the scope of the software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are within the scope of the software revenue guidance. The accounting guidance should be applied on a prospective basis for revenue arrangements entered into or materially modified in the Company's fiscal year 2012. Alternatively, an entity can elect to adopt the provisions of these issues on a retrospective basis. The Company is currently assessing the potential impact that the application of the new revenue guidance may have on its consolidated financial statements and disclosures.

## Receivables, Net

Receivables, Net	3 Months Ended																			
	Jul. 31, 2010																			
Receivables, Net	<b>Note 3—Receivables, Net</b>																			
	Receivables, net as of July 31, 2010 and April 30, 2010 consisted of the following:																			
		<table border="0"> <thead> <tr> <th></th> <th style="text-align: right;"><u>July 31, 2010</u></th> <th style="text-align: right;"><u>April 30, 2010</u></th> </tr> </thead> <tbody> <tr> <td>Trade Accounts Receivable</td> <td style="text-align: right;">\$ 23,288</td> <td style="text-align: right;">\$ 23,717</td> </tr> <tr> <td>Unbilled Revenues</td> <td style="text-align: right;">12,844</td> <td style="text-align: right;">13,184</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>36,132</u></td> <td style="text-align: right;"><u>36,901</u></td> </tr> <tr> <td>Less: Allowance for Doubtful Accounts</td> <td style="text-align: right;">(1,124)</td> <td style="text-align: right;">(1,152)</td> </tr> <tr> <td>Receivables, net</td> <td style="text-align: right;"><u>\$ 35,008</u></td> <td style="text-align: right;"><u>\$ 35,749</u></td> </tr> </tbody> </table>		<u>July 31, 2010</u>	<u>April 30, 2010</u>	Trade Accounts Receivable	\$ 23,288	\$ 23,717	Unbilled Revenues	12,844	13,184		<u>36,132</u>	<u>36,901</u>	Less: Allowance for Doubtful Accounts	(1,124)	(1,152)	Receivables, net	<u>\$ 35,008</u>	<u>\$ 35,749</u>
	<u>July 31, 2010</u>	<u>April 30, 2010</u>																		
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Receivables, net	<u>\$ 35,008</u>	<u>\$ 35,749</u>																		
	Unbilled revenues do not contain any amounts which are expected to be collected after one year.																			
	The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses on existing receivables. The Company determines the allowance based on historical write-off experience and current economic data. The allowance for doubtful accounts is reviewed quarterly. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. All other balances are reviewed on a pooled basis by type of receivable. Account balances are charged against the allowance when the Company determines that it is probable the receivable will not be recovered.																			

## Inventories

Inventories	3 Months Ended																
	Jul. 31, 2010																
Inventories	<b>Note 4—Inventories</b>																
	Inventories are stated at the lower of cost or market. Costs included in inventories consist of materials, labor and manufacturing overhead, which are related to the purchase or production of inventories. The Company uses the first-in, first-out method or average cost method to determine its cost of inventories. Inventories as of July 31, 2010 and April 30, 2010 consisted of the following:																
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## Restructuring Activities and Other

