

FLOW INTERNATIONAL CORP  
Form DEF 14A  
October 17, 2007

## SCHEDULE 14A INFORMATION

### Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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# FLOW INTERNATIONAL CORPORATION

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Notes:

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# FLOW INTERNATIONAL CORPORATION

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## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

**NOVEMBER 13, 2007**

To the Shareholders of Flow International Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Flow International Corporation, a Washington corporation, will be held at the Hilton Seattle Airport and Conference Center, 17620 International Boulevard, Seattle, Washington, on November 13, 2007, at 10:00 a.m. local time, for the following purposes as described in the attached Proxy Statement:

1. To elect three directors to hold office for three-year terms ending at the 2010 Meeting of Shareholders, or until their respective successors are elected and qualified, and to elect one director to hold office for a two-year term ending at the 2009 Meeting of Shareholders, or until his successor is elected and qualified.
2. To ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending April 30, 2008.
3. To transact such other business as may properly come before such meeting or any adjournment thereof.

Pursuant to the Bylaws, the Board of Directors has fixed the close of business on October 5, 2007, as the record date for determination of shareholders of the Company entitled to receive notice of and to vote at the Annual Meeting.

So far as Management is aware, no business will properly come before the Annual Meeting other than the matters set forth above.

IF YOU CANNOT BE PRESENT AT THE MEETING, YOU ARE REQUESTED TO SIGN, DATE, AND RETURN THE ENCLOSED PROXY CARD APPOINTING CHARLES M. BROWN AND JOHN S. LENESE, OR EITHER OF THEM, AS YOUR PROXIES.

**By Order of the Board of Directors**

John S. Leness  
Secretary

KENT, WASHINGTON

October 15, 2007

**IT IS IMPORTANT THAT YOUR STOCK BE VOTED**

# FLOW INTERNATIONAL CORPORATION

23500 64th Avenue South

Kent, Washington 98032

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## PROXY STATEMENT

### ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD NOVEMBER 13, 2007

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The following Proxy Statement is made in connection with solicitation by the Board of Directors of Flow International Corporation (the Company ) of the enclosed proxy for use at the Annual Meeting of Shareholders to be held at the Hilton Seattle Airport and Conference Center, 17620 International Boulevard, Seattle, Washington, on November 13, 2007, at 10:00 a.m. local time.

Shares presented by properly executed proxy in the accompanying form will be voted at the meeting and, where instructions have been given by the shareholder, will be voted in accordance with such instructions. *As stated in the proxy, if no instructions are given, the shareholder's shares will be voted For Proposal 1, the election of directors, and For Proposal 2, the ratification of the appointment of Deloitte & Touche LLP as the independent registered public accountants of the Company for fiscal 2008, and, with respect to any other business that may come before the meeting, as recommended by the Board of Directors.*

The proxy may be revoked at any time before its exercise by sending written notice of revocation to the Secretary of the Company at the address set forth on page 1 of this Proxy Statement, or by signing and delivering a proxy which is dated later, or, if the shareholder attends the meeting in person, by giving notice of revocation to the meeting judge. The right to revoke a proxy is not limited by or subject to compliance with a specified formal procedure, but written notice should be given to the Secretary of the Company at or before the Annual Meeting so that the number of shares represented by proxy can be recomputed.

At the date of this statement, the only matters that Management of the Company intends to present are Proposal 1 (election of directors) and Proposal 2 (ratification of the appointment of Deloitte & Touche LLP as the independent registered public accountants). If any other matters are properly brought before the meeting, the enclosed proxy gives discretionary authority to the persons named in such proxy to vote the shares in their best judgment.

The fiscal 2007 Form 10-K of the Company is enclosed herewith.

The approximate mailing date of this proxy material is October 17, 2007.

### **SHAREHOLDER PROPOSALS**

To be considered for presentation to the 2008 Annual Meeting of Shareholders and inclusion in the Company's Proxy Statement related to such meeting, a shareholder proposal must be received at the offices of the Company, 23500 64th Avenue South, Kent, Washington 98032, not later than June 19, 2008. To be eligible to submit a proposal, a shareholder must have continually been a record or beneficial owner of shares of Common Stock having a market value of at least \$2,000 (or representing at least 1% of the shares entitled to vote on the proposal), for a period of at least one year prior to submitting the proposal, and the shareholder must continue to hold the shares through the date on which the meeting is held.

### **OUTSTANDING SECURITIES AND INFORMATION CONCERNING SOLICITATION**

The Company has only one class of capital stock outstanding entitled to be voted at the Annual Meeting: Common Stock with voting rights.

#### **Record Date and Outstanding Shares**

On October 5, 2007, the record date for determining the shareholders entitled to vote at the Annual Meeting, there were 37,325,981 shares of Common Stock outstanding and entitled to vote. The last sale on the record date of the Company's Common Stock, as reported by NASDAQ, was \$9.63 per share.

## Voting

Each share entitles the holder to one vote on all matters presented for shareholder approval including one vote for each director. There are no cumulative voting rights. The presence, in person or by proxy, of holders of a majority of the outstanding shares of Common Stock is required to constitute a quorum for the transaction of business at the Annual Meeting.

In the vote on the election of the director nominees (Proposal 1), you may vote For all or some of the nominees or your vote may be Withheld with respect to one or more of the nominees. For the proposal to ratify the appointment of Deloitte & Touche LLP (Proposal 2), you may vote For, Against or Abstain.

Under Washington law and the Company's Articles of Incorporation, if a quorum is present, with respect to Proposal 1 (election of directors), the four nominees for election to the Board of Directors who receive the greatest number of For votes will be elected. With respect to Proposal 2 (ratification of the appointment of Deloitte & Touche LLP), the proposal will be approved if the number of votes cast For the proposal exceeds the number of votes cast Against the proposal.

An abstention occurs when a shareholder affirmatively instructs the vote to be withheld (by checking the abstain or withhold authority to vote box on the proxy card) or when a shareholder who has not given a proxy is present at a meeting and does not cast a ballot. Abstentions and broker non-votes (shares held by a broker or nominee that are not voted because the broker does not have the authority, either express or discretionary, to vote on a particular matter) are counted for purposes of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting.

Abstentions, withheld votes and broker non-votes will have no practical effect in the election of directors, or in the ratification of the selection of Deloitte & Touche LLP because abstentions, withheld votes and broker non-votes do not represent votes cast For or Against the respective proposal.

## Postponement or Adjournment of Annual Meeting

If the Annual Meeting is postponed or adjourned for any reason, at any reconvening of the Annual Meeting all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the Annual Meeting, except for any proxies that have at that time effectively been revoked or withdrawn, notwithstanding that they may have been effectively voted on the same or any other matter at a previous meeting.

## Solicitation and Expenses of Solicitation

Proxies may be solicited by officers, directors and regular supervisory and executive employees of the Company, none of whom will receive any additional compensation for their services. In addition, the Company has engaged Innisfree M&A Incorporated (Innisfree) to provide proxy solicitation services on behalf of the Company in connection with the Annual Meeting. The Company has agreed to pay Innisfree a fee of approximately \$50,000, and will reimburse Innisfree for certain reasonable out-of-pocket expenses. Innisfree will solicit proxies from individuals, brokers, banks, bank nominees and other institutional holders. Proxies may be solicited personally or by mail, telephone, facsimile

or messenger. The Company will also pay persons holding shares of the Common Stock in their names or in the names of the nominees, but not owning such shares beneficially, such as brokerage houses, banks and other fiduciaries, for the expense of forwarding soliciting materials to their principals. All of the costs of the solicitation of proxies will be paid by the Company.

**ELECTION OF DIRECTORS**

**(Proxy Proposal Number One)**

According to the Company's Articles of Incorporation and Bylaws, the Board of Directors shall be composed of no more than nine (9) directors who are divided (as closely as possible) into three (3) equal classes.

At the meeting, three directors will be elected to hold office for three-year terms ending at the 2010 Meeting of Shareholders, or until their respective successors are elected and qualified, and one director will be elected to hold office for a two-year term ending at the 2009 Meeting of Shareholders, or until his successor is elected and qualified. Of the remaining directors, two are serving terms that will not expire until the 2008 Annual Meeting of Shareholders and two are serving terms that will not expire until the 2009 Annual Meeting of Shareholders. Each director elected will continue in office until his or her successor has been elected, or until his or her resig-



nation or removal in the manner provided by the Articles of Incorporation and Bylaws of the Company.

The names of those persons nominated by the Board of Directors for the position of director of the Company and the names of the directors of the Company whose terms will continue after the Annual Meeting are listed below, accompanied by brief biographies. Shares represented by a properly executed proxy in the accompanying form will be voted for such nominees. Discretionary authority is reserved to vote such shares in the best judgment of the persons named in the proxy in the event that any person or persons other than the nominees listed below are to be voted upon at the meeting due to the unavailability of any nominee so listed.

There are no family relationships between any nominee, director, or executive officer of the Company.

