INTERPHARM HOLDINGS INC
Form DEF 14C
May 29, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14C
INFORMATION STATEMENT PURSUANT TO SECTION 14(c)
OF THE SECURITIES EXCHANGE ACT OF 1934

Check the appropriate box:
o Preliminary Information Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14(c)-5(d)(2))
x Definitive Information Statement

INTERPHARM HOLDINGS, INC.
(Name of the Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):
o No Fee Required
x Fee Computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

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): The proposed maximum value of the transaction was based upon $65,100,000 in cash. The filing fee was determined by multiplying the proposed maximum value of the transaction by .0002.

4. Proposed aggregate value of transaction:
$65,100,000.00

5. Total fee paid:
$13,020.00

x Fee paid previously with preliminary materials.
o Check box is any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount previously paid:

2. Form, schedule, or registration statement number:

3.	Filing party:
4.	Date filed:

INTERPHARM HOLDINGS, INC.
75 Adams Avenue
Hauppauge, New York 11788
631-952-0114

NOTICE OF APPROVAL OF ASSET PURCHASE AGREEMENT AND REAL ESTATE CONTRACT AND APPROVAL OF SALE OF ASSETS

BY

WRITTEN CONSENT OF STOCKHOLDERS

May 29, 2008

NOTICE IS HEREBY GIVEN, pursuant to Section 228 of the General Corporation Law of the State of Delaware ("Delaware Law") that, on April 24, 2008, the holders of a majority of the outstanding shares of Interpharm Holdings, Inc., a Delaware corporation ("we," "us" or the "Company"), entitled to vote thereon, acting by written consent without a meeting of stockholders, approved

- an asset purchase agreement, dated as of April 24, 2008, by and among the Company, our wholly owned subsidiary, Interpharm, Inc., a New York corporation, Amneal Pharmaceuticals of New York, LLC, a Delaware limited liability company ("Amneal"), and the shareholders of the Company indicated as majority shareholders on the signature pages to the asset purchase agreement (the "Majority Stockholders"),

- a real estate contract, dated April 24, 2008, among our wholly owned subsidiaries, Interpharm, Inc., a New York corporation, and Interpharm Realty, LLC, a New York limited liability company, and Kashiv, LLC, a Delaware limited liability company affiliated with Amneal (the "real estate contract"), and

- the transactions contemplated thereby.

In addition, on May 2, 2008 and May 28, 2008, the same persons, acting by written consent without a meeting of stockholders, approved a first amendment, dated May 2, 2008, to the asset purchase agreement (the "first amendment").

Under the asset purchase agreement, as amended by the first amendment (collectively referred to as the "asset purchase agreement"), and the real estate contract, we and our subsidiaries will sell substantially all of our assets and business to the buyers for an aggregate of $61.6 million in cash, subject to certain adjustments thereto and subject to the terms and conditions of the asset purchase agreement and real estate contract. Under the asset purchase agreement, at the closing, Amneal will also establish an escrow fund of $3.5 million for the potential payment of up to $3.5 million additional consideration to the Company and Interpharm, to the extent such funds are not used to indemnify Amneal and Kashiv pursuant to the terms of the asset purchase agreement and real estate contract.

As permitted by Delaware Law, no meeting of stockholders of the Company is being held to vote on the approval of the asset purchase agreement or the real estate contract or the approval of the sale of substantially all of our assets because such transactions have been approved by the requisite stockholders in an action by written consent of the stockholders of the Company. The terms and conditions of the asset purchase agreement and real estate contract and the various transactions contemplated thereby are described in detail in the enclosed Information Statement, which is incorporated by reference and made part of this notice.