Restructuring Activities and Other	3 Months Ended																					
	Jul. 31, 2010																					
Restructuring Activities and Other	<b>Note 5—Restructuring Activities and Other</b>																					
	<p>As a result of deterioration in general economic conditions in fiscal year 2010, the Company expanded its restructuring activities during fiscal year 2010 in order to improve its performance and better position the Company for current market conditions and longer-term growth. During the three months ended July 31, 2009, the Company recorded \$1.6 million related to these restructuring activities which included costs to complete the Company's plan to relocate its manufacturing activities from Taiwan to the United States and severance expenses related to a reduction in global staffing levels. The Company concluded its restructuring efforts in fiscal year 2010 and there were no further planned restructuring activities as of July 31, 2010.</p> <p>During the three months ended July 31, 2009, the Company also recorded a \$6 million charge pursuant to the provisions of an amended Merger Agreement with OMAX, net of a \$2.8 million discount on two subordinated notes issued to OMAX in fiscal year 2010. Refer to further detail in Note 6 —<i>Termination of OMAX Merger Agreement</i>.</p> <p>The following table summarizes the Company's restructuring and other operating charges for the three months ended July 31, 2009:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: right;"><u>Three Months Ended</u></th> </tr> <tr> <th></th> <th style="text-align: right;"><u>July 31, 2010</u></th> </tr> </thead> <tbody> <tr> <td>Severance and termination benefits</td> <td style="text-align: right;">\$ 1,604</td> </tr> <tr> <td>Merger termination charge</td> <td style="text-align: right;">3,219</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>\$ 4,823</u></td> </tr> </tbody> </table> <p>The following table summarizes the Company's fiscal year 2011 year-to-date restructuring activity:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: right;"><u>Consolidated</u></th> </tr> </thead> <tbody> <tr> <td>Balance, May 1, 2010</td> <td style="text-align: right;">\$ 155</td> </tr> <tr> <td>Restructuring Charges</td> <td style="text-align: right;">—</td> </tr> <tr> <td>Cash Payments</td> <td style="text-align: right;">(155)</td> </tr> <tr> <td>Balance, July 31, 2010</td> <td style="text-align: right;"><u>\$ —</u></td> </tr> </tbody> </table>			<u>Three Months Ended</u>		<u>July 31, 2010</u>	Severance and termination benefits	\$ 1,604	Merger termination charge	3,219		<u>\$ 4,823</u>		<u>Consolidated</u>	Balance, May 1, 2010	\$ 155	Restructuring Charges	—	Cash Payments	(155)	Balance, July 31, 2010	<u>\$ —</u>
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Cash Payments	(155)																					
Balance, July 31, 2010	<u>\$ —</u>																					

## Termination of OMAX Merger Agreement

Termination of OMAX Merger Agreement	3 Months Ended	
	Jul. 31, 2010	
Termination of OMAX Merger Agreement	<b>Note 6—Termination of OMAX Merger Agreement</b>	
	<p>In March 2009, the Company simultaneously entered into the following two agreements with OMAX Corporation:</p> <p>(1) A Settlement and Cross License Agreement (the "Agreement") where both parties agreed to dismiss the litigation pending between them and release all claims made up to the date of the execution of the Agreement. The Company agreed to pay \$29 million to OMAX in relation to this agreement which was funded as follows:</p> <ul style="list-style-type: none"> <li>• A non-refundable cash payment of \$8 million to OMAX in March 2009 as part of the execution of the Agreement;</li> <li>• A cash payment of \$6 million in March 2009 paid directly to an existing escrow account with OMAX, increasing the escrow amount from \$9 million to a total of \$15 million as part of the execution of the Agreement; and</li> <li>• In the event the merger would have been consummated by August 15, 2009, the entire amount would have been applied towards the \$75 million purchase price. However, in the event the merger would not have been consummated by August 15, 2009, the \$15 million held in escrow was to be released to OMAX on August 16, 2009 and the Company was to issue a promissory note in the principal amount of \$6 million to OMAX for the remaining balance on the \$29 million settlement amount.</li> </ul> <p>(2) An amendment to the existing Merger Agreement which provided for the following:</p> <ul style="list-style-type: none"> <li>• A non-refundable cash payment of \$2 million to OMAX for the extension of the closing of the merger from March 31, 2009 to August 15, 2009 — with closing at the option of the Company; and</li> <li>• In the event the merger would have been consummated by August 15, 2009, the \$2 million would be applied towards the \$75 million purchase price. However, in the event the merger would not have been consummated by August 15, 2009 the \$2 million was to be forfeited and the Company was to issue a promissory note in the principal amount of \$4 million to OMAX.</li> </ul> <p>The Company recorded a \$29 million provision related to the settlement of this patent litigation, pursuant to the terms of the Settlement and Cross Licensing Agreement, in fiscal year 2009.</p>	

In fiscal year 2010, the Company terminated its option to acquire OMAX following a thorough investigation of financing alternatives to complete the merger and unsuccessful attempts to negotiate a lower purchase price with OMAX. Pursuant to the terms of the amended Merger Agreement and the Settlement and Cross Licensing Agreement, the \$15 million held in escrow was released to OMAX. The Company recorded a \$6 million charge pursuant to the provisions of the amended Merger Agreement in the first quarter of fiscal year 2010, net of a \$2.8 million discount as the two subordinated notes issued to OMAX were at a stated interest rate of 2%, which is below the Company's incremental borrowing rate. This discount is being amortized as interest expense through the maturity of the subordinated notes in August 2013. The carrying value of the subordinated notes issued to OMAX was \$8.1 million as of July 31, 2010.