The names of the nominees for directors and the continuing directors, together with certain information regarding them, are as follows:

**Nominees (for terms of three years):**

*Charles M. Brown* (age 48) became the President and Chief Executive Officer of the Company on July 16, 2007, when he was also appointed to the Board. His current term expires with the 2007 Annual Meeting. Previously, Mr. Brown was the President and Chief Operating Officer of the Pump, Pool and Spa Divisions at Pentair, Inc, a company with 2006 revenues of approximately \$3.15 billion, from April 2005 through October 2006. From August 2003 to April 2005, Mr. Brown was the President and Chief Operating Officer of the Pentair Tools Group (which was acquired by Black & Decker Corporation in 2004). Prior to that, Mr. Brown was the President/General manager of Aqua Glass Corporation, a Masco Corporation company, from 1996 to August 2003. Mr. Brown received a B.A., Economics and Government, from Cornell University, and an M.B.A. from J.L. Kellogg Graduate School of Management at Northwestern University.

*Jerry L. Calhoun* (age 63) was appointed to the Company's Board of Directors in January, 2007, and his current term expires with the 2007 Annual Meeting. Mr. Calhoun was Vice President, Human Resources with Boeing Commercial Airplanes from 2001 until January 2007. Mr. Calhoun was previously VP of Employee and Union Relations for Boeing. Prior to those positions with the Boeing Company, in 1981 Mr. Calhoun was appointed Deputy Assistant Secretary of the Department of Defense for civilian personnel policy and requirements; and in 1983 he was appointed Principal Deputy Assistant Secretary of the Department of Defense for force management and personnel. In 1985, President Reagan nominated him as Chairman of the Federal Labor Relations Authority, and he was confirmed by the U.S. Senate. He also served as Chairman of the Foreign Service Labor Relations Board until November 1988, when he returned to the private sector with Boeing. Mr. Calhoun has also taught on the faculty of the University of Washington's School of Business Administration, in the areas of labor management relations and human resource systems. He is a member of the board of a number of organizations, including the Labor Industrial Relations Association Group and the Labor and Employment Relations Association. Among the various awards bestowed upon him for his public service, Mr. Calhoun was honored with the U.S. Department of Defense Distinguished Public Service Award. Mr. Calhoun holds a B.A. from Seattle University and a master's degree in business from the University of Washington.

*J. Michael Ribaldo* (age 64) is Chairman and Chief Executive Officer of Surgical Synergies, Inc., a national company that develops, acquires and operates ambulatory surgery centers. Dr. Ribaldo was elected to the Company's Board of Directors in 1995, and his current term expires in 2007. Dr. Ribaldo graduated from Louisiana State University in 1963 and Louisiana State Medical School in 1967 with graduate medical school training at Emory University, Washington University and New York University. He received postgraduate training at Harvard Law School, Kellogg Business School and Stanford Graduate School of Business.

**Nominees (for term of two years):**

*Arlen I. Prentice* (age 69) is Chairman and Chief Executive Officer of Kibble & Prentice, which provides insurance and financial consulting services. Mr. Prentice is being nominated for a two-year term expiring in 2009. He has served as a director of the Company since 1993 and his current term expires in 2007. He founded Kibble & Prentice 32 years ago. Mr. Prentice serves as a director of Northland Telecommunications Corporation and is a past director of the Starbucks Coffee Corporation, a position he held for 19 years.

**The Board of Directors**  
**Recommends a Vote FOR the**  
**Election of the Above Nominees**  
**for the Board of Directors**

**Continuing Directors:**

*Richard P. Fox* (age 59) has served as consultant and outside board member since 2001 to entrepreneurs and the financial services industry. Mr. Fox was appointed to the Company's Board of Directors in 2002 and his current term expires with the 2009 Annual Meeting. He was President and Chief Operating Officer of CyberSafe Corporation, responsible for the overall financial services and operations of the company. Prior to joining CyberSafe, Mr. Fox was Chief Financial Officer and a member of the Board of Directors of Wall Data where he was responsible for the company's finances, operations, and human resources activities. Mr. Fox spent 28 years at Ernst & Young, last serving as Managing Partner of the Seattle Office. He serves on the Board of Directors of Premera, a Blue Cross managed-care provider, and three venture capital financed technology companies. In addition, he serves as Treasurer and is on the Board of Trustees of the Seattle Foundation and is on the Board of Visitors of the Fuqua School of Business, Duke University. Mr. Fox received a B.A. degree in Business Administration from Ohio University and an M.B.A. from Fuqua School of Business, Duke University. He is a Certified Public Accountant in Washington State.

*Lorenzo C. Lamadrid* (age 56) was appointed to the Company's Board of Directors in 2006 and his current term expires with the 2009 Annual Meeting. Mr. Lamadrid is Managing Director of Globe Development Group, LLC, a firm that specializes in the development of large-scale energy, power generation, transportation and infrastructure projects in China and provides business advisory services and investments with a particular focus on China. Mr. Lamadrid is also Chairman of Synthesis Energy Systems a firm that implements leading technology for the production of clean energy, high value gases and chemicals including methanol and di-methyl-ether from low cost fuels. Additionally, Mr. Lamadrid is a member of the International Advisory Board of Sirocco Aerospace, an international aircraft manufacturer and marketer. Mr. Lamadrid is also a Director and founding partner of the Fairchild

Capital Group, a firm providing investment services to basic industries and infrastructure companies in China. He previously served as President and Chief Executive Officer of Arthur D. Little, a management consulting company, as President of Western Resources International, Inc., and as Managing Director of The Wing Group, a leading international electric power project-development company. Prior to that he was a corporate officer of GE, serving as Vice President and General Manager of GE Aerospace and head of International Operations at GE Aerospace from 1986 to 1999. Mr. Lamadrid holds a dual bachelor's degree in Chemical Engineering and Administrative Sciences from Yale University, a M.S. in Chemical Engineering from the Massachusetts Institute of Technology and an M.B.A. from the Harvard Business School.

*Kathryn L. Munro* (age 59) is the current Chairperson of the Board of Directors and is Principal of Bridge West, a technology investment company. She previously held a variety of senior management positions in both the commercial and retail areas of Seafirst Bank and Bank of America, most recently as Chief Executive for Bank of America's Southwest Banking Group. Ms. Munro began her banking career in 1980. She was elected to the Company's Board of Directors in 1996 and her current term expires in 2008. Ms. Munro currently serves on the corporate boards of Pinnacle West (NYSE:PNW), Knight Transportation (NYSE:KDT), and Premera, a Blue Cross managed-care provider. She also serves on the boards of numerous community organizations in Phoenix, including Valley of the Sun United Way Foundation Board and the national board of advisors for University of Arizona School of Business. Ms. Munro holds a B.S. degree from Auburn University and an M.B.A. from the University of Washington.

*Jan K. Ver Hagen* (age 69) was elected to the Company's Board of Directors in 2003, and his current term expires in 2008. He worked for Emerson Electric Co. from 1977 to 1994 including serving as Vice-Chairman and Director from 1987 to 1994. From 1994 to 1999 he was a director of United Dominion Industries, a multinational manufacturing group, and was President and Chief Operating Officer from 1994 to 1998. He returned to Emerson to serve as Senior Vice President from 1999 to 2002. He also serves as trustee of the Wisconsin Alumni Research

Foundation. He received a B.S.M.E. in 1961 from the University of Wisconsin - Madison.

**DIRECTOR INDEPENDENCE AND  
INFORMATION REGARDING  
THE COMMITTEES OF THE  
BOARD OF DIRECTORS**

The Board of Directors consists of a majority of independent directors as such term is defined under Rule 4200(a)(15) of the NASDAQ Stock Market Inc.'s Marketplace Rules. For fiscal year 2007, the Board of Directors determined that Messrs. Ver Hagen, Fox, Ribaud, Ms. Munro, Mr. Calhoun and Mr. Lamadrid are independent directors. For fiscal year 2008, the Board has determined that the same individuals are independent directors.

The Nominating and Governance Committee of the Board of Directors has included in its written charter a provision making it responsible for reviewing actual or potential conflicts of interest involving the Company's directors and executive officers. The Company's Guide to Ethical Conduct also requires that employees report conflicts of interest to the Company's General Counsel or Corporate Compliance Officer.

The Board of Directors held 12 meetings during the fiscal year ended April 30, 2007. All of the directors attended at least 75% of all Board and Committee meetings. The numbers of meetings of each Committee of the Board are described below.

The Company typically schedules a Board Meeting in connection with the Annual Shareholder Meeting. The Company expects that all directors will attend, absent a valid reason, such as a schedule conflict. Last year, all members of the Board of Directors attended the Annual Meeting.

The Company has an Audit Committee, Compensation and Plan Administrator Committee, Mergers, Acquisitions and Dispositions Committee, and a Nominating and Governance Committee.