/s/ Peter Giallorenzo

Peter Giallorenzo
Chief Financial Officer
Hauppauge, New York

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INFORMATION STATEMENT
INTRODUCTION

After careful consideration, on April 24, 2008, the Board of Directors of the Company (the "Board of Directors") unanimously adopted (i) the Asset Purchase Agreement, dated as of April 24, 2008 (the "original agreement") by and among Interpharm Holdings, Inc., a Delaware corporation (the "Company", "we" or "us"), our wholly-owned subsidiary Interpharm, Inc., a New York corporation ("Interpharm, Inc."), Amneal Pharmaceuticals of New York, LLC, a Delaware limited liability company ("Amneal"), and the shareholders of the Company indicated as "majority shareholders" on the signature pages thereto (the "Majority Stockholders"), and (ii) the Contract for the Sale of Real Estate, dated as of April 24, 2008 (the "real estate contract"), among Interpharm, Inc., Interpharm Realty, LLC, a New York limited liability company ("Realty") and Kashiv, LLC a Delaware limited liability company ("Kashiv").

On May 2, 2008 the Board of Directors unanimously adopted the First Amendment to Asset Purchase Agreement dated May 2, 2008 (the "first amendment"), to the original agreement. The original agreement and the first amendment are hereinafter collectively referred to as the "asset purchase agreement" and such agreements and the real estate contract are hereinafter collectively referred to as the "sale agreements." Under the sale agreements, the Company, Interpharm, Inc. and Realty (collectively referred to as the "sellers") will sell substantially all of their assets to Amneal and Kashiv for an aggregate purchase price of $61.6 million in cash, subject to certain adjustments. Under the asset purchase agreement, at the closing, Amneal will also establish an escrow fund of $3.5 million for the potential payment of up to $3.5 million additional consideration to the Company to the extent such funds are not used to indemnify Amneal and Kashiv pursuant to the terms of the sale agreements.

In addition to adopting the sale agreements, the Board of Directors has adopted and approved all related agreements and transactions as described in this Information Statement.

The Board of Directors has determined that the sale of substantially all of the Company's assets, as set forth in the sale agreements (the "asset sale"), including the sale under the real estate contract of the real property located at 50 Horseblock Road, Yaphank, New York (the "Real Property"), is advisable and in the best interests of the Company and its stockholders. References to the asset sale in this Information Statement also include the sale of the Real Property.

The asset sale involves risks, including the existence of conditions to the obligations of Amneal and Kashiv to complete the asset sale, all of which must either be satisfied or waived prior to the completion of such sale.

The sale agreements and related transactions are more fully described in the section entitled "The Asset Purchase Agreement and Related Documents."

This Information Statement is being furnished to stockholders of the Company beginning June 2, 2008 in connection with the proposed asset sale to Amneal and Kashiv. It is being furnished to the Company's stockholders of record as of May 28, 2008. You should not assume that the information contained herein is accurate as of any date other than the date hereof. All information in this Information Statement concerning the Company has been supplied by the Company. All information contained in this Information Statement concerning Amneal and Kashiv has been supplied by Amneal.

Copies of the asset purchase agreement and the real estate contract are attached to this Information Statement as Annexes A and B, respectively.

As of May 28, 2008, there were (i) 66,738,426 shares of our Common Stock, par value $0.01 per share ("Common Stock"), (ii) 277,000 shares of Series C Convertible Preferred Stock, par value $0.01 per share ("Series C Preferred"), (iii) 4,855,389 shares of Series A-1 Preferred Stock $0.01 per share ("Series A-1 Preferred"), and (iv) 20,825 shares of Series D-1 Preferred Stock, par value $.01 per share (the "Series D-1 Preferred" and, together with the Series C