## Long-Term Obligations and Notes Payable

Long-Term Obligations and Notes Payable	3 Months Ended													
	Jul. 31, 2010													
Long-Term Obligations and Notes Payable	<b>Note 7—Long-Term Obligations and Notes Payable</b>													
	The Company's long-term obligations as of July 31, 2010 and April 30, 2010 consisted of capital leases:													
		<table border="0"> <thead> <tr> <th></th> <th style="text-align: right;"><u>July 31, 2010</u></th> <th style="text-align: right;"><u>April 30, 2010</u></th> </tr> </thead> <tbody> <tr> <td>Financing arrangements</td> <td style="text-align: right;">\$ 58</td> <td style="text-align: right;">\$ 79</td> </tr> <tr> <td>Less current maturities</td> <td style="text-align: right;">(47)</td> <td style="text-align: right;">(61)</td> </tr> <tr> <td>Long-term obligations</td> <td style="text-align: right;"><u>\$ 11</u></td> <td style="text-align: right;"><u>\$ 18</u></td> </tr> </tbody> </table>		<u>July 31, 2010</u>	<u>April 30, 2010</u>	Financing arrangements	\$ 58	\$ 79	Less current maturities	(47)	(61)	Long-term obligations	<u>\$ 11</u>	<u>\$ 18</u>
	<u>July 31, 2010</u>	<u>April 30, 2010</u>												
Financing arrangements	\$ 58	\$ 79												
Less current maturities	(47)	(61)												
Long-term obligations	<u>\$ 11</u>	<u>\$ 18</u>												
	Notes payable as of July 31, 2010 and April 30, 2010 consisted of the following:													
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	<u>July 31, 2010</u>	<u>April 30, 2010</u>												
Senior Credit Facility	\$ —	\$ 350												
	<i>Senior Credit Facility</i>													
	The Company has a \$40 million secured senior credit facility that expires on June 10, 2011.													
	Under its current Senior Credit Facility Agreement the Company is required to maintain the following ratios in each of its fiscal year 2011 quarters:													
		<table border="0"> <thead> <tr> <th></th> <th style="text-align: right;"><u>Maximum Consolidated Leverage Ratio (i)</u></th> <th style="text-align: right;"><u>Minimum Fixed Charge Coverage Ratio (ii)</u></th> </tr> </thead> <tbody> <tr> <td>First Quarter</td> <td style="text-align: right;">2.75x</td> <td style="text-align: right;">2.0x</td> </tr> <tr> <td>Thereafter</td> <td style="text-align: right;">2.50x</td> <td style="text-align: right;">2.0x</td> </tr> </tbody> </table>		<u>Maximum Consolidated Leverage Ratio (i)</u>	<u>Minimum Fixed Charge Coverage Ratio (ii)</u>	First Quarter	2.75x	2.0x	Thereafter	2.50x	2.0x			
	<u>Maximum Consolidated Leverage Ratio (i)</u>	<u>Minimum Fixed Charge Coverage Ratio (ii)</u>												
First Quarter	2.75x	2.0x												
Thereafter	2.50x	2.0x												
	<p>(i) Defined as the ratio of consolidated indebtedness, excluding the subordinated notes issued to OMAX, to consolidated adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") for the most recent four fiscal quarters.</p> <p>(ii) Defined as the ratio of consolidated adjusted EBITDA, less income taxes and maintenance capital expenditures, during the most recent four quarters to the sum of interest charges during the most recent four quarters and scheduled debt repayments in the next four quarters.</p> <p>These covenants also require the Company to meet a liquidity test such that its consolidated indebtedness shall not exceed the total of 65% of the book value of the Company's accounts receivable and 40% of the book value of its inventory.</p> <p>A violation of any of the covenants above would result in an event of default and accelerate the repayment of all unpaid principal and interest and the termination of any letters of credit. The Company was in compliance with all its financial covenants as of July 31, 2010.</p> <p>All of the Company's domestic assets, including certain interests in some foreign subsidiaries, are pledged as collateral under its Senior Credit Facility Agreement. Interest on the Line of Credit is based on the bank's prime rate or LIBOR rate plus a percentage spread between 3.25% and 4.5% depending on whether it uses the bank's prime rate or LIBOR rate and based on the Company's current leverage ratio. The Company also pays an annual letter of credit fee equal to 3.5% of the amount available to be drawn under each outstanding stand-by letter of credit. The annual letter of credit fee is payable quarterly in arrears and varies depending on the Company's leverage ratio.</p> <p>As of July 31, 2010, the Company had \$38.2 million available under its Line of Credit, net of \$1.8 million in outstanding letters of credit which reduce amounts available under the Senior Credit Facility Agreement. There were no outstanding borrowings against the Senior Credit Facility Agreement as of July 31, 2010. Based on the Company's maximum allowable leverage ratio at the end of the period, the incremental amount it could have borrowed under its Lines of Credit would have been approximately \$25.4 million.</p> <p><i>Revolving Credit Facilities in Taiwan</i></p> <p>There were no outstanding balances under the Company's unsecured Taiwan credit facilities as of July 31, 2010.</p>													