*Audit Committee.* The primary function of the Audit Committee is to assist the Board of Directors in its oversight of the integrity of financial information provided to shareholders and others, its review of the adequacy of the system of internal controls established by the Company and its monitoring of the audit process. In performing these functions, the Audit Committee reviews the Company's financial reporting process and internal controls and reviews and appraises the audit efforts of the Company's independent registered public accounting firm and the Company's internal audit function. The Audit Committee also provides open lines of communication between the directors, the independent registered public accounting firm, the internal auditor and the financial and senior management of the Company. The Board of Directors has approved a written charter for the Audit Committee, a copy of which was included as an appendix to the 2006 Proxy Statement. Among other things, the Audit Committee Charter requires that members of the Committee be independent of Management, free of any relationship that would interfere with their independent judgment and have a minimum level of financial competency. During fiscal 2007, Richard P. Fox (Chair), Kathryn L. Munro, and Jan K. Ver Hagen served on the Audit Committee. The same members are expected to serve on the Audit Committee for fiscal 2008. For fiscal 2008, all of the expected members of the Committee are independent directors as defined under the NASDAQ's Marketplace Rules and each of whom are also experienced in financial matters. The members of the Audit Committee, in addition to the foregoing criteria, meet the additional criteria of SEC Rule 10A-3 that they neither (1) accept any direct compensation from the Company other than director and committee fees and pension or other deferred compensation for prior service, nor (2) are affiliated persons of the Company. The Board of Directors has determined that Richard P. Fox is an audit committee financial expert as defined in the rules of the Securities and Exchange Commission (SEC). The Audit Committee held 24 meetings in the fiscal year ended April 30, 2007.

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*Compensation and Plan Administrator Committee.* The primary function of the Compensation and Plan Administrator Committee is to assist the Board of Directors to ensure that all officers and key management personnel of the Company and its subsidiaries are effectively compensated in terms of salary, supplemental compensation, and benefits which are internally equitable and externally competitive. The Committee establishes and maintains a competitive, fair, and equitable compensation and benefits policy designed to retain personnel, to stimulate their useful and profitable efforts on behalf of the Company, and to attract necessary additions to the staff with appropriate qualifications. The Committee also acts as Administrator of the Company's stock incentive plans, determining the terms, amounts and recipients of stock grants. During fiscal 2007, the members of the Compensation and Plan Administrator Committee were J. Michael Ribaudó

(Chair), Richard P. Fox, Kathryn L. Munro and Arlen I. Prentice (non-voting). During fiscal 2008, J. Michael Ribaldo (Chair), Jerry L. Calhoun, Kathryn L. Munro and Arlen I. Prentice (non-voting) will serve on the Committee. For fiscal 2008, except for Arlen I. Prentice, all of the expected members of the Committee are independent directors as defined under the NASDAQ's Marketplace Rules. Arlen I. Prentice is Chief Executive Officer of Kibble & Prentice, Inc., a company that, together with its wholly-owned subsidiary, provides insurance brokerage and employee benefits, administrative and consulting services to the Company. Premium payments for insurance coverage that Kibble & Prentice, Inc. passes on to certain insurance underwriters totaled approximately \$2.1 million for the fiscal year ended April 30, 2007. These amounts included commissions of \$217,887. Mr. Prentice abstained from participating in matters where he may have had a conflict of interest. There were four meetings of the Compensation and Plan Administrator Committee during the fiscal year ended April 30, 2007.

*Mergers, Acquisitions and Dispositions Committee.* The primary function of the Mergers, Acquisitions and Dispositions Committee is to assist the Board of Directors to review potential opportunities for acquisitions, mergers, dispositions, divestitures or similar transactions and to assist the Board of Directors in analyzing equity or debt financings or other capital raising opportunities. During fiscal 2007, Jan K. Ver Hagen (Chair), Lorenzo C. Lamadrid, Richard P. Fox, J. Michael Ribaldo and Arlen I. Prentice served on the Mergers, Acquisitions and Dispositions Committee. During fiscal 2008, Jan K. Ver Hagen (Chair), Jerry L. Calhoun, Lorenzo C. Lamadrid, Richard P. Fox, J. Michael Ribaldo and Arlen I. Prentice will serve on the Mergers, Acquisitions and Dispositions Committee. There were no meetings of the Mergers, Acquisitions and Dispositions Committee during the fiscal year ended April 30, 2007.

*Nominating and Governance Committee.* The primary function of the Nominating and Governance Committee is to assist the Board of Directors in matters of Board organization and composition and to locate and recommend to the Board individuals to fill vacancies on the Board. During fiscal year 2007, Kathryn L. Munro (Chair), Lorenzo C. Lamadrid and Arlen I. Prentice served on the Nominating and Governance Committee, each of whom is an independent director as defined under the NASDAQ's Marketplace Rules. For fiscal 2008, Kathryn L. Munro (Chair), Jerry L. Calhoun, Lorenzo C. Lamadrid and Arlen I. Prentice will serve on the Nominating and Governance Committee. The Nominating and Governance Committee met four times during the fiscal year ended April 30, 2007. The Charter for the Committee is available at the Company's website at [www.flowcorp.com](http://www.flowcorp.com). Information on the Company's website, however, does not form a part of this Proxy Statement.

## THE DIRECTOR NOMINATION PROCESS

### (i) Consideration of Director Nominees

The Nominating and Governance Committee will consider qualified nominees recommended by shareholders. Shareholders may submit recommendations to the Nominating and Governance Committee in care of our Chairman of the Board and Secretary at the address set forth on page 1 of this Proxy Statement. Nominees for director who are recommended by shareholders will be evaluated in the same manner as any other nominee for director.

Shareholder recommendations for director should include (i) the name and address of the shareholder recommending the person to be nominated, (ii) a representation that the shareholder is a holder of record of stock of the Company, including the number of shares held and the period of holding, (iii) a description of all arrangements or understandings between the shareholder and the recommended nominee, (iv) such other information regarding the recommended nominee as would be required to be included in a Proxy Statement filed pursuant to Regulation 14A promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended and (v) the consent of the recommended nominee to serve as a director of the Company if so elected. We may require that the proposed nominee furnish us with other information as we may reasonably request to assist us in determining the eligibility of the proposed nominee to serve as a director.

To submit a recommendation for director for an upcoming annual shareholder meeting, it is necessary that a shareholder notify the Company not less than 120 days, nor more than 180 days, before the first anniversary of the date that the Proxy Statement for the preceding year's Annual

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Meeting was first sent to shareholders. In addition, the notice must meet all other requirements contained in the Company's Bylaws, if any.



The Company's Bylaws also provide that nominations of persons for election to the Board of Directors may be made at any Annual Meeting of Shareholders by any shareholder entitled to vote on such election. Such nominations must be submitted to the Company in accordance with the procedures specified in Section 5 of Article II of the Bylaws.

### Qualification of Directors

In evaluating the suitability of candidates to serve on the Board of Directors, including shareholder nominees, the Nominating and Governance Committee will seek candidates who are independent as defined in the NASDAQ rules and meet certain selection criteria, including:

- Ø each director should be chosen without regard to sex, race, age, religion or national origin;
- Ø each director should be an individual of the highest character and integrity and have an inquiring mind, vision and the ability to work well with others;
- Ø each director should be free of any conflict of interest that would violate applicable law or regulations or interfere with the proper performance of the responsibilities of a director;
- Ø each director should possess substantial and significant experience which would be of particular importance to the Company in the performance of the duties of a director;
- Ø each director should have sufficient time available to devote to the affairs of the Company in order to carry out the responsibilities of a director;
- Ø each director should have the capacity and desire to represent the balanced, best interests of the shareholders of the Company as a whole and not primarily a special interest group or constituency;
- Ø each director should have the ability to read and understand corporate financial statements; and
- Ø each director should have the ability to work effectively with other directors in collectively serving the long-term interests of all shareholders.

Prior to any meeting involving the election of directors, the Nominating and Governance Committee will evaluate the candidates based on the foregoing suitability criteria and recommend the most qualified candidates to the Board of Directors.

In evaluating director candidates, regardless of the source of the nomination, the Nominating and Governance Committee will consider, in accordance with its Charter, the composition of the Board as a whole, the requisite characteristics (including independence, diversity, skills and experience) of each candidate, and the performance and continued tenure of incumbent Board members.

(ii) Process for Identifying and Evaluating Nominees

The Nominating and Governance Committee may employ a variety of methods for identifying and evaluating nominees for director. The Nominating and Governance Committee regularly assesses the size of the Board, the need for particular expertise on the Board, the upcoming election cycle of the Board and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Nominating and Governance Committee considers various potential candidates for director which may come to the Nominating and Governance Committee's attention through current Board members, Management, professional search firms, shareholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating and Governance Committee, and may be considered at any point during the year.

The Nominating and Governance Committee will consider candidates recommended by shareholders, when the nominations are properly submitted, under the criteria summarized above in Consideration of Director Nominees. The deadlines and procedures for shareholder submissions of director nominees are described above. Following verification of the shareholder status of persons proposing candidates, the Nominating and Governance Committee makes an initial analysis of the qualifications of any candidate recommended by shareholders or others pursuant to the criteria summarized above to determine whether the candidate is qualified for service on the Board before deciding to undertake a complete evaluation of the candidate. If any materials are provided by a shareholder or professional search firm in connection with the nomination of a director candidate, such materials are forwarded to the Nominating and Governance

Committee as part of its review. If the Nominating and Governance Committee determines that additional consideration is warranted, it may gather and review additional information about the nominee's background and experience (or may request a third-party search firm on its behalf to gather such additional information and report its findings to the Nominating and Governance Committee). Other than the verification of compliance with procedures and shareholder status, and the initial analysis performed by the Nominating and Governance Committee, a potential candidate nominated by a shareholder is treated like any other potential candidate during the review process by the Nominating and Governance Committee. In connection with this evaluation, the Nominating and Governance Committee determines whether to interview the prospective nominee, and if warranted, one or more members of the Nominating and Governance Committee, and others as appropriate, interview prospective nominees in person or by telephone. After completing this evaluation and interview, the Nominating and Governance Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Nominating and Governance Committee.