Preferred, the "Voting Preferred Stock") issued and outstanding. Under the Delaware General Corporation Law ("Delaware Law") and the terms of our Certificate of Incorporation, as amended and as currently in effect, the asset sale requires the approval of the majority of the outstanding Common Stock and the Voting Preferred Stock voting together as a single class. The holders of Common Stock and Series C Preferred have one vote per share. The holders of Series D-1 Preferred have one vote per share of Common Stock into which such holders' shares of Series D-1 Preferred are then convertible. The shares of Series D-1 Preferred outstanding as of May 28, 2008 are convertible into an aggregate of 21,052,632 shares of Common Stock. Accordingly, the approval of holders of shares of Common Stock, Series C Preferred and Series D-1 Preferred entitled to cast 44,034,030 votes, voting together as a single class, is required to approve the asset sale. The holders of a majority of the outstanding Common Stock and Voting Preferred Stock voting together as a single class have executed written consents approving the original agreement, the first amendment and the real estate contract and approving the transactions contemplated by each of those agreements in accordance with Section 228 of Delaware Law. Accordingly, in accordance with Delaware Law and the Certificate of Incorporation of the Company, as amended and currently in effect, the holders of a majority of the outstanding shares of Common Stock and Voting Preferred Stock, voting as a single class, have approved the asset sale and the asset purchase agreement. The actions by written consent are sufficient to approve the sale and the other transactions contemplated by the asset purchase agreement and the real estate contract without any further action or vote of the stockholders of the Company. Accordingly, no other actions are necessary to approve the asset sale, and no such actions are being requested.

The members of Amneal and Kashiv are not required to approve the asset sale.

The holders of Series A-1 Preferred do not have voting rights on the asset sale and the consent of the holders of Series A-1 Preferred was not necessary to obtain the stockholder approval of the transaction required by the Company’s Certificate of Incorporation, as amended, or under Delaware Law. However, the holders of a majority of the outstanding Series A-1 Preferred consented to the terms of the asset purchase agreement thereby waiving certain rights such holders would have in connection with the asset sale.

THIS IS NOT A REQUEST FOR YOUR VOTE OR A PROXY. WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY. THIS INFORMATION STATEMENT IS DESIGNED TO INFORM YOU OF THE ASSET SALE AND TO PROVIDE YOU WITH INFORMATION ABOUT THE ASSET SALE AND THE BACKGROUND TO THE ASSET SALE.

NEITHER THE ASSET SALE, THE ASSET PURCHASE AGREEMENT NOR THE REAL ESTATE CONTRACT HAS BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SEC OR ANY STATE SECURITIES COMMISSION PASSED UPON THE FAIRNESS OR MERIT OF THE ASSET SALE OR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS INFORMATION STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NO PERSONS HAVE BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OR STATEMENTS (OTHER THAN THOSE CONTAINED IN THIS INFORMATION STATEMENT) REGARDING THE ASSET SALE OR THE OTHER MATTERS DISCUSSED HEREIN AND, IF GIVEN OR MADE, ANY SUCH REPRESENTATIONS OR INFORMATION PROVIDED MUST NOT BE RELIED ON AS HAVING BEEN AUTHORIZED OR SANCTIONED BY THE COMPANY OR ANY OTHER PERSON.

The date of this Information Statement is May 29, 2008.

SPECIAL CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Information Statement contains "forward-looking statements" regarding our assumptions, projections, expectations, intentions or beliefs about future events. We caution you that these statements may and often do vary from actual results, and the differences between these statements and actual results can be material. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements.

Forward-looking statements speak only as of the date of this Information Statement. We expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained in this Information Statement to reflect any change in our expectations or any change in events, conditions, assumptions or circumstances on which any such statement is based unless so required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC.

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SUMMARY

The following is a summary of information contained elsewhere in this Information Statement. Reference is made to, and this summary is qualified in its entirety by, the more detailed information contained elsewhere in this Information Statement and the exhibits attached hereto. We urge you to read this Information Statement, the Asset Purchase Agreement, as amended by the First Amendment, the Real Estate Contract and the Opinion of Houlihan Lokey Howard & Zukin Financial Advisors, Inc. concerning the fairness of the asset sale transaction referred to herein to the Company from a financial point of view set forth on Annex A, Annex B and Annex C, respectively, in their entirety because they contain important information about the Company and the asset sale.

The Parties Involved in the Asset Sale

The parties involved in the asset sale (which for purposes of this Information Statement includes the sale of the Real Property by our subsidiary, Interpharm, Inc.) are the Company, Interpharm, Inc. and Realty (collectively, the “sellers”) and Amneal and Kashiv (collectively, the “buyers”). See “Information Regarding the Parties.”

