

FLOW INTERNATIONAL CORP  
Form DEF 14A  
August 18, 2006

## 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:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

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## FLOW INTERNATIONAL CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a(6)(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Notes:

# FLOW INTERNATIONAL CORPORATION

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## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

**SEPTEMBER 11, 2006**

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 InterContinental Hotel, 505 N. Michigan Avenue, Chicago, Illinois, on September 11, 2006, at 11:30 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 2009 Meeting of Shareholders, or until their respective successors are 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, 2007.
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 August 2, 2006, 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 STEPHEN R. LIGHT AND JOHN S. LENESE, OR EITHER OF THEM, AS YOUR PROXIES.

**By Order of the Board of Directors**

John S. Leness

Secretary

KENT, WASHINGTON

August 18, 2006

**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 SEPTEMBER 11, 2006

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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 InterContinental Hotel, 505 N. Michigan Avenue, Chicago, Illinois, on September 11, 2006, at 11:30 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 2007, 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 2006 Form 10-K of the Company is enclosed herewith.

The approximate mailing date of this proxy material is August 18, 2006.

**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 August 2, 2006, the record date for determining the shareholders entitled to vote at the Annual Meeting, there were 37,151,659 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 \$13.72 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 three nominees for election to the Board of Directors who receive the greatest number of affirmative (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. The Company has retained The Altman Group, Inc. to assist in the solicitation of proxies. The Company has agreed to pay that firm \$4,500, plus reasonable out-of-pocket expenses, for proxy solicitation services. 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.

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At the meeting, three directors will be elected to serve for three-year terms expiring on the date of the 2009 Annual Meeting of Shareholders. Of the remaining directors, two are serving terms that will not expire until the 2007 Annual Meeting of Shareholders and two are serving terms that will not expire until the 2008 Annual Meeting of Shareholders. Two current directors, Ron Barbaro and Kenneth Roberts, are retiring following the Annual Meeting. Following the Annual Meeting the Board will be reduced in size to seven directors. Each director elected will continue in office until his or her successor has been elected, or until his or her resignation 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):**

*Richard P. Fox* (age 58) is an independent consultant and director providing services 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 this 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, aQuantive (NASDAQ -AQNT), an on line marketing company, Shurgard Storage Centers, Inc. (NYSE -SHU), a real estate investment trust, as well as several private 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 in 1969 from Ohio University and an M.B.A. from Fuqua School of Business, Duke University. He is a Certified Public Accountant in Washington State.

*Stephen R. Light* (age 60) became President and Chief Executive Officer of the Company in January 2003. Mr. Light was appointed to the Board in January of 2003 and his current term expires with this year's Annual Meeting. Prior to joining the Company, from 2000 to 2002, Mr. Light was President and Chief Executive Officer of Omniquip Textron Group, Inc., a manufacturer of material handling equipment, aerial work platforms and hydraulic systems. From 1998 to 1999 he was President and Chief Executive Officer of Bucyrus International, Inc. From 1997 to 1998 he was Vice President and General Manager of Operations at P&H Mining Equipment Co., a subsidiary of Harnischfeger Industries; from 1986 to 1996 he served in various positions at Emerson Electric Company; from 1985 to 1986, he served as General Manager of North American Philips' Mexican consumer electronics manufacturing business; and from 1968 to 1985 at General Electric Company. Mr. Light earned a B.S.M.E. in 1968 from Colorado State University.

*Lorenzo C. Lamadrid* (age 55) was appointed to the Company's Board of Directors in 2006. 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 and high value gases for methanol and ethanol production from low cost fuels. Additionally, Mr. Lamadrid is Director of China Direct Trading Company. 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 and founding partner of The Wing Group, a leading international electric power project-development company. He was a corporate officer, serving as Vice President and General Manager with GE Aerospace and head of International Operations 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. in Marketing and International Business from the Harvard Business School.