### **Compensation Committee Interlocks and Insider Participation**

Other than Mr. Prentice, who is a nonvoting member of the Committee, the Compensation Committee is comprised entirely of independent directors. During fiscal 2007, none of the Company's executive officers served as a member of a compensation committee or board of directors of any other entity which had an executive officer serving as a member of the Company's Board of Directors.

### **Compensation of Directors**

The Compensation and Plan Administrator Committee is charged with ensuring that the Company will be able to continue to attract and retain directors having the qualifications necessary to serve the interests of the Company's shareholders. To achieve this goal and, based on a thorough review of director compensation at a peer group of 16 companies conducted by a nationally recognized independent compensation consulting firm, the Compensation Committee has adopted the following compensation program for Directors. This program was adopted in fiscal 2004 and, except as noted below, remained unchanged for fiscal 2007.

Directors who are not employees of the Company will receive an annual retainer of \$20,000, payable quarterly, \$1,500 per meeting for attendance at Board meetings and \$1,000 per meeting for attendance at Committee meetings. The Company also reimburses directors for travel and other expenses in connection with their service.

In addition, Committee Chairs are paid an additional annual retainer of \$5,000 with the exception of the Audit Committee Chair who is paid an additional annual retainer of \$10,000, and the non-executive Chairman of the Board who is paid an additional annual retainer of \$15,000.

Non-employee Directors also receive annual grants of shares of Common Stock that are vested at the time of grant. The annual grants of shares of Company stock have a value equal to \$40,000 (raised from \$30,000 during the 2006 fiscal year). The grants will be made at each Annual Meeting of Shareholders, and the shares will be valued based on the average closing price over the twenty (20) trading days preceding the Annual Meeting.

The Board has adopted a policy that directors retain all shares of stock received from the Company in consideration for their services so long as they continue to serve as directors of the Company.

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The Board has also adopted a policy, effective beginning with this Annual Meeting, that directors may serve no more than four three-year terms.

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**Directors Compensation**

| Name                       | Fees Earned or<br>Paid in Cash<br>(\$) | Stock Awards<br>(\$) | Total<br>(\$)        |
|----------------------------|--|----------------------|----------------------|
| <b>Richard P. Fox</b>      | <b>\$ 68,500.00</b>                    | <b>\$ 40,000</b>     | <b>\$ 108,496.85</b> |
| <b>Lorenzo C. Lamadrid</b> | <b>\$ 23,500.00</b>                    | <b>\$ 40,000</b>     | <b>\$ 63,496.85</b>  |
| <b>Kathryn L. Munro</b>    | <b>\$ 61,500.00</b>                    | <b>\$ 40,000</b>     | <b>\$ 101,496.85</b> |
| <b>Arlen I. Prentice</b>   | <b>\$ 29,000.00</b>                    | <b>\$ 40,000</b>     | <b>\$ 68,996.85</b>  |
| <b>J. Michael Ribaud</b>   | <b>\$ 31,500.00</b>                    | <b>\$ 40,000</b>     | <b>\$ 71,496.85</b>  |
| <b>Jan K. Ver Hagen</b>    | <b>\$ 44,500.00</b>                    | <b>\$ 40,000</b>     | <b>\$ 84,496.85</b>  |
| <b>Jerry L. Calhoun</b>    | <b>\$ 13,500.00</b>                    | <b>\$ 40,000</b>     | <b>\$ 13,500.00</b>  |

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**MANAGEMENT**
**Executive Officers**

The executive officers of the Company are:

| <u>Name</u>                | <u>Age</u> | <u>Position</u>   |
|----------------------------|------------|---|
| <b>Charles M. Brown</b>    | <b>48</b>  | <b>President and Chief Executive Officer</b>                                    |
| <b>Karen A. Carter</b>     | <b>42</b>  | <b>Vice President of Global Operations</b>                                      |
| <b>Douglas P. Fletcher</b> | <b>52</b>  | <b>Vice President and Chief Financial Officer</b>                               |
| <b>Jeffrey L. Hohman</b>   | <b>53</b>  | <b>Executive Vice President and General Manager</b>                             |
| <b>Richard A. LeBlanc</b>  | <b>51</b>  | <b>Executive Vice President of Sales</b>  |
| <b>John S. Leness</b>      | <b>47</b>  | <b>General Counsel and Corporate Secretary</b>                                  |
| <b>Scott G. Rollins</b>    | <b>43</b>  | <b>Chief Information Officer</b>  |
| <b>Theresa F. Treat</b>    | <b>50</b>  | <b>Vice President of Human Resources</b>  |
| <b>Felix M. Sciuilli</b>   | <b>55</b>  | <b>Senior Vice President of Global Engineering and Research and Development</b> |

Each executive officer of the Company is elected or appointed annually by the Board of Directors.

*Charles M. Brown* (biographical information for Mr. Brown appears above).

*Karen A. Carter* joined the Company in April 2007 as the Director of Operational Excellence and in August 2007 was appointed Vice President of Global Operations. Prior to joining the Company, she held several management and technical roles most recently as Director of Operational Excellence for the Health and Science Technologies business group within IDEX Corporation (1993 to 2007). Most of her professional experience has been spent in manufacturing industries including Micropump Inc., Ford Motor Company and Boeing. Karen Carter is certified as a Six Sigma Black Belt and Value Stream and Mixed Model Value Stream instructor. She holds a B.S. degree in mechanical engineering from Oakland University.

*Douglas P. Fletcher* joined the Company in August 2005 as interim Chief Financial Officer and in October 2005 was appointed Vice President and Chief Financial Officer. Prior to joining the Company, he served as Chief Financial Officer at GiftCertificates.com (2001 to 2005) and eCharge Corporation (2000 to 2001), both based in Seattle. From 1986 until 2000, he held various senior positions in corporate and structured finance, equipment finance, restructuring, and other finance positions with Citigroup in New York. From 1980 to 1986 he served in various positions at International Paper Company and from 1976 to 1980 he was employed by Price Waterhouse. Mr. Fletcher earned his B.S. degree in Accounting from Ohio University in 1976.

*Jeffrey L. Hohman* joined the Company in November 2006 as Executive Vice President and General Manager of the newly formed Flow Waterjet Americas Division. Prior to joining the Company, Mr. Hohman was employed by IDEX Corporation, a pump manufacturing company, for 16 years serving as President of several divisions. Prior to 1990, Mr. Hohman worked for ITT Corporation, Borg Warner Corporation, General Signal Corporation and Dresser, Inc.

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*Richard A. LeBlanc* joined the Company in 1994 as Vice President of Sales. Mr. LeBlanc became Executive Vice President in August 1998. Prior to joining the Company, he was employed by the ASI Robotic Systems Division of Cargill Detroit Corporation for 10 years, serving as Manager of Sales and Marketing and before that in direct sales.

*John S. Leness* joined the Company in June 1990 as its Corporate Counsel, became General Counsel in December 1990, and was appointed Assistant Secretary in January 1991 and Secretary in February 1991. From 1986 until joining the Company, Mr. Leness had been associated with the Perkins Coie law firm.

*Scott G. Rollins* joined the Company in February 2007 as Chief Information Officer. Prior to joining

the Company, Mr. Rollins was a Senior Manager at Maverick Consulting in their manufacturing technology practice. Mr. Rollins spent a decade at Microsoft Corporation and iLogistix, focused on worldwide supply-chain and logistics, manufacturing systems, technology development and deployment.

*Felix M. Sciulli* joined the Company in October 1995 as Vice President of Engineering. Mr. Sciulli became Senior Vice President, Engineering and Research and Development in June 2000. Prior to joining the Company, he was with Equimeter, Inc., a division of BTR plc (acquired from Rockwell International Corporation), for six years as Director of Engineering and Research and Development. Mr. Sciulli also spent 13 years with Rockwell in various engineering and research roles, and three years with Westinghouse Electric Corporation.

*Theresa F. Treat* joined the Company in December 2006 as Vice President, Human Resources. Prior to joining the Company, Ms. Treat was Vice President of Human Resources at Cutter & Buck, Inc., and has more than 20 years of experience in human resources, serving at Onvia, Inc., Pointshare, Inc., Nextlink Communications, and Horizon Airlines. She also served as a labor negotiator for employees in the state of Alaska from 1983 to 1990. Ms. Treat has a master's degree in labor and industrial relations and a bachelor's degree in industrial and organizational psychology, both from the University of Illinois.



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**STOCK OWNERSHIP OF MANAGEMENT AND OF PRINCIPAL SHAREHOLDERS**

The following table sets forth information as of October 5, 2007, with respect to each shareholder known by the Company to be the beneficial owner of more than five percent (5%) of any class of voting securities of the Company, each director, those executive officers listed in the Summary Compensation Table below and all directors and executive officers of the Company as a group. Currently, the Company's sole class of voting securities outstanding is Common Stock. Except as noted below, each person has sole voting and investment powers with respect to the shares shown. Beneficial ownership is determined in accordance with SEC rules. The number of shares beneficially owned and the percentage of ownership of each person or entity includes shares of Common Stock subject to options, warrants or other convertible securities held by that person or entity that are exercisable within 60 days of October 5, 2007. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Percentage of beneficial ownership is based on 37,325,981 shares of Common Stock outstanding as of October 5, 2007. Certain information in the Other Beneficial Ownership table was obtained from filings made with the SEC pursuant to Section 13(g) of the Exchange Act.