The Company, Interpharm, Inc. and Realty

The Company, through its operating wholly-owned subsidiary, Interpharm, Inc., has been engaged in the business of developing, manufacturing and marketing generic prescription strength and over-the-counter pharmaceuticals since 1984. We currently sell our products under (i) our own label to major retailers, wholesalers, managed care organizations and national distributors and (ii) under private label to wholesalers, distributors, repackagers, and other manufacturers. As of April 30, 2008, we manufactured and marketed 38 generic pharmaceutical products, which represent various oral dosage strengths for eleven unique products and different dosage strengths for 27 of these products.

The Company’s common stock was delisted from the American Stock Exchange on May 1, 2008 and is currently quoted in the Pink Sheets under the symbol "IPAH." The Company’s principal executive offices are located at 75 Adams Avenue, Hauppauge, New York 11788 and its telephone number is 631-952-0214. The Company is a Delaware corporation.

Interpharm, Inc. is a New York corporation and a wholly owned subsidiary of the Company.

Realty is a New York limited liability company which is the former owner of the Company's real property in Yaphank, New York and currently has no assets. Realty is a wholly owned subsidiary of the Company.

For addition information, See “Information Regarding the Parties.”

Amneal

Amneal is a Delaware limited liability company and wholly owned subsidiary of Amneal Pharmaceuticals, LLC. Kashiv, LLC is also a Delaware limited liability company and is owned by the principals of Amneal Pharmaceuticals, LLC.

Amneal Pharmaceuticals, LLC, a Delaware limited liability company, is a pharmaceutical company that develops, manufactures and distributes generic pharmaceutical products, both over the counter and prescription. Amneal Pharmaceuticals, LLC is privately owned and has operated since 2001, with its headquarters in Paterson, New Jersey.

For additional information regarding Amneal and Kashiv, see "Information Regarding the Parties."

Structure of the Transaction and Consideration to be Received

Under the agreements relating to the asset sale, the sellers will sell to Amneal and Kashiv substantially all of the assets of the Company and its subsidiaries, including the Real Property located at 50 Horseblock Road, Yaphank, New York, in exchange for an aggregate of $61.6 million in cash (which amount is subject to certain adjustments, including credits for advances by Amneal to the Company under the loan and security agreement, reductions for the mutually agreed value of certain liabilities assumed by Amneal and the amount of reductions in inventory of the sellers between the dates of signing and closing of the asset purchase agreement, increases for the face amount of receivables of the sellers which are assigned to Amneal and certain adjustments and prorations under the real estate contract). Under the asset purchase agreement, at the closing, Amneal will also establish an escrow fund of $3.5 million for the potential payment of up to $3.5 million additional consideration to the Company and Interpharm, Inc. to the extent such funds are not used to indemnify Amneal or Kashiv pursuant to the terms of the sale agreements.

The asset sale will become effective following the satisfaction or waiver of all closing conditions as contemplated by the sale agreements. See the section in this information statement entitled "The Asset Purchase Agreement and Related Documents."

Interpharm's Reasons for the Transaction

The sellers agreed to enter into the sale agreements because, as a result of certain defaults by the Company under the Wells Fargo Credit Agreement (as defined below) and Restated Forbearance Agreement (as defined below) with Wells Fargo Bank, National Association ("Wells Fargo"), under the Amended and Restated Forbearance Agreement, dated as of March 25, 2008 (the "Restated Forbearance Agreement"), among the Company, Interpharm Inc. and Wells Fargo, the Company and Interpharm Inc. had a deadline of April 30, 2008 to procure a binding commitment for a sale if Interpharm Inc. could not refinance its obligations to Wells Fargo under the Credit Agreement and Security Agreement dated as of February 9, 2006 between Interpharm, Inc. and Wells Fargo (the "Wells Fargo Credit Agreement") with a new lender. If the sellers could not refinance or otherwise satisfy their indebtedness to Wells Fargo, in accordance with the Restated Forbearance Agreement, Wells Fargo would be entitled to foreclose on the sellers' assets securing such indebtedness (which assets constitute substantially all of the sellers' assets) and effectively put the sellers out of business. The Board of Directors of the Company determined that the asset sale on the terms negotiated with Amneal and Kashiv was preferable to all other strategic and financial alternatives (including voluntary bankruptcy) then available to the Company and Interpharm, Inc. See the "Background of the Asset Sale."