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

**Continuing Directors:**

*Kathryn L. Munro* (age 58) is the current Chairman of the Board of Directors and is Principal of Bridge West, a technology investment company. Ms. Munro 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), and Knight Transportation (NYSE:KNX). She also serves on numerous community boards in Phoenix, including Valley of the Sun United Way Foundation 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 68) is the retired Chairman of the Board (non-executive) of Wolverine Tubing Corporation, a copper tubing manufacturer and processor of specialty heat transfer products, and continues to serve as Director and member of the Audit Committee of Wolverine. Mr. Ver Hagen 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 January 1961 from the University of Wisconsin - Madison.

*Arlen I. Prentice* (age 68) is Chairman and Chief Executive Officer of Kibble & Prentice, which provides insurance and financial consulting services. Mr. Prentice founded Kibble & Prentice 32 years ago. He has served as a director of the Company since 1993 and his current term expires in 2007. He is currently the Chairman of the Northwest Chapter of the National Association of Corporate Directors. Mr. Prentice is a past director of the Starbucks Coffee Corporation, a position he held for 19 years. Mr. Prentice attended the University of Washington, graduating in 1959 with a degree in education.

*J. Michael Ribaldo* (age 63) 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.

**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 2006, the Board of Directors determined that Messrs. Ver Hagen, Fox, Roberts (retiring and not standing for re-election), Barbaro (retiring and not standing for re-election), Ribaldo and Ms. Munro were independent directors. For fiscal year 2007, the Board of Directors has determined that Messrs. Ver Hagen, Fox, Ribaldo and Ms. Munro, and Mr. Lamadrid, if elected, are independent directors.

The Board of Directors held 10 meetings during the fiscal year ended April 30, 2006. 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.

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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, a Compensation and Plan Administrator Committee, a 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 is included as an appendix to this 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 2006, the members of the Audit Committee were Richard P. Fox (Chair), Kathryn L. Munro, Kenneth M. Roberts (retiring and not standing for re-election), and Jan K. Ver Hagen. For fiscal 2007, Richard P. Fox (Chair), Kathryn L. Munro, and Jan K. Ver Hagen are expected to serve on the Audit Committee. For fiscal 2007, 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 12 meetings in the fiscal year ended April 30, 2006.

*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 2006, the members of the Compensation and Plan Administrator Committee were J. Michael Ribaud (Chair), Richard P. Fox, Kathryn L. Munro and Arlen I. Prentice (non-voting). For fiscal 2007, the same members are expected to serve on the Committee. For fiscal 2007, 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 the underwriters totaled \$2.4 million for the fiscal year ended April 2006. These amounts included commissions of \$281,809. Mr. Prentice abstained from participating in matters where he may have had a conflict of interest. There were eight meetings of the Compensation and Plan Administrator Committee during the fiscal year ended April 30, 2006.

*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 2006, the members of the Mergers, Acquisitions and Dispositions Committee were Kenneth M. Roberts (Chair) (retiring and not standing for re-election), Ronald D. Barbaro (retiring and not standing for re-election), Arlen I. Prentice, and Jan K. Ver Hagen. For fiscal 2007, Jan K. Ver Hagen (chair), Lorenzo Lamadrid, Richard P. Fox, J. Michael Ribaud and Arlen I. Prentice are expected to serve on the Committee. There were two meetings of the Mergers, Acquisitions and Dispositions Committee during the fiscal year ended April 30, 2006.

*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. Kathryn L. Munro (Chair),

Ronald D. Barbaro (retiring and not standing for re-election), J. Michael Ribaud, and Kenneth M. Roberts (retiring and not standing for re-election) served on the Committee during fiscal year 2006. For fiscal year 2007, Kathryn L. Munro (Chair), Lorenzo Lamadrid and Arlen I. Prentice are expected to serve on the Committee, each of whom is an independent director as defined under the NASDAQ's Marketplace Rules. The Nominating and Governance Committee met 13 times during the fiscal year ended April 30, 2006. 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 Restructuring Committee and Strategic Scenario Planning Committee have been dissolved.

## THE DIRECTOR NOMINATIONS 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 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 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

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review of director compensation at a peer group of 16 companies conducted by a nationally recognized independent compensation consulting firm, the Committee has adopted the following compensation program for Directors. This program was adopted in fiscal 2004 and, except as noted below, remains 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 will be 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 will 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 will 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.