### Management

| Name and Position(1)                               | Number of | Number of  | Percent of |             |
|--|-----------|------------|------------|-------------|
|  | Shares    | Options(2) | Total      | Outstanding |
|  |           |            |            | Shares      |
| Charles M. Brown, Director and Executive Officer   | 0         | 0          | 0          | *           |
| Jerry L. Calhoun, Director                         | 2,300     | 0          | 2,300      | *           |
| Douglas P. Fletcher, Executive Officer             | 14,472    | 0          | 14,472     | *           |
| Richard P. Fox, Director                           | 34,733    | 0          | 34,733     | *           |
| Jeffery Hohman, Executive Officer                  | 4,200     | 0          | 4,200      | *           |
| Thomas C. Johnson, Executive Officer(3)            | 53,888    | 37,000     | 90,888     | *           |
| Lorenzo C. Lamadrid, Director                      | 3,187     | 0          | 3,187      | *           |
| Richard A. LeBlanc, Executive Officer              | 57,654    | 100,000    | 157,654    | *           |
| Stephen R. Light                                   | 621,877   | 210,854    | 832,731    | 2.2%        |
| Kathryn L. Munro, Director                         | 36,733    | 39,875     | 76,608     | *           |
| Arlen I. Prentice, Director                        | 175,062   | 39,875     | 214,937    | *           |
| J. Michael Ribaud, Director                        | 168,907   | 39,875     | 208,782    | *           |
| Jan K. Ver Hagen, Director                         | 42,233    | 0          | 42,233     | *           |
| All directors and officers as a group (18 persons) | 1,335,763 | 636,479    | 1,972,242  | 5.3%        |

\* Denotes less than 1%

- (1) Unless otherwise indicated in the table, the address for each listed person is c/o Flow International Corporation, 23500 64th Avenue South, Kent, Washington 98032.
- (2) Includes options exercisable within 60 days for shares of Company Common Stock.
- (3) Thomas C. Johnson was no longer with the Company effective October 12, 2007. Mr. Johnson was formerly the Executive Vice President and General Manager of Flow Waterjet Asia.

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**Other Beneficial Owners**

| <u>Name and Address</u>                       | <u>Number of<br/>Shares</u> | <u>Percent of<br/>Outstanding<br/>Shares</u> |
|---|-----------------------------|--|
| <b>Rainier Investment Management, Inc.(1)</b> | <b>2,414,910</b>            | <b>6.45%</b>                                 |
| <b>601 Union Street</b>                       |                             |  |
| <b>Suite 2801</b>                             |                             |  |
| <b>Seattle, Washington 98101</b>              |                             |  |
| <b>Third Point LLC and Daniel S. Loeb(2)</b>  | <b>5,463,300(3)</b>         | <b>14.7%</b>                                 |
| <b>390 Park Avenue</b>                        |                             |  |
| <b>18th Floor</b>                             |                             |  |
| <b>New York, New York 10017</b>               |                             |  |

- (1) Based on Schedule 13G filed February 13, 2007 by Rainier Investment Management, Inc., a Washington corporation and a registered Investment Adviser.
- (2) Based on Schedule 13D/A filed April 23, 2007 by Third Point LLC. Third Point LLC, a Delaware limited liability company (the Management Company), serves as investment manager or adviser to a variety of hedge funds and managed accounts (such funds and accounts, collectively, the Funds), with respect to shares of Common Stock directly beneficially owned by the Funds. Mr. Daniel S. Loeb is the Chief Executive Officer the Management Company and controls its business activities, with respect to shares of Common Stock indirectly beneficially owned by Mr. Loeb by virtue of such position. These shares include 3,397,200 shares (includes 274,020 shares issuable upon exercise of warrants) held by Third Point Offshore Fund, Ltd. (c/o Walkers SPV Limited, Walker House, Mary Street, P.O. Box 908GT, George Town, Grand Cayman, Cayman Islands, British West Indies).
- (3) Includes 403,300 shares issuable upon exercise of warrants.

**Compliance with Section 16 (a) of the Securities Exchange Act of 1934**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent (10%) of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock. Officers, directors and greater-than-ten percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and representations that no other reports were required, during the fiscal year ended April 30, 2007, all Section 16(a) filing requirements were complied with.

**Compensation Discussion and Analysis**

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*Introduction.* Our Compensation and Plan Administrator Committee (the Compensation Committee) establishes and directs the administration of all programs under which executive compensation is paid or awarded to the Company's executive officers and incentive-eligible employees. The Compensation Committee also evaluates the performance of our Chief Executive Officer (CEO) and assesses the overall effectiveness of the Company's executive compensation programs.

*Compensation Program Objectives.* The Compensation Committee adopted a compensation philosophy in fiscal 2005, which it used as the basis for the Company's compensation programs in fiscal 2006 and in fiscal 2007. The objective of the Company's compensation programs is to provide compensation and benefits that are competitive, equitable and consistent with our commitment to provide a work environment promoting teamwork, outstanding performance and corporate pride. The Compensation Committee is developing changes to its executive compensation program, which it is implementing in fiscal 2008.

*Elements of Executive Compensation.* The elements of executive compensation during fiscal 2007 were base salary, a short-term incentive program, and long-term incentive programs. We describe each of these elements below. While the elements of compensation described below are considered separately, the Compensation Committee takes into

account the full compensation package afforded by the Company to each executive, including salary, targeted incentive compensation, retirement and other benefits. In reviewing the individual performance of the executives whose compensation is detailed elsewhere in this Proxy Statement, the Compensation Committee works with the Company's Human Resources group and the Compensation Committee's independent compensation consultant, and takes into account the views of the CEO (other than in a review of the CEO himself).

*Base Salaries.* The Compensation Committee believes that base salaries should be competitive with relevant organizations with similar complexity, and internally consistent based upon each position's assigned responsibilities. Individual salary determinations are made considering qualifications, experience and performance. Base salaries of the executive officers, other than for the CEO, were determined by the Compensation Committee using the CEO's recommendations and data provided by the Compensation Committee's independent consultant. No adjustments to executive base salaries were made for fiscal 2004 or fiscal 2005. The Compensation Committee made adjustments to individual executives' base salaries for fiscal 2006 and again for fiscal 2007 based on competitive pay data and practices in the industrial and commercial machinery industry sector, proxy analysis of a group of peer companies, and individual performance. The CEO's pay is set by contract and is discussed below.

*Short-Term Incentive Plan.* We believe it is important that those who are directly involved in contributing to the achievement of the Company's goals should have a meaningful portion of their total compensation opportunity tied to those goals. Executive officers and other key management and technical positions have a portion of their total compensation at risk, contingent upon meeting predefined short-term corporate, business unit and individual goals. More senior executives, who have a greater opportunity to contribute to the Company's goals, have a greater portion of their compensation at risk.

The Short-Term Incentive Plan (also known as the Annual Incentive Plan) emphasizes the achievement of the Company's annual financial goals. For fiscal 2007 these goals were based upon the Company obtaining revenue of \$238 million, and EBITDA of \$34 million, and executive officers achieving certain individual goals. Executives' target bonus levels were set at percentages of base salary, ranging from 15-40 percent, with increasing percentages for more senior executives. Payouts could range from zero to two times the target amount, depending on achievement of goals. For executive officers 80 percent of their short-term incentive award was based on the Company's achievement of the financial goals and 20 percent was based on the achievement of individual goals for the executive officers. For divisional executives, 70 percent of their short-term incentive award was based on the achievement of the Company's financial goals at a divisional level and 30 percent on the achievement of individual goals. For the CEO, 50 percent of the CEO's short-term incentive award was based on the achievement of individual goals. For fiscal 2007 the corporate financial goals were not met, and payments of short-term incentive awards for executive officers were only based on the achievement of individual goals.

For fiscal 2006 financial goals included revenue, operating profit, return on assets, and individual and business unit goals. The Company exceeded all of its goals for fiscal 2006, and annual incentive payouts were made for the fiscal year at the maximum levels under the plan adjusted for individual performance measurements. Bonuses for fiscal 2006 were paid approximately half in stock and half in cash.