Opinion of the Company's Financial Advisor

On May 7, 2008, Houlihan Lokey Howard & Zukin Financial Advisors, Inc. ("Houlihan Lokey"), the Company's financial advisor in connection with the transaction, rendered a written opinion to the Board of Directors as to the fairness, from a financial point of view, of the consideration to be received by the sellers in the asset sale, as of May 7, 2008 and based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion.

Houlihan Lokey's opinion was directed to the Board of Directors and only addressed the fairness from a financial point of view of the consideration to be received by the sellers in the asset sale and does not address any other aspect or implication of the asset sale. The summary of Houlihan Lokey's opinion in this information statement is qualified in its entirety by reference to the full text of its written opinion, which is included as Annex C to this information statement and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion. We encourage our stockholders to read carefully the full text of Houlihan Lokey's written opinion. However, neither Houlihan Lokey's opinion nor the summary of its opinion and the related analyses set forth in this information statement are intended to be, and do not constitute advice or a recommendation to the Board of Directors or any stockholder as to how to act with respect to the asset sale or related matters. See "Opinion of Houlihan Lokey."

Use of Proceeds

The Company will use the cash proceeds of the asset sale to (i) pay expenses incurred in connection with the asset sale (which are estimated to be $1 million) and (ii) satisfy in full all liabilities and indebtedness of the Company not assumed by the buyers (estimated to be $52.5 million), including a Success Fee of $500,000 and additional forbearance fees aggregating $275,000 payable to Wells Fargo which is payable under the Restated Forbearance Agreement if the asset sale is consummated.

Under the asset purchase agreement, the Company has agreed that if the asset sale is consummated, it will not make any payment or distribution with respect to its equity securities, whether by way of redemption, dividend, distribution or otherwise, to the Majority Stockholders or any other holders of Company's capital stock until more than 90 days

after the closing date.

In addition to making the above payments, after the asset sale is consummated the Company intends to wind up its operations and distribute its remaining net assets, if any, to its stockholders.

For additional information see "The Company's Plans Following the Asset Sale."

Proceeds Sharing Agreement

The Majority Stockholders have entered into an Amended and Restated Proceeds Sharing Agreement dated as of May 1, 2008 (the “Proceeds Sharing Agreement”) which provides, among other things, that in the event that the holders of the Company’s Common Stock receive aggregate cash distributions from the Company or Amneal with respect to their shares of Common Stock of less than $3 million and the holders of Series D-1 Preferred (“D-1 Holders”) receive aggregate cash distributions from the Company or Amneal of at least $13 million with respect to their Series D-1 Preferred, each of the D-1 Holders agrees to share proceeds with all holders of Common Stock to the extent that proceeds to such D-1 Holders are in excess of $6.5 million, until all holders of Common Stock have received proceeds from the Company, Amneal and the D-1 Holders equal to an aggregate of $3 million.

The Company is not a party to, nor obligated under, the Proceeds Sharing Agreement to make any payments to the holders of any class or series of the Company’s capital stock other than as may be required under the terms of such capital stock.

See “The Asset Purchase Agreement and Related Documents - Ancillary Agreement - Proceeds Sharing Agreement."