For non-employee Directors serving prior to 2003, the Company had adopted a retirement policy providing that Directors who agree to continue to serve as consultants will receive, following their retirement, annual amounts for a period equal to the director's years of service on the Board, up to a maximum of nine (9) years. This policy is being terminated, and the directors retiring with this Annual Meeting will be the last directors to receive this benefit.

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**MANAGEMENT**
**Executive Officers**

The executive officers of the Company are:

<b>Name</b>	<b>Age</b>	<b>Position</b>
<b>Stephen R. Light</b>	<b>60</b>	<b>President and Chief Executive Officer</b>
<b>Douglas P. Fletcher</b>	<b>51</b>	<b>Vice President and Chief Financial Officer</b>
<b>Thomas C. Johnson</b>	<b>53</b>	<b>Senior Vice President of Operations</b>
<b>Richard A. LeBlanc</b>	<b>51</b>	<b>Executive Vice President of Sales</b>
<b>John S. Leness</b>	<b>46</b>	<b>General Counsel and Corporate Secretary</b>
<b>Rick L. Nicholson</b>	<b>57</b>	<b>Vice President of Human Resources</b>
<b>Felix M. Sciulli</b>	<b>54</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.

*Stephen R. Light* (biographical information for Mr. Light appears above).

*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.

*Thomas C. Johnson* joined the Company in August 1996 as Vice President of Manufacturing. Mr. Johnson became Senior Vice President, Manufacturing Technology in October of 1999 and Senior Vice President of Operations in June of 2003. Prior to joining the Company, he was employed by the Kenworth Truck Company Division of PACCAR for sixteen years, serving as Plant Manager and before that as Assistant Plant Manager.

*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.

*Rick L. Nicholson* joined the Company in 2005 as Vice President, Human Resources. From 2003 until he joined the Company, Mr. Nicholson had been a private consultant. From 2001 to 2003 he was the Chief Human Resources Executive at Milgard Manufacturing, a manufacturer of windows and patio doors, and from 1998 to 2001 he was Vice President of Human Resources at U.S. Marine Corporation a builder of boats. Prior to 1998 Mr. Nicholson was employed by Weyerhaeuser and Tektronix.

*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 thirteen years with Rockwell in various engineering and research roles, and three years with Westinghouse Electric Corporation.

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

The following table sets forth information as of August 2, 2006, 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 August 2, 2006. 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 37,151,659 shares of Common Stock outstanding as of August 2, 2006. 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

<u>Name and Position (1)</u>	<u>Number of Shares</u>	<u>Percent of Outstanding Shares</u>
<b>Ronald D. Barbaro, Director</b>	49,875(2)	*
<b>Douglas P. Fletcher, Executive Officer</b>	9,012(3)	*
<b>Richard P. Fox, Director</b>	31,546	*
<b>Thomas C. Johnson, Executive Officer</b>	90,888(4)	*
<b>Lorenzo C. Lamadrid, Director</b>	0	*
<b>Richard A. LeBlanc, Executive Officer</b>	157,654(5)	*
<b>John S. Leness, Executive Officer</b>	163,644(6)	*
<b>Stephen R. Light, Director and Executive Officer</b>	849,701(7)	2.3%
<b>Kathryn L. Munro, Director</b>	83,421(8)	*
<b>Rick L. Nicholson, Executive Officer</b>	14,025(9)	*
<b>Arlen I. Prentice, Director</b>	244,250(10)	*
<b>J. Michael Ribaud, Director</b>	219,595(11)	*
<b>Kenneth M. Roberts, Director</b>	291,516(12)	*
<b>Felix M. Sciuili, Executive Officer</b>	113,978(13)	*
<b>Jan K. Ver Hagen, Director</b>	39,046	*
<b>All directors and officers as a group (14 persons)</b>	2,358,151	6.4%

\* 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 49,875 shares of Company Common Stock.
- (3) Includes restricted shares vesting within 60 days for 840 shares of Company Common Stock.
- (4) Includes options exercisable within 60 days for 37,000 shares of Company Common Stock.