*Long-Term Incentive Plan.* We also believe that executive officers and other key management positions should have a meaningful portion of their total compensation linked to sustained performance and to increasing long-term shareholder value. Beginning with fiscal 2006, the Company adopted, and the shareholders approved, a Long-Term Incentive Plan. The purpose of the Long-Term Incentive Plan is to provide stock incentives for executives who assist the Company in meeting the Company's long-term financial goals and to align the interests of executives with the Company's shareholders. Under the plan, executives have the opportunity to receive shares of stock based on achievement of goals over a three-year period. At the beginning of each three-year performance period, participating executives are assigned a target award, based on the Company's achievement of specific financial goals. The size of the target long-term incentive award is based on the executive's base salary level. Target long-term incentive awards for executive officers other than the CEO range from 5,000 shares to 20,000. At the end of the relevant three-year period the executive

receives a number of shares, based on the Company's achievement of the previously selected financial goals. Long-term incentive awards may range from zero to two times the target number of shares. For the first three-year period, ending with the end of fiscal 2008, the goals are based on the Company achieving a return on invested assets of 59% and cumulative earnings per share of \$1.09 over the preceding three-year period. For the second three-year period, ending with the end of fiscal 2009, the goals are based on the Company achieving a cumulative cash flow of \$118.5 million and cumulative earnings per share of \$2.05 over the preceding three-year period. If the long-term incentive plan is continued, goals for future three-year periods, as well as target long-term incentive awards, will be set at the beginning of each three-year period. The Compensation Committee is, however, considering alternatives to the long-term incentive plan and may, for future years, adopt a different approach.

*Other Benefits.* Executives also receive reimbursement for fees paid for financial planning services, and a monthly car allowance. The Company provides a 401(k) plan as a retirement benefit and health insurance for all of its US-based employees.

*Equity Compensation.* The Compensation Committee has used stock, rather than stock options for executive compensation believing that executives who hold stock and share the full risk of changes in share price will better manage the Company for its shareholders. The Compensation Committee expects to use stock options as part of future incentive plans.

*Change In Control.* In order to provide executive the assurance that executives will serve the interests of shareholders in the event of a potential sale of the Company or other change in control, the Company provides that in the event an executive loses his or her job without cause following a sale of the Company or other change in control, that executive will receive one year of salary and target bonus. This benefit is provided to senior executives whose employment would be at risk following a change in control.

*Chief Executive Officer Compensation.* Mr. Light, who had been the Company's CEO since January 2003, retired effective July 16, 2007. Mr. Light had previously announced his intention to retire, and in order to ensure a smooth transition and allow the Company time to find his successor, the Company entered into an employment agreement with Mr. Light effective February 2, 2007. This agreement provided for continuation of Mr. Light's base salary until his retirement, continued participation in the Company's short-term incentive plans and continuation of other benefits. Mr. Light ceased to participate in the Company's Long-Term Incentive Plans. In addition, Mr. Light will receive a cash severance payment of \$4,475,250.

*Conclusion.* The Compensation Committee believes that the executive compensation policies and practices it has adopted will serve the interests of the shareholders and the Company effectively. The Compensation Committee also believes that the Company's compensation programs provide motivation for executive officers to contribute to the Company's future success and balance both the short and long-term interests of our shareholders. The Compensation Committee will continue to monitor the effectiveness of the Company's total compensation program to meet the ongoing needs of the Company.

## **Compensation Committee Report**

The Compensation and Plan Administrator Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management, and based on such review and discussions, the Compensation Committee recommended that the Compensation Discussion and Analysis be included in this Proxy Statement.

COMPENSATION AND PLAN  
ADMINISTRATOR COMMITTEE

J. Michael Ribaudo Chairman  
Richard P. Fox  
Kathryn L. Munro  
Arlen I. Prentice (nonvoting)

**Executive Compensation****Summary Compensation Table**

The following table shows all fiscal 2007 compensation paid by the Company to our Chief Executive Officer, Chief Financial Officer, and the other three most highly paid executive officers based on total fiscal 2007 compensation. All individuals listed in the following table are referred to in this Proxy Statement as the Named Executive Officers.

| Name and Principal Position  | Year | Salary     | Bonus        | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | All Other Compensation | Total      |
|--|------|------------|--------------|--------------|---------------|--|------------------------|------------|
|  |      | (\$)       | (\$)         | \$(1)        | \$(2)         | \$(3)                                  | (\$)                   | (\$)       |
| <b>Stephen R. Light</b><br>Principal Executive Officer(4)  | 2007 | \$ 550,020 | \$           | \$           | \$ 101,150    | \$ 143,550                             | \$ 37,667(5)           | \$ 794,720 |
| <b>Douglas P. Fletcher</b><br>Principal Financial Officer  | 2007 | \$ 252,518 | \$           | \$ 39,110    | \$            | \$ 12,112                              | \$ 10,465(6)           | \$ 303,740 |
| <b>Jeffrey L. Hohman</b><br>Executive Vice President and General Manager(7)                      | 2007 | \$ 120,199 | \$ 75,000(8) | \$ 80,585    | \$            | \$ 37,500                              | \$ 13,600(9)           | \$ 238,284 |
| <b>Thomas C. Johnson</b><br>Executive Vice President and General Manager, Flow Waterjet Asia(10) | 2007 | \$ 203,472 | \$           | \$           | \$            | \$ 19,920                              | \$ 15,538(11)          | \$ 223,392 |
| <b>Richard A. LeBlanc</b><br>Executive Vice President of Sales                                   | 2007 | \$ 220,001 | \$           | \$           | \$            | \$ 22,636                              | \$ 15,436(12)          | \$ 242,637 |

- (1) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the 2007 fiscal year for the fair value of shares granted to each of the named executive officers in 2007, in accordance with SFAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information, refer to Note 13 to the Notes to Consolidated Financial Statements found in Item 8 of Part II of our 2007 Form 10-K (listed under Stock-Based Compensation). These amounts reflect the Company's accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named executive officers. Information regarding the shares of restricted stock granted to our named executive officers during the 2007 fiscal year is set forth in the Grants of Plan-Based Awards Table. The Grants of Plan-Based Awards Table also sets forth the aggregate grant date fair value of the restricted stock.
- (2) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the 2007 fiscal year for the fair value of stock options granted to each of the named executive officers in 2007, in accordance with SFAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information, refer to Note 13 to the Notes to Consolidated Financial Statements found in Item 8 of Part II of our 2007 Form 10-K (listed under Stock-Based Compensation). These amounts reflect the Company's accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named executive officers. Information regarding the stock options granted to our named executive officers during the 2007 fiscal year is set forth in the Grants of Plan-Based Awards Table. The Grants of Plan-Based Awards Table also sets forth the aggregate grant date fair value of the restricted stock.
- (3) The amounts set forth in this column were earned during fiscal year 2007 and paid in early fiscal year 2008 to each of the named executive officers under our Annual Incentive Plan. This column represents the dollar amount recognized for financial statement reporting purposes. These amounts reflect the company's accounting expense for these awards, and materially correspond to the actual value that was recognized by the named executive officers. For additional information on the determination of the amounts related to Non-Equity Incentive Plan Compensation, see the discussion above in the Compensation Discussion and Analysis entitled, Annual Incentive Plan.
- (4) Mr. Light retired from Company effective July 16, 2007.

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- (5) This amount represents \$1,309.02 paid in 401(k) matching funds, \$7,667 paid for reimbursement for financial planning services and \$30,000 for a housing allowance.
- (6) This amount represents \$3,264.50 paid in 401(k) matching funds and \$7,200 paid for an automobile allowance.
- (7) Mr. Hohman joined the Company on November 1, 2006.
- (8) This amount represents a signing bonus.
- (9) This amount represents an automobile allowance of \$3,600, and a relocation allowance of \$10,000.
- (10) Thomas C. Johnson was no longer with the Company effective October 12, 2007.
- (11) This amount represents \$3,613.01 paid in 401(k) matching funds, \$7,200 paid for an automobile allowance and \$4,725 for reimbursement for financial planning services.
- (12) This amount represents \$3,534.95 paid in 401(k) matching funds, \$7,200 paid for an automobile allowance and \$4,708.18 for reimbursement for financial planning services and personal travel.



### Grants of Plan-Based Awards

The following table provides information about equity and non-equity awards granted to the named executive officers in fiscal 2007. In the columns described as Estimated Future Payouts Under Non-Equity Incentive Plan Awards, this table quantifies potential awards under the Annual Incentive discussed above. In the columns described below as Estimated Future Payouts Under Equity Incentive Plan Awards, this table quantifies awards made to named executive officers under the Long-Term Incentive Plan discussed above.

| Name                 | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards |             | Estimated Future Payouts Under Equity Incentive Plan Awards |            | All Other Stock Awards: number of shares of stock or units | All Other Option Awards: Number of Securities Underlying Options | Exercise or Base Price of Option Awards (\$/Sh) | Grant Date Fair Value of Stock and Option Awards |
|----------------------|------------|---|-------------|---|------------|--|--|---|--|
|                      |            | Target(\$)  | Maximum(\$) | Target(#)   | Maximum(#) |  |  |   |  |
| Stephen R. Light     | 5/1/2006   | \$ 330,012  | \$ 660,024  |   |            |  |  |   | \$ 0   |
|                      | 5/23/2006  |   |             |   |            |  | 21,250(5)  | \$ 12.81  | \$ 101,150                                       |
|                      | 7/31/2006  |   |             | 5,000(6)  | 10,000(6)  |  |  |   |  |
| Douglas P. Fletcher  | 5/1/2006   | \$ 101,007  | \$ 202,014  |   |            |  |  |   | \$ 0   |
|                      | 7/31/2006  |   |             | 20,000  | 40,000     |  |  |   |  |
| Jeffrey L. Hohman(7) | 11/1/2006  | \$ 54,089   | \$ 108,179  |   |            |  |  |   | \$ 0   |
|                      | 1/8/2007   |   |             |   |            | 5,000  |  |   | \$ 56,750  |
|                      | 11/1/2006  |   |             | 20,000  | 40,000     |  |  |   |  |
| Thomas C. Johnson    | 5/1/2006   | \$ 81,389(8)  | \$ 162,778  |   |            |  |  |   | \$ 0   |
|                      | 7/31/2006  |   |             | 9,750   | 19,500     |  |  |   |  |
| Richard A. LeBlanc   | 5/1/2006   | \$ 77,000   | \$ 154,001  |   |            |  |  |   | \$ 0   |
|                      | 7/31/2006  |   |             | 5,000   | 10,000     |  |  |   |  |