Indemnity

The asset purchase agreement obligates us to indemnify the buyers for:

- any liabilities of any seller not assumed by the buyers;
- any failure by us to observe or perform our covenants;
- any representation or warranty made by us being untrue or incorrect in any respect;
- any taxes of any seller or with respect to the business for all periods prior to the closing date, and any tax liability of any seller or the Company’s shareholders arising in connection with the transactions contemplated by the asset purchase agreement;
- any failure of any seller to have good, verified marketable title to the assets to be sold under the asset purchase agreement free and clear of all liens (other than permitted liens);
- any challenge to the transaction by any shareholder of the Company;
- all reasonable attorneys fees and other losses in connection with pending litigation (other than litigation that Amneal agrees to assume) against the assets to be sold under the asset purchase agreement;
- certain failures of the sellers to have effective, exclusive and original ownership of all of their tangible and intellectual property;
- brokers fees, commissions or similar payments to Greiner-Maltz Company of Long Island or any of its affiliates with respect to the sale of the Real Property or otherwise; and
- any failure by the Company to pay costs required to be paid by the Company under the asset purchase agreement to transfer to Amneal of the U.S. Drug Enforcement Agency (“DEA”) controlled substances license for the facility at 75 Adams Avenue, Hauppauge, New York and the Real Property; and

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any costs of product recalls which occur 180 days after the closing date for product lots which were manufactured prior to the closing date.

See “The Asset Purchase Agreement and Related Documents - Indemnification and Escrow.”

Escrow

The parties have agreed, pursuant to an escrow agreement to be entered into with Sovereign Bank, as escrow agent, that Amneal shall place $3.5 in escrow for one year. The escrow fund shall be used to secure the indemnification obligations of the Company and Interpharm, Inc. under the sale agreements. Funds will be released to the Company after one year assuming no claims against the escrow. See "The Asset Purchase Agreement and Related Documents — Indemnification and Escrow."

Representations and Warranties of the Company and its Subsidiaries

The representations and warranties of the sellers contained in the sale agreements include customary representations regarding the sellers and the assets to be conveyed to Amneal and Kashiv. See "The Asset Purchase Agreement and Related Documents — Representations, Warranties, and Covenants."

Conditions to Closing

Before the asset sale can be completed certain closing conditions must be satisfied or waived. See "The Asset Purchase Agreement and Related Documents — Conditions Precedent to the Closing of the Asset Sale."

Closing

Under the sale agreements, the closing of the asset sale is scheduled to be held on June 16, 2008, or, if the DEA has not issued a controlled substances license to Amneal for Interpharm, Inc.'s 75 Adams Avenue, Hauppauge, New York facility prior to June 16, 2008, the closing date shall be automatically extended to the earlier of July 16, 2008 or the third business day after the DEA license is issued. In the event that the DEA license has not been issued to Amneal prior to July 16, 2008 then, unless Amneal and the Company agree to extend the closing date or Amneal waives the condition that it be issued the DEA license prior to closing and elects to close, the asset purchase agreement shall automatically terminate at midnight on July 16, 2008.

Under rules promulgated by the SEC, the asset sale may not be consummated until at least 20 days following the mailing of this Information Statement. In addition, the closing of the asset sale is subject to the satisfaction or waiver of additional closing conditions under the sale agreements.

We anticipate that the asset sale will close on June 24, 2008, which is not later than the third business day following the date on which the Company will fulfill its information statement filing and mailing obligations by having mailed this information statement to stockholders at least 20 days prior to consummating the asset sale. However, in the event that prior to the earlier of (i) June 16, 2008 and (ii) the third business day after the DEA license is issued, the sellers have not complied with certain of the conditions to the obligations of Amneal to close the sale agreements, the closing date of the sale agreements shall be automatically extended to the third business day following the date on which all of such conditions have been satisfied.

For additional information see "The Asset Purchase Agreement and Related Documents — Conditions Precedent to the Closing of the Asset Sale" and — "Termination, Amendments and Waivers."

Termination

Amneal and the Company have the option to terminate the sale agreements under certain circumstances, including the ability to terminate the sale agreements if the asset sale has not been completed by September 16, 2008, even if the reason the closing has not occurred is that all of Amneal's conditions to close have not been satisfied. See "The Asset Purchase Agreement and Related Documents—Termination."

No Solicitation

Except in connection with certain unsolicited third-party proposals received prior to the time a definitive Information Statement is filed with the SEC (which occurred on May 29, 2008), the asset purchase agreement prohibits the Company from soliciting, and prohibits the Company from participating in discussing with third parties, or taking other actions related to, alternate transactions to the asset sale to Amneal. See "The Asset Purchase Agreement and Related Documents - No Solicitation of Alternative Transactions."