The total unsecured commitment for the Taiwan credit facilities totaled \$2.8 million at July 31, 2010, bearing interest at 2.5% per annum.

## Commitments and Contingencies

Commitments and Contingencies	3 Months Ended	
	Jul. 31, 2010	
Commitments and Contingencies	<b>Note 8—Commitments and Contingencies</b>	
	<b><i>Warranty Obligations</i></b>	
	<p>The Company's estimated obligations for warranty, which are included as part of Costs of Sales in the Condensed Consolidated Statements of Operations, are accrued concurrently with the revenue recognized. The Company makes provisions for its warranty obligations based upon historical costs incurred for such obligations adjusted, as necessary, for current conditions and factors. Due to the significant uncertainties and judgments involved in estimating the Company's warranty obligations, including changing product designs and specifications, the ultimate amount incurred for warranty costs could change in the near term from the current estimate. The Company believes that its warranty accrual as of July 31, 2010, which is included in the Other Accrued Liabilities line item in the Condensed Consolidated Balance Sheets, is sufficient to cover expected warranty costs.</p>	
	<p>The following table presents the fiscal year 2011 year-to-date activity for the Company's warranty obligations:</p>	
	Accrued warranty balance as of May 1, 2010	\$ 2,533
	Accruals for warranties of fiscal year 2011 sales	767
	Warranty costs incurred in fiscal year 2011	(526)
	Accrued warranty balance as of July 31, 2010	<u>\$ 2,774</u>
	<b><i>Legal Proceedings</i></b>	
	<p>At any time, the Company may be involved in legal proceedings in addition to the Crucible matter described below. The Company's policy is to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after thoughtful analysis of each known issue and an analysis of historical experience. The Company records reserves related to legal matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. With respect to other matters, management has concluded that a loss is only reasonably possible or remote and, therefore, no liability is recorded. Management discloses the facts regarding material matters assessed as reasonably possible and potential exposure, if determinable. Costs incurred defending claims are expensed as incurred.</p>	
	<p>In litigation arising out of a June 2002 incident at a Crucible Metals' ("Crucible") facility, the Company's excess insurance carrier notified the Company that it would contest its obligation to provide coverage for the property damage. The carrier settled the claims relating to this incident for a total of approximately \$3.4 million. The Company intends to vigorously contest the carrier's claim; however, the ultimate outcome or likelihood of this specific claim cannot be determined at this time and an unfavorable outcome ranging from \$0 to \$3.4 million is reasonably possible.</p>	
	<b><i>Other Claims or Assessments</i></b>	
	<p>In fiscal year 2009, the Company was notified by the Purchaser of its Avure Business ("Purchaser"), which was reported as a discontinued operation for the year ended April 30, 2006, that the Swedish Tax Authority was conducting an audit which included periods during the time that the Company owned the subsidiary. Pursuant to an agreement with the purchaser, the Company had made commitments to indemnify various liabilities and claims, including any tax matters when it owned the business. The Swedish tax authority concluded its audit and issued a final report in November 2009 asserting that Avure owes 19.5 million Swedish Krona in additional taxes, penalties and fines. In April 2010, the Company filed an appeal to contest the findings by the Swedish Tax Authority. While the Company intends to continue contesting the findings, an equivalent of \$1.2 million was accrued as of July 31, 2010 related to the periods during which it owned Avure. This amount was accounted for as an adjustment to the loss on the disposal of the Avure Business and is reported as a charge to discontinued operations in the Company's Condensed Consolidated Statements of Operations. The balance of the accrued liability will fluctuate period over period with changes in foreign currency rates until such time as the matter is ultimately resolved.</p>	
	<p><i>Other Legal Proceedings</i> - For matters other than those described above, the Company does not believe that any of its other legal proceedings will have a material adverse effect on its consolidated financial position, results of operations or cash flows.</p>	