- (1) These columns show what the potential payout for each named executive officer was under the Annual Incentive Plan in fiscal year 2007, if the target, or maximum goals were satisfied for all performance measures. The potential payouts were performance-driven and therefore completely at risk. The payouts range from zero to two times the target bonus, depending on the degree of target achievement. Typically these awards are paid approximately half in cash and half in stock. However, for fiscal year 2007 the awards were paid entirely in cash. The business measurements, performance goals, and salary multipliers for determining the payout are described in the Compensation Discussion and Analysis, above. A column for threshold payments under the Annual Incentive Plan has been omitted because the Annual Incentive Plan does not have a threshold payment feature.
- (2) This column shows the number of awards granted in fiscal 2007 to the named executive officers under the Long-Term Incentive Plan discussed in more detail in the Long-Term Executive Equity Incentive Plan section of the Compensation Discussion and Analysis. The named executive officers have an opportunity to receive these awards based on achievement of goals over a three-year period, ending with the end of fiscal 2009. Awards may range from zero to two times the target number of shares or options. A column for threshold payments under the Annual Incentive Plan has been omitted because the Annual Incentive Plan does not have a threshold payment feature.
- (3) This column shows the exercise price for the stock options granted, which was the closing price of Company stock on the grant date indicated.
- (4) This column shows the full grant date fair value of grants under SFAS 123R. There was no compensation expense recognized related to LTIPs for fiscal 2007 as the achievement of the performance objectives was not deemed probable. For additional information, refer to Note 13 to the Notes to Consolidated Financial Statements found in Item 8 of Part II of our fiscal 2007 Form 10-K (listed under Stock Based Compensation). These amounts reflect the Company's accounting expense, and do not correspond to the actual value that will be recognized by the named executive officers.
- (5) When these options were originally granted they were scheduled to vest, if at all, based on the achievement of certain performance objectives in fiscal 2007. These options had not vested by the time the executive retired effective July 16, 2007. Therefore, per the terms of his employment agreement dated January 7,

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2007, these options expired.

- (6) Mr. Light ceased to participate in the Company's Long-Term Incentive Plan effective upon the amendment of his Employment Agreement effective February 2, 2007.
- (7) Mr. Hohman joined the Company on November 1, 2006. His participation in the Annual Incentive Plan was prorated based on his starting date. Mr. Hohman was guaranteed a minimum payout of \$37,500 under the Annual Incentive Plan. The 5,000 shares shown in the All Other Stock Awards: number of shares of stock or units (#) column vest on the anniversary of the executive's commencement date over a period of two years.
- (8) Mr. Johnson's target bonus percentage increased from 30% of base salary to 40% of base salary when he became Executive Vice President of Flow Waterjet Asia on December 8, 2006. The target and maximum award amounts are based on this higher percentage.

### Outstanding Equity Awards at Fiscal Year-End

The following table provides information on the holdings of stock option and restricted stock awards to the named executive officers as of April 30, 2007. This table includes unexercised and unvested option awards and unvested shares of restricted stock. Each equity grant is shown separately for each named executive officer. The option exercise price shown below reflects the closing market price of the Company's stock on the date of the grant. The market value of the restricted stock awards is based on the closing market price on April 30, 2007. For additional information about the option awards and restricted stock awards, see the description of equity incentive compensation in the Compensation Discussion and Analysis.

| Name                       | Option Awards   |               |   |                            | Stock Awards           |   |  |
|----------------------------|---|---------------|---|----------------------------|------------------------|---|--|
|                            | Number of Securities Underlying Unexercised Options (#) Exercisable | Grant Date(1) | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock that Have Not Vested (\$) |
| <b>Stephen R. Light(1)</b> |   |               | 21,250(2)   | \$ 12.81                   | 5/23/2016              |   |  |
|                            | 21,250  |               |   | \$ 5.92                    | 4/29/2015              |   |  |
|                            | 21,250  |               |   | \$ 2.20                    | 4/23/2014              |   |  |
|                            | 21,248  |               |   | \$ 2.00                    | 3/31/2013              |   |  |
|                            | 147,106(3)  |               |   | \$ 3.80                    | 11/25/2012             |   |  |
| <b>Total</b>               | <b>210,854</b>  |               | <b>21,250</b>   |                            |                        |   |  |
| <b>Douglas P. Fletcher</b> |   |               |   |                            | N/A                    | 12,600  | \$ 144,774   |
| <b>Jeffrey L. Hohman</b>   |   |               |   |                            | N/A                    | 5,000(4)  | \$ 57,450  |
| <b>Thomas C. Johnson</b>   | 25,000  |               |   | \$ 10.22                   | 3/1/2012               |   |  |
|                            | 10,000  |               |   | \$ 10.81                   | 6/21/2010              |   |  |
|                            | 2,000   |               |   | \$ 11.25                   | 5/1/2010               |   |  |
| <b>Total</b>               | <b>37,000</b>   |               |   |                            |                        |   |  |
| <b>Richard A. LeBlanc</b>  | 25,000  |               |   | \$ 10.22                   | 3/1/2012               |   |  |
|                            | 50,000  |               |   | \$ 10.81                   | 6/21/2010              |   |  |
|                            | 15,000  |               |   | \$ 11.25                   | 5/1/2010               |   |  |
|                            | 10,000  |               |   | \$ 10.69                   | 4/30/2008              |   |  |
| <b>Total</b>               | <b>100,000</b>  |               |   |                            |                        |   |  |

(1) Unless otherwise noted, all options vested 50 percent after year 1 and 50 percent after year 2.

(2) When these options were originally granted they were scheduled to vest, if at all, based on the achievement of certain performance objectives in fiscal 2007. These options had not vested by the time the executive retired effective July 16, 2007. Therefore, per the terms of his employment agreement dated January 7, 2007, these options expired.

(3) This award vested monthly over a period of 48 months after the date of his employment (and not grant date); which was November 25, 2002.

(4) These shares were granted pursuant to his offer letter. The shares vest 50% on the one-year anniversary of Mr. Hohman's commencement date (November 1, 2007), and 50% on the second anniversary of his commencement date (November 1, 2008).

### Option Exercises and Stock Vested

The following table provides information for the named executive officers on (1) stock option exercises during fiscal 2007, including the number of shares acquired upon exercise and the value realized; and (2) the number of shares acquired upon the vesting of restricted stock awards and the value realized, each before payment of any applicable withholding tax and broker commissions.

| Name                       | Option Awards           |                               | Stock Awards           |                              |
|----------------------------|-------------------------|-------------------------------|------------------------|------------------------------|
|                            | Number of Shares        |                               | Number of Shares       |                              |
|                            | Acquired on<br>Exercise | Value Realized on<br>Exercise | Acquired on<br>Vesting | Value Realized on<br>Vesting |
|                            | (#)                     | \$(1)                         | (#)                    | \$(2)                        |
| <b>Stephen R. Light</b>    | 8,894                   | \$ 94,617                     |                        |                              |
| <b>Douglas P. Fletcher</b> |                         |                               | 5,040                  | \$ 62,882                    |
| <b>Jeffrey L. Hohman</b>   |                         |                               | 2,100(3)               | \$ 23,394                    |
| <b>Thomas C. Johnson</b>   |                         |                               |                        |                              |
| <b>Richard A. LeBlanc</b>  |                         |                               |                        |                              |

- (1) The dollar amount realized upon exercise was calculated by determining the difference between the market price of the underlying securities at exercise and the exercise price of the options.
- (2) The dollar amount realized upon vesting was calculated by multiplying the number of shares of stock by the market value of the underlying shares on the vesting date.
- (3) Per his employment agreement, Mr. Hohman was granted 25,200 shares of stock on January 8, 2007. The shares vest quarterly and uniformly over a three-year period at the rate of 2,100 shares per quarter.

## Report of the Audit Committee

The undersigned members of the Audit Committee oversee the Company's corporate accounting reporting practices and the quality and integrity of the financial reports of the Company on behalf of the Board of Directors. Management is responsible for the Company's financial statements and the financial reporting process, including the system of internal controls over financial reporting. The Company's independent registered public accounting firm is responsible for expressing an opinion on the conformity of audited financial statements with accounting principles generally accepted in the United States.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed with Management and the independent registered public accounting firm the Company's audited financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2007.

The Audit Committee meets with the independent registered public accounting firm at least quarterly and has discussed with them the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended. In addition, the Audit Committee has discussed with the independent registered public accounting firm its independence from the Company and its Management including the matters in the written report provided to the Audit Committee as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. Also, the Company's internal auditor reports directly to the Audit Committee and meets at least quarterly with the Audit Committee.