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- (5) Includes options exercisable within 60 days for 100,000 shares of Company Common Stock.
- (6) Includes options exercisable within 60 days for 106,000 shares of Company Common Stock.
- (7) Includes options exercisable within 60 days for 192,455 shares of Company Common Stock.
- (8) Includes options exercisable within 60 days for 49,875 shares of Company Common Stock.
- (9) Includes restricted shares vesting within 60 days for 1,250 shares of Company Common Stock.
- (10) Includes options exercisable within 60 days for 59,875 shares of Company Common Stock.
- (11) Includes options exercisable within 60 days for 49,875 shares of Company Common Stock.
- (12) Includes options exercisable within 60 days for 49,875 shares of Company Common Stock.
- (13) Includes options exercisable within 60 days for 63,000 shares of Company Common Stock.

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**Other Beneficial Owners**

<u>Name and Address</u>	<u>Number of Shares</u>	<u>Percent of Outstanding Shares</u>
<b>The Pinnacle Fund LP and Barry M. Kitt(1)</b> 4965 Preston Park Blvd.	<b>2,593,610</b>	<b>7.0%</b>
<b>Suite 240</b> <b>Plano, Texas 75093</b>		
<b>Third Point LLC and Daniel S. Loeb(2)</b> 390 Park Avenue	<b>4,436,300(3)</b>	<b>11.9%</b>
<b>18th Floor</b> <b>New York, New York 10017</b>		
<b>JLF FUNDS</b> 2775 Via de la Valle	<b>4,436,300</b>	<b>11.9%</b>
<b>Suite 204</b> <b>Del Mar, CA 92014</b>		
<b>ICM Asset Management, Inc.(4)</b> 601 W. Main Avenue	<b>2,031,800</b>	<b>5.5%</b>
<b>Suite 600</b> <b>Spokane, Washington 99201</b>		
<b>SunTrust Banks, Inc(5)</b> 303 Peachtree Street	<b>2,414,615</b>	<b>6.5%</b>
<b>Suite 1500</b> <b>Atlanta, CA 30308</b>		

- (1) Based on Schedule 13G filed February 9, 2006 on behalf of the Pinnacle Fund, L.P. ( Pinnacle ), a Texas limited partnership, and Barry M. Kitt. Pinnacle Advisers, L.P. ( Advisers ) is the general partner of Pinnacle. Pinnacle Fund Management, LLC ( Pinnacle Management ) is the general partner of Advisers. Mr. Kitt is the sole member of Pinnacle Management. Includes 200,000 shares that were acquired by Pinnacle upon exercise of a warrant on March 27, 2006.
- (2) Based on Schedule 13G filed February 13, 2006 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 managing member of 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 3,014,220 shares (includes 274,020 shares issuable upon exercise of warrants) held by Third Point Offshore Fund (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.
- (4) Based on Schedule 13G filed February 14, 2006 by ICM Asset Management, Inc, Koyah Ventures, LLC and James M. Simmons. ICM Asset Management, Inc. is a registered investment adviser whose clients have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the stock. James M. Simmons is the Chief Executive Officer and controlling shareholder of ICM Asset Management, Inc., and the manager and controlling owner of Koyah Ventures, LLC.

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- (5) Based on Schedule 13G filed February 13, 2006. SunTrust Banks, Inc., a Georgia corporation, as Parent Holding Company for Trusco Capital Management Inc., a Georgia corporation, and for SunTrust Bank Holding Company, a Florida corporation, as Parent Company for SunTrust Bank, a Georgia banking association, in various fiduciary capacities.

**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, 2006, all Section 16(a) filing requirements were complied with.

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

The following table sets forth compensation paid for services to the Company in all capacities for the years ended April 30, 2006, 2005 and 2004, with respect to the Chief Executive Officer and each of the four most highly compensated individuals who were serving as executive officers at the end of the Company's fiscal year ended April 30, 2006 (the "named executive officers").

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation (6)
		Salary	Bonus (1)	Other Annual Compensation (2)	Restricted Stock Awards	Number of Stock Options	Retention Payouts (3)	
<b>Stephen R. Light</b>								
<b>President and Chief Executive Officer</b>	2006	\$ 523,570	\$ 524,475	\$ 250,000	\$ 777,200	21,250		
	2005	480,008	421,414	184,679	341,550	21,250	\$	
	2004	450,008	264,061	181,438	181,000	21,250		