## Stock-based Compensation

Stock-based Compensation

**Note 9—Stock-based Compensation**

The Company recognizes share-based compensation expense for all share-based payment awards based on fair value. The Company maintains a stock-based compensation plan (the "2005 Plan") which was adopted in September 2005 to attract and retain the most talented employees and promote the growth and success of the business by aligning long-term interests of employees with those of shareholders. At the Annual Meeting of Shareholders held on September 10, 2009, shareholders of the Company approved an amendment to the 2005 Plan which provided for an increase in the aggregate number of shares of common stock that may be issued pursuant to this Plan from 2,500,000 shares to 5,000,000 shares issuable in the form of stock, stock units, stock options, stock appreciation rights, or cash awards.

**Stock Options**

The Company grants stock options to employees of the Company with service and/or performance conditions. The compensation cost of service condition stock options is based on their fair value at the grant date and recognized ratably over the service period. Compensation cost of stock options with performance conditions is based upon current performance projections and the percentage of the requisite service that has been rendered. All options become exercisable upon a change in control of the Company unless the surviving company assumes the outstanding options or substitutes similar awards for the outstanding awards of the 2005 Plan. Options are granted with an exercise price equal to the fair market value of the Company's common stock on the date of grant. The maximum term of options is 10 years from the date of grant.

The following table summarizes stock option activities for the three months ended July 31, 2010:

	Number of Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value	Weighted- Average Remaining Contractual Term (Years)
Outstanding at May 1, 2010	628,082	\$ 10.48	\$ —	4.97
Granted during the period	—	—		
Exercised during the period	—	—		
Expired or forfeited during the period	(90,390)	10.90		
Outstanding at July 31, 2010	<u>537,692</u>	<u>\$ 10.41</u>	<u>\$ —</u>	<u>5.54</u>
Vested and Exercisable at July 31, 2010	<u>396,054</u>	<u>\$ 10.44</u>	<u>\$ —</u>	<u>4.84</u>

There were no options granted or exercised for the respective three months ended July 31, 2010 and 2009.

For the respective three months ended July 31, 2010 and 2009, the Company recognized compensation expense related to stock options of \$145,000 and \$129,000. As of July 31, 2010, total unrecognized compensation cost related to nonvested stock options was \$733,000, which is expected to be recognized over a weighted average period of 1.5 years.

**Service-Based Stock Awards**

The Company grants common stock or stock units to employees and non-employee directors of the Company with service conditions. Each non-employee director is eligible to receive and is granted common stock worth \$40,000 annually. The compensation cost of the common stock or stock units are based on their fair value at the grant date and recognized ratably over the service period.

The following table summarizes the service-based stock award activities for employees for the three months ended July 31, 2010:

	Number of Shares	Weighted- Average Grant-date Fair Value
Nonvested at May 1, 2010	1,237,959	\$ 3.57
Granted during the period	838,666	2.28
Vested during the period	(281,200)	3.25
Forfeited during the period	(3,222)	8.18
Nonvested at July 31, 2010	<u>1,792,203</u>	<u>\$ 3.01</u>

For the respective three months ended July 31, 2010 and 2009, the Company recognized compensation expense related to service-based stock awards of \$496,000 and \$305,000. As of July 31, 2010, total unrecognized compensation cost related to service-based stock awards of \$4.5 million is expected to be recognized over a weighted average period of 2.6 years.