The Audit Committee reviewed and discussed Management's assessment of its internal control over financial reporting and the independent registered public accounting firm's evaluation of Management's assessment of the Company's internal control over financial reporting with Management and the Independent Auditors. In addition, the Audit Committee discussed with Management and the independent registered public accounting firm any significant deficiencies identified with respect to the Company's internal control over financial reporting, and elicited recommendations for the improvement of the Company's internal control over financial reporting.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, the audited financial statements included in the Company's Annual Report on Form 10-K for fiscal 2007.

As a result of the adoption of the Sarbanes-Oxley Act of 2002, the Board of Directors is required to determine whether the Company has an audit committee financial expert on the Audit Committee. An audit committee financial expert is defined as a person who has the following attributes: (i) an understanding of generally accepted accounting principles and financial statements; (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities; (iv) an understanding of internal controls and procedures for financial reporting; and (v) an understanding of audit committee functions. Based on the review of the experience and qualifications of the Audit Committee members, the Board of Directors has determined that Richard P. Fox, the Chairman of the Audit Committee, is qualified as an audit committee financial expert.

## AUDIT COMMITTEE

Richard P. Fox Chairman

Kathryn L. Munro

Jan K. Ver Hagen

**RATIFICATION OF APPOINTMENT OF  
INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM  
(PROXY PROPOSAL NUMBER 2)**

The Audit Committee of the Board of Directors requests that shareholders ratify the appointment of Deloitte & Touche LLP ( Deloitte ) as the Company's independent registered public accounting firm for the fiscal year ending April 30, 2008. Services provided to the Company and its subsidiaries by Deloitte in fiscal 2007 are described under Fees to Independent Registered Public Accounting Firms below. Additional information regarding the Audit Committee is provided in the Report of the Audit Committee above.

If the shareholders do not ratify the appointment, the Audit Committee will investigate the reasons for the shareholders' rejection and reconsider the appointment.

**The Board of Directors Recommends a Vote FOR the Ratification of the Appointment of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm.**

Acting under the authority of the Board of Directors, the Company's Audit Committee dismissed PricewaterhouseCoopers LLP ( PwC ) as the Company's independent registered public accounting firm effective January 12, 2006. Effective January 17, 2006, the Company engaged Deloitte as the Company's new independent registered public accounting firm, for the fiscal year ending April 30, 2006. The decision to change accountants was approved and recommended by the Company's Audit Committee.

It is anticipated that representatives of Deloitte will be present at the Annual Meeting to answer shareholders' questions and will have the opportunity to make a statement if they so desire.

**Fees to Independent Registered Public Accounting Firms**

The following table presents fees for audit services rendered by Deloitte, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the Deloitte Entities ), the independent auditor for the audit of the Company's annual consolidated financial statements for the years ended April 30, 2007 and 2006, and to PwC for the services rendered during fiscal 2006 prior to their dismissal as independent auditor for the audit of the Company's annual financial statements, and fees billed for other services rendered by the independent auditor during the same periods.

|               | Deloitte<br>Entities | Deloitte<br>Entities | PwC          |
|---------------|----------------------|----------------------|--------------|
|               | 2007                 | 2006                 | 2006         |
| Audit Fees(1) | \$ 3,387,495         | \$ 2,370,555         | \$ 1,542,872 |

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|                    |                     |                     |                     |
|--------------------|---------------------|---------------------|---------------------|
| Audit-Related Fees | 0                   | 0                   | 0                   |
| Tax Fees(2)        | \$ 44,028           | 0                   | 116,844             |
| All Other Fees(3)  | 0                   | 0                   | 19,665              |
| <b>Total</b>       | <b>\$ 3,431,523</b> | <b>\$ 2,370,555</b> | <b>\$ 1,679,379</b> |

- (1) Fees for audit services billed or expected to be billed relating to fiscal 2007 and 2006 consisted of: (a) audit of the Company's annual financial statements, (b) reviews of the Company's quarterly financial statements, statutory and regulatory audits, consents and other services related to Security and Exchange Commission (SEC) matters, (c) audit of the Company's internal control over financial reporting with the objective of obtaining reasonable assurance about whether effective control over financial reporting was maintained in all material respects, and (d) attestation of management's assessment of internal control, as required by the Sarbanes-Oxley Act of 2002, Section 404.
- (2) Tax fees represent the aggregate fees paid for professional services, principally including fees for tax compliance and tax advice.
- (3) All other fees represent the aggregate fees paid for products and services that are not included in the Audit Fees, Audit-Related Fees and Tax Fees sections. The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the principal registered public accounting firm's independence.

During the interim period of fiscal 2006 through January 12, 2006 in which PwC served as the Company's independent auditor, there were no disagreements between the Company and PwC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of PwC, would have caused PwC to make reference to the subject matter of the disagreement in connection with their reports.

In addition, during the interim period of fiscal 2006 through January 12, 2006 in which PwC served as the Company's independent auditor, there were no reportable events, as defined in Item 304(a)(1)(v) of Regulation S-K.

During the fiscal year ended April 30, 2006, the Company did not consult Deloitte with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type



of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

### **Audit Committee Pre-Approval Policy**

The Audit Committee has adopted a policy for the pre-approval of all audit and non-audit services provided by the Company's independent registered public accounting firm. The policy is designed to ensure that the provision of these services does not impair the registered public accounting firm's independence. Under the policy, any services provided by the independent registered public accounting firm, including audit, audit-related, tax and other services must be specifically pre-approved by the Audit Committee. The Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate responsibilities to pre-approve services performed by the independent registered public accounting firm to Management. For the fiscal year ended April 30, 2007, all services provided by the Company's independent registered public accounting firm have been subject to pre-approval by the Audit Committee.

## **FORM 10-K AND FINANCIAL STATEMENTS**

The Company's fiscal 2007 Form 10-K has been mailed to you with this Proxy Statement. The Form 10-K contains the Consolidated Financial Statements of the Company and its subsidiaries and accompanying notes as of April 30, 2007 and 2006, and the reports thereon by the Company's independent registered public accounting firm.

## **SHAREHOLDER COMMUNICATION WITH THE BOARD OF DIRECTORS**

Although the Company has not to date developed formal processes by which shareholders may communicate directly with directors, it believes that the informal process, in which any communication sent to the Board, either generally or in care of the CEO, Corporate Secretary, or another corporate officer, is forwarded to all members of the Board, has served the Board's and the Company's shareholders' needs. There is no screening process, and all shareholder communications that are received by officers for the Board's attention are forwarded to the Board. In view of recently adopted SEC disclosure requirements related to this issue, the Nominating and Governance Committee may consider development of more specific procedures. Until any other procedures are developed and posted on the Company's corporate website, any communication to the Board should be mailed to the Board, in care of the Company's Corporate Secretary, at the Company's headquarters in Kent, Washington. The mailing envelope must contain a clear notation indicating that the enclosed letter is a Shareholder-Board Communication or Shareholder-Director Communication. All such letters must identify the author as a shareholder and clearly state whether the intended recipients are all members of the Board or just certain specified individual directors. The Secretary will make copies of all such letters and circulate them to the appropriate director or directors.

## **PROFESSIONAL CONDUCT POLICY**

The Company has adopted a Professional Conduct Policy, which it refers to as the Guide to Ethical Conduct. The Company replaced its Professional Conduct Policy with the Guide to Ethical Conduct during the fourth quarter of fiscal year ended April 30, 2007. The Guide to Ethical Conduct was translated into 9 different languages. By the end of the first quarter of the fiscal year ending April 30, 2008, substantially all

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of the Company's employees worldwide had received a copy of, and been trained on the Guide to Ethical Conduct. The Guide to Ethical Conduct is intended to meet the requirements of a code of ethics as set forth in Item 406(b) of Regulation S-K and the Guide to Ethical Conduct applies to all of the Company's employees, including its principal executive officer, principal financial officer and the principal accounting officer. The Professional Conduct Policy is posted on the Company's corporate website at [www.flowcorp.com](http://www.flowcorp.com).

The Company intends to disclose any amendments to the Professional Conduct Policy (other than technical, administrative or non-substantive amendments), and any waivers of a provision of the Professional Conduct Policy for the Company's executive officers, on the corporate website at [www.flowcorp.com](http://www.flowcorp.com). Information on the Company's website, however, does not form a part of this Proxy Statement.

**Certain Relationships and Related Transactions**

Arlen I. Prentice is Chief Executive Officer of Kibble & Prentice, Inc., a company that, together with its wholly-owned subsidiary, provides insurance brokerage and employee benefits, administrative and consulting services to the Company. Premium payments for insurance coverage, which Kibble & Prentice, Inc. passes on to the underwriters, totaled approximately \$2.1 million for the fiscal year ended April 2006. These amounts included commissions of \$217,887 paid by the underwriters to Kibble & Prentice. Mr. Prentice abstained from participating in matters where he may have had a conflict of interest.

**OTHER MATTERS**

The Board of Directors knows of no other business that will be presented at the meeting. If any other business is properly brought before the meeting, it is intended that proxies in the enclosed form will be voted in respect thereof in accordance with the judgment of the persons voting the proxies.

Whether you intend to be present at this meeting or not, you are urged to return your proxy promptly.

By order of the Board of Directors.

Charles M. Brown

President and CEO



