

FLOW INTERNATIONAL CORP

Form DEF 14A

August 19, 2008

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**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 **Confidential, for Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

FLOW INTERNATIONAL CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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FLOW INTERNATIONAL CORPORATION
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
SEPTEMBER 10, 2008

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 Palmer House Hilton, 17 East Monroe Street, Chicago, Illinois, on September 10, 2008, at 9:00 a.m. local time, for the following purposes as described in the attached Proxy Statement:

1. To elect two directors to hold office for three-year terms ending at the 2011 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, 2009.
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 July 3, 2008, 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
August 18, 2008

IT IS IMPORTANT THAT YOUR STOCK BE VOTED

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**FLOW INTERNATIONAL CORPORATION
23500 64th Avenue South
Kent, Washington 98032**

**PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD SEPTEMBER 10, 2008**

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 Palmer House Hilton, 17 East Monroe Street, Chicago, Illinois, on September 10, 2008, at 9:00 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 2009, 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 Board of Directors to vote the shares in their best judgment.

The fiscal 2008 Form 10-K of the Company is enclosed herewith.

The approximate mailing date of this proxy material is August 18, 2008.

SHAREHOLDER PROPOSALS

To be considered for presentation to the 2009 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 April 15, 2009. 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.

**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 July 3, 2008, the record date for determining the shareholders entitled to vote at the Annual Meeting, there were 37,591,000 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 \$7.45 per share.

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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, **AGAINST** all or some of the nominees, or you may vote **WITHHOLD** 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**.

The Company amended its Bylaws on May 7, 2008 to provide that the election of directors would be by majority voting. Under the new provision, if a quorum is present, in uncontested elections such as this one, each of the two nominees for election to the Board of Directors must receive a majority of the votes cast. A majority of votes cast means that the number of shares cast **FOR** a director's election exceeds the number of votes affirmatively voted as **AGAINST** that director. **WITHHOLD** votes and abstentions do not count as cast votes and do not factor into the results for the election.

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 (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 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.

If a director does not receive the required majority of votes cast, then he or she remains on the Board until the earlier of (i) ninety (90) days after the vote is counted; (ii) the date that the Board appoints a replacement; or (iii) the director's resignation. During that ninety (90) day period, the Nominating and Governance Committee will consider and recommend to the Board, and the Board will decide and disclose publicly, whether to fill the office of the nominee who failed to receive a majority of the votes cast. The prior provision of the Bylaws required that, in order to be elected, a director receive a plurality of the votes present at a meeting.

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 retained The Altman Group, Inc. to assist in the solicitation of proxies. The Company has agreed to pay that firm \$5,500, 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 such number of directors as shall from time to time be fixed by resolution adopted by the

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affirmative vote of seventy percent of the total number of directors then in office, split (as closely as possible) into three equal classes. In May 2008, the Board removed the restriction that limited the Board to nine directors.

At the meeting, two directors will be elected to hold office for three-year terms ending at the 2011 Meeting of Shareholders, or until their respective successors are elected and qualified. Of the remaining directors, three are serving terms that will not expire until the 2009 Annual Meeting of Shareholders and three are serving terms that will not expire until the 2010 Annual Meeting of Shareholders. 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.

Jan Ver Hagen is retiring from the Board of Directors when his current term expires at the 2008 Annual Meeting. The Company does not intend to immediately nominate an additional director candidate. However, in connection with the acquisition of OMAX Corporation, the Company has agreed to appoint Dr. John Cheung, the President of OMAX, as a director upon closing of the transaction. The acquisition of OMAX Corporation will not close until after the 2008 Annual Meeting of Shareholders, so Dr. Cheung will stand for election at the 2009 Annual Meeting.

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):

Kathryn L. Munro (age 60) 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.