## Basic and Diluted Loss per Share

Basic and Diluted Loss per Share	3 Months Ended																					
	Jul. 31, 2010																					
Basic and Diluted Loss per Share	<b>Note 10—Basic and Diluted Loss per Share</b>																					
	<p>Basic loss per share represents loss available to common shareholders divided by the weighted average number of shares outstanding during the period. Diluted loss per share represents loss available to common shareholders divided by the weighted average number of shares outstanding, including the potentially dilutive impact of stock options, where appropriate. Potential common share equivalents of stock options and warrants are computed by the treasury stock method and are included in the denominator for computation of earnings per share if such equivalents are dilutive.</p> <p>The following table sets forth the computation of basic and diluted loss from continuing operations per share for the respective three months ended July 31, 2010 and 2009:</p>																					
		<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Three Months Ended July 31,</th> </tr> <tr> <th>2010</th> <th>2009</th> </tr> </thead> <tbody> <tr> <td>Numerator:</td> <td></td> <td></td> </tr> <tr> <td>Loss from continuing operations</td> <td style="text-align: right;">\$ (531)</td> <td style="text-align: right;">\$ (7,398)</td> </tr> <tr> <td>Denominator:</td> <td></td> <td></td> </tr> <tr> <td>Denominator for basic and diluted loss per share—weighted average shares outstanding</td> <td style="text-align: right;">47,044</td> <td style="text-align: right;">37,748</td> </tr> <tr> <td>Basic and diluted loss per share from continuing operations</td> <td style="text-align: right;">\$ (0.01)</td> <td style="text-align: right;">\$ (0.20)</td> </tr> </tbody> </table>		Three Months Ended July 31,		2010	2009	Numerator:			Loss from continuing operations	\$ (531)	\$ (7,398)	Denominator:			Denominator for basic and diluted loss per share—weighted average shares outstanding	47,044	37,748	Basic and diluted loss per share from continuing operations	\$ (0.01)	\$ (0.20)
	Three Months Ended July 31,																					
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Basic and diluted loss per share from continuing operations	\$ (0.01)	\$ (0.20)																				
	<p>There were 2,329,895 and 1,991,362 potentially dilutive common shares from employee stock options and stock units which have been excluded from the diluted weighted average share denominator for the respective three months ended July 31, 2010 and 2009 as their effect would be antidilutive.</p>																					

## Other Income (Expense), Net

Other Income (Expense), Net	3 Months Ended																		
	Jul. 31, 2010																		
Other Income (Expense), Net	<b>Note 11—Other Income (Expense), Net</b>																		
	<p>The Company's subsidiaries have adopted the local currency of the country in which they operate as the functional currency. All assets and liabilities of these foreign subsidiaries are translated at period-end rates. Income and expense accounts of the foreign subsidiaries are translated at the average rates in effect during the period. Assets and liabilities (including inter-company accounts that are transactional in nature) of the Company which are denominated in currencies other than the functional currency of the entity are translated based on current exchange rates and gains or losses are included in the Condensed Consolidated Statements of Operations.</p> <p>The following table shows the detail of Other Income (Expense), net, in the accompanying Condensed Consolidated Statements of Operations:</p>																		
		<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Three Months Ended July 31,</th> </tr> <tr> <th>2010</th> <th>2009</th> </tr> </thead> <tbody> <tr> <td>Realized Foreign Exchange Losses, net</td> <td style="text-align: right;">\$ (97)</td> <td style="text-align: right;">\$ (55)</td> </tr> <tr> <td>Unrealized Foreign Exchange Gains, net</td> <td style="text-align: right;">368</td> <td style="text-align: right;">457</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">21</td> <td style="text-align: right;">100</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>\$ 292</u></td> <td style="text-align: right;"><u>\$ 502</u></td> </tr> </tbody> </table>		Three Months Ended July 31,		2010	2009	Realized Foreign Exchange Losses, net	\$ (97)	\$ (55)	Unrealized Foreign Exchange Gains, net	368	457	Other	21	100		<u>\$ 292</u>	<u>\$ 502</u>
	Three Months Ended July 31,																		
	2010	2009																	
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	<u>\$ 292</u>	<u>\$ 502</u>																	