Break-up Fee

If the asset purchase agreement is terminated in connection with the Company entering into a definitive agreement with a third party with respect to an alternative transaction, the Company would be required under certain circumstances to pay Amneal a termination fee of 4% of the purchase price in the asset sale (defined as the sum of (a) the $61.6 million base cash purchase price, (b) the $3.5 million escrowed amount and (c) the amount of the sellers' liabilities assumed by Amneal in connection with the asset sale) and Amneal's reasonable expenses related to the transaction. In addition, Interpharm, Inc. would become obligated to repay all advances made to it by Amneal under the loan and security agreement entered into between such parties on April 24, 2008. See "The Asset Purchase Agreement and Related Documents - Break-up Fee."

Expenses

In general, all fees and expenses incurred in connection with the sale agreements and the transactions contemplated thereby will be paid by the party incurring the expenses whether or not the asset sale is completed. See "The Asset Purchase Agreement and Related Documents."

Vote Required for Stockholder Approval

Since the asset sale may constitute a sale of "all or substantially all" of the assets of the Company as defined under Section 271 of Delaware Law, the Company has elected to obtain stockholder approval of the asset sale. Section 271 of Delaware Law requires the approval of the holders of a majority of the outstanding shares of the Company entitled to vote on that matter.

As of May 28, 2008, there were (i) 66,738,426 shares of our Common Stock, (ii) 277,000 shares of Series C Preferred, (iii) 4,855,389 shares of Series A-1 Preferred and (iv) 20,825 shares of Series D-1 Preferred issued and outstanding. The Series C Preferred and the Series D-1 Preferred (which are collectively referred to as the "Voting Preferred Stock") are the only shares of preferred stock which carry rights to vote on the asset sale. Under Delaware Law and the terms of our Certificate of Incorporation, as amended and as currently in effect, the asset sale requires the approval of the majority of the outstanding Common Stock and Voting Preferred Stock voting together as a single class. The holders of Common Stock and Series C Preferred have one vote per share. The holders of Series D-1 Preferred have one vote per share of Common Stock into which such holders' shares of Series D-1 Preferred are then convertible. The shares of Series D-1 Preferred outstanding as of May 28, 2008 are convertible into 21,052,632 shares of Common Stock. Accordingly, the approval of holders of shares of Common Stock, Series C Preferred Stock and Series D-1 Preferred Stock entitled to cast 44,034,030 votes, voting together as a single class, is required to approve the asset sale. The Majority Stockholders, constituting the holders of a majority of the outstanding Common Stock and Voting Preferred Stock, voting together as a single class, have executed written consents approving the asset purchase agreement and the real estate contract and approving the transactions contemplated by each of those agreements in accordance with Section 228 of Delaware Law. Accordingly, in accordance with Delaware Law and the Certificate of Incorporation of the Company, as amended and currently in effect, the holders of a majority of the outstanding shares of Common Stock and Voting Preferred Stock, voting as a single class, have approved the asset sale and asset purchase agreement. The actions by written consent are sufficient to approve the sale and the other transactions contemplated by the asset purchase agreement and the real estate contract without any further action or vote of the stockholders of the Company. Accordingly, no other actions are necessary to approve the asset sale, and no such actions are being requested. The members of Amneal and Kashiv are not required to approve the asset sale.

See "Stockholder Consent to Asset Sale."

Tax Consequences

The asset sale does not generate any U.S. federal income tax consequences to the stockholders of the Company. See "Certain United States Federal Income Tax Considerations" for a summary of the tax consequences to the Company.

Appraisal Rights

Stockholders are not entitled to appraisal rights. See "Absence of Dissenters' Rights."

QUESTIONS AND ANSWERS ABOUT THE ASSET SALE

The following questions and answers are presented for your convenience only and briefly address some questions you may have about the asset sale. They may not contain all of the information that is important to you. We urge you to read carefully the entire information statement, including the annexes.