Larry A. Kring (age 67) was appointed as an independent member of the Board of Directors in March 2008. Since February 2005, Mr. Kring has served as Senior Group Vice President for Esterline Technologies, a global manufacturer of Avionics & Controls, Sensors & Systems, and Advanced Materials. Prior to joining Esterline, Mr. Kring spent 15 years as President and CEO of Heath Tecna Aerospace Company. He also served as an executive of Sargent Industries, and was General Manager of Cochran Western Corporation. He was a director of Everlast Worldwide and has served three terms on the Aerospace Industries Association's Board of Directors. He holds an MBA from the California State University/Northridge and a B.S. degree in Aeronautical Engineering from Purdue University.

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

Continuing Directors:

Charles M. Brown (age 49) 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 2010 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 65) was appointed to the Company's Board of Directors in January, 2007, and his current term expires with the 2010 Annual Meeting. Mr. Calhoun has been a business consultant for the Ford Motor Company since January 2007. 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.

Richard P. Fox (age 61) has served as consultant and outside board member since 2001 to private equity investors. 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, Orbitz Worldwide (NYSE: OWW), an on line travel agency and five private equity financed companies. In addition, he serves 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 57) 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. 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-

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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.

J. Michael Ribaldo (age 66) 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 2010. 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.

Arlen I. Prentice (age 70) is Chairman and Chief Executive Officer of Kibble & Prentice, which provides insurance and financial consulting services. He has served as a director of the Company since 1993 and his current term expires in 2009. 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. Mr. Prentice is currently the chair of the Northwest Chapter of the National Association of Corporate Directors.

**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 2008, the Board of Directors determined that Messrs. Ver Hagen, Fox, Ribaldo, Calhoun, Kring and Mr. Lamadrid and Ms. Munro, are independent directors. For fiscal year 2009, the Board has determined that that Messrs. Fox, Ribaldo, Calhoun, Kring and Mr. Lamadrid and Ms. Munro, 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 5 meetings during the fiscal year ended April 30, 2008. All of the directors attended at least 75% of all Board and Committee meetings, except Mr. Kring who was appointed in March 2008. 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 Board has three standing committees to facilitate and assist the Board in the execution of its responsibilities. The committees are currently the Audit Committee, the Compensation and Plan Administrator Committee and the Nominating and Governance Committee. In accordance with NASDAQ's Marketplace Rules, all the committees are comprised solely of non-employee, independent Directors. The charter of each committee is available in print to any shareholder who requests it, and on the Company's website as noted below. The table below shows the fiscal 2009

membership for each of the standing Board committees.

Audit

Richard P. Fox*
Larry Kring
Kathryn L. Munro

Compensation

Jerry L. Calhoun*
Lorenzo Lamadrid
Kathryn L. Munro
J. Michael Ribauda

Governance

Kathryn L. Munro *
Jerry L. Calhoun
Lorenzo C. Lamadrid
Arlen I. Prentice

* designates committee chairs

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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, which is published on the Company's website at www.flowcorp.com/investors.cfm?id=376. 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. For fiscal 2009, all of the members are 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 4 meetings in fiscal 2008.

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 2008, Arlen I. Prentice was a non-voting member of the Committee. Mr. Prentice abstained from participating in matters where he may have had a conflict of interest due to his relationship with Kibble & Prentice, Inc., which is more fully described under Certain Relationships and Related Transactions below. There were two meetings of the Compensation and Plan Administrator Committee during fiscal 2008.

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. The Nominating and Governance Committee met two times during fiscal 2008. The Charter for the Committee is available at the Company's website at www.flowcorp.com/investors.cfm?id=376. 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

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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.

Effective August 20, 2007, the Board of Directors of Flow amended the section of Flow's Bylaws that governs shareholder nominations for election to the Board. The amendment extends the time for shareholder nominations for directors. The Bylaws had provided that shareholder nominations for directors must be made between sixty and ninety days prior to the annual meeting, and, if the annual meeting date is set so that it is more than thirty days from the anniversary of the prior year's meeting, any shareholder nominations must be received within ten days of the announcement of the meeting date. The amendment to the By-laws extends this time from ten to twenty days.