## Income Taxes

Income Taxes	3 Months Ended	
	Jul. 31, 2010	
Income Taxes	<b>Note 12—Income Taxes</b>	
	<p>The Company recognizes a net deferred tax asset for items that will generate a reduction in future taxable income to the extent that it is "more likely than not" that these deferred assets will be realized. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the period in which the tax benefit will be realized. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which the tax benefit will be realized. In determining the realizability of these assets, the Company considers numerous factors, including historical profitability, estimated future taxable income and the industry in which it operates. In fiscal year 2008, the Company reversed approximately \$17.2 million and \$1 million of valuation allowance against deferred tax assets related to U.S. and German net operating loss (NOL) carryforwards and other net deferred tax assets, respectively, after concluding that it was more likely than not that these benefits would be realized based on cumulative positive results of operations and anticipated</p>	

future profit levels. For the fiscal year ended April 30, 2010 and for the first quarter ended July 31, 2010, the Company concluded that, after evaluation of all available evidence, it anticipates generating sufficient future taxable income to realize the benefits of its U.S. and German deferred tax assets. The Company continues to provide a full valuation allowance against its net operating losses and other net deferred tax assets, arising in certain tax jurisdictions, because the realization of such assets is not more likely than not. The Company's valuation allowance at July 31, 2010 was \$11.2 million, an increase of \$1.1 million from April 30, 2010. The increase is mainly attributable to the creation of additional foreign net operating losses. Most of the foreign net losses can be carried forward indefinitely, with certain amounts expiring between fiscal years 2014 and 2017.

For the three months ended July 31, 2010, the Company recorded an income tax expense of \$1.1 million compared to an income tax benefit of \$606,000 in the comparative prior year. For the three months ended July 31, 2010, the relationship between income tax expense and pre-tax income is not customary mainly due to the quarterly tax impact of a \$1.9 million repatriation treated as a dividend for income tax purposes in addition to the tax impact of losses from subsidiaries for which a full valuation allowance is maintained.

The Company has analyzed its filing positions in all of the federal, state, and international jurisdictions where it, or its wholly-owned subsidiaries, are required to file income tax returns for all open tax years in these jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non- U.S. income tax examinations by tax authorities for years prior to fiscal 2002. There are no significant uncertain tax positions in tax years prior to fiscal year 2002. As of July 31, 2010, the Company's balance of unrecognized tax benefits is \$9.0 million, which, if recognized, would reduce the Company's effective tax rate. The Company has recognized immaterial interest charges related to unrecognized tax benefits as a component of interest expense. The Company does not expect that unrecognized tax benefits will significantly change within the next twelve months other than for currency fluctuations.

With the exception of certain of its subsidiaries, it is the general practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. As of July 31, 2010 the Company has not made a provision for U.S. or additional foreign withholding taxes of the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries with the exception of its subsidiaries in Taiwan, Japan, and Switzerland for which it provides deferred taxes. It is not practical to estimate the amount of deferred tax liability relating to the Company's investment in its other foreign subsidiaries. With the exception of the dividend distribution discussed above, the Company did not have any other distributions for income tax purposes during the respective three months ended July 31, 2010 and 2009. However, the Company intends to repatriate funds from certain of its subsidiaries in the future.

## Segment Information

Segment Information	3 Months Ended		
	Jul. 31, 2010		
Segment Information	<b>Note 13—Segment Information</b>		
	<p>The Company has two reportable segments: Standard and Advanced. The Standard segment includes sales and cost of sales related to the Company's cutting, surface preparation and cleaning systems using ultrahigh-pressure water pumps, as well as parts and services to sustain these installed systems. Systems included in this segment do not require significant custom configuration. The Advanced segment includes sales and cost of sales related to the Company's complex aerospace and automation systems which require specific custom configuration and advanced features to match unique customer applications as well as parts and services to sustain these installed systems.</p> <p>Segment results are measured based on revenue growth and gross margin. A summary of operations by reportable segment is as follows:</p>		
		<u>Standard</u>	<u>Advanced</u>
	<b>Three Months Ended July 31, 2010</b>		<u>Total</u>
	External sales	\$ 40,843	\$ 5,737
	Gross margin	17,457	1,876
	<b>Three Months Ended July 31, 2009</b>		
	External sales	\$ 28,367	\$ 9,385
	Gross margin	10,572	3,404
		<u>46,580</u>	<u>13,976</u>