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:

each director should be chosen without regard to sex, race, age, religion or national origin;

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;

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;

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;

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;

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;

each director should have the ability to read and understand corporate financial statements; and

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

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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

The Compensation and Plan Administrator Committee is comprised entirely of independent directors. During fiscal 2008, 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, but modified in 2006 to raise the value of the stock grant. The program remained unchanged for fiscal 2008.

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. 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.

The Board has also adopted a policy that directors may serve no more than four three-year terms.

Table of Contents**Directors Compensation(1)**

Name	Fees Earned or		Total (\$)
	Paid in Cash (\$)	Stock Awards (\$)	
Jerry L. Calhoun	\$ 41,000	\$ 40,000	\$ 81,000
Richard P. Fox	\$ 55,000	\$ 40,000	\$ 95,000
Larry Kring	\$ 6,000	\$ 0	\$ 6,000
Lorenzo C. Lamadrid	\$ 35,500	\$ 40,000	\$ 75,500
Kathryn L. Munro	\$ 69,000	\$ 78,700(2)	\$ 147,700
Arlen I. Prentice	\$ 42,000	\$ 40,000	\$ 82,000
J. Michael Ribaudó	\$ 42,000	\$ 51,610(2)	\$ 93,610
Jan K. Ver Hagen	\$ 44,500	\$ 40,000	\$ 84,500

(1) represents amounts paid in FY08.

(2) At a meeting held on November 12, 2007, the Board of Directors approved a special grant of shares to Ms. Munro (5,000 shares) and Mr. Ribaudó (1,500 shares) for their efforts during the CEO transition.

Table of Contents**MANAGEMENT****Executive Officers**

The executive officers of the Company are:

Name	Age	Position
Charles M. Brown	49	President and Chief Executive Officer
Karen A. Carter	43	Vice President of Global Operations
Douglas P. Fletcher	53	Vice President and Chief Financial Officer
Jeffrey L. Hohman	54	Executive Vice President and General Manager
John S. Leness	48	General Counsel and Corporate Secretary
Scott G. Rollins	44	Chief Information Officer
Theresa F. Treat	51	Vice President of Human Resources

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. In July of 2007 he accepted the additional role of Executive Vice President and General Manager for Flow International. 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 Industries, Inc. He is a Six Sigma Green Belt and has Bachelor's Degree in Business from Pepperdine University.

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. Mr. Leness has an A.B. in Economics from Harvard College and a J.D. from the University of Virginia.

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.

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.

Table of Contents**STOCK OWNERSHIP OF MANAGEMENT AND OF PRINCIPAL SHAREHOLDERS**

The following table sets forth information as of July 3, 2008 (the Record Date), 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 July 3, 2008. 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 37,591,000 shares of Common Stock outstanding as July 3, 2008. 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 Shares	Number of Options(2)	Total	Percent of Outstanding Shares
Charles M. Brown, Director and Executive Officer	0	50,000	0	*
Jerry L. Calhoun, Director	7,069	0	7,069	*
Douglas P. Fletcher, Executive Officer	18,672	0	18,672	*
Richard P. Fox, Director	39,502	0	39,502	*
Jeffery Hohman, Executive Officer	15,100	0	15,100	*
Larry Kring, Director	0	0	0	*
Lorenzo C. Lamadrid, Director	7,956	0	7,956	*
Kathryn L. Munro, Director	46,502	39,875	86,377	*
Arlen I. Prentice, Director	192,331	39,875	232,206	*
J. Michael Ribaud, Director	179,176	39,875	219,051	*
Scott Rollins, Executive Officer	2,050	0	2,050	*
Theresa M. Treat, Executive Officer	7,000	0	7,000	*
Jan K. Ver Hagen, Director	42,233	0	42,233	*
All directors and officers as a group (18 persons)	617,874	257,625	875,499	2.3%