Q: *Why am I receiving this information statement?*

A: This information statement describes the sale of substantially all of our business and assets and real property to Amneal and Kashiv and the approval of that sale by written consent of our stockholders. Our board of directors is

providing this information statement to you pursuant to Section 14(c) of the Securities Exchange Act of 1934, as amended, solely to inform you of, and provide you with information about, the asset sale before it is consummated.

Q: *Who is entitled to receive this information statement?*

A: Stockholders of record as of the close of business on the date the stockholders approved the asset sale (which for purposes of this information statement is May 28, 2008, the date such stockholders approved the first amendment to the asset purchase agreement), are entitled to receive this information statement and the accompanying notice of stockholder action by written consent, which describes the corporate action that has been approved by the written consent of our stockholders.

Q: *Am I being asked to vote on the asset sale?*

A: No, we are not asking you to vote for approval of the asset sale or to provide your written consent to the asset sale, because your vote or written consent is not required for approval of the asset sale, which has been already been approved by the written consents of the Majority Stockholders.

Q: *Will there be a stockholder meeting to consider and approve the asset sale?*

A: No, a stockholder meeting will not be held to consider and approve the asset sale. The asset sale has already been approved by the written consent of our stockholders.

Q: *Will any of the proceeds from the asset sale be distributed to me as a shareholder?*

A: After the asset sale is consummated the Company intends to pay all of its outstanding indebtedness and to wind up its operations and distribute its remaining net assets, if any, to its stockholders. For an explanation of the estimated distributions, see "the Company's Plans Following the Asset Sale." Under the asset purchase agreement, the Company has agreed that if the asset sale is consummated, it will not make any payment or distribution with respect to its equity securities, whether by way of redemption, dividend, distribution or otherwise, to the Majority Stockholders or any other holders of Company's capital stock until more than 90 days after the closing date.

Q: *The asset purchase agreement was amended. What terms were changed?*

A: The parties amended the asset purchase agreement on May 2, 2008 to, among other things, decrease the base cash amount payable at closing to the Company to $61,600,000 from $65,000,000; to add certain matters for which the Company and Interpharm, Inc. would indemnify the buyers; to add certain pre-closing covenants; and to amend certain schedules to the asset purchase agreement. No other material terms were changed.

Q: *Is the asset sale subject to the satisfaction of any conditions?*

A: Yes. Before the asset sale can be consummated, certain closing conditions must be satisfied or waived. These conditions are described in this information statement in the section entitled "The Asset Purchase Agreement and Related Documents—Conditions Precedent to Obligations of Amneal." If these conditions are not satisfied or waived, then the asset sale will not be consummated even though it has been approved by written consent.

Q: *When do you expect the asset sale to be consummated?*

A: We intend to consummate the asset sale on the date on which all of the remaining closing conditions specified in the asset purchase agreement are satisfied or waived. Assuming the remaining closing conditions are satisfied or waived by such date, we expect to consummate the asset sale on June 24, 2008 but no earlier than 20 days after the date this information statement is first mailed to the stockholders.

Q: *What are the U.S. federal income tax consequences of the asset sale?*

A: The net proceeds from the asset sale will consist solely of cash. The sale of our assets will generally generate a capital gain or loss to us depending on whether the net proceeds are greater or less than our adjusted tax basis in such assets. We believe that we have net operating losses available that will be sufficient to offset any gains realized upon consummation of the asset sale.

Our stockholders will not directly experience any U.S. federal income tax consequences as a result of the consummation of the asset sale.

For additional information on the U.S. federal income tax consequences of the asset sale, see the section in this information statement entitled "Certain U.S. Federal Income Tax Considerations" beginning on page 35.

Tax matters are very complicated, and the tax consequences of any asset sale will depend on the facts of your own situation. You are urged to consult your own tax advisor with respect to your own individual tax consequences as a result of the asset sale and any related dividends.

Q: *What should I do now?*

A: No action by you is required.

Q: *Who can help answer my questions?*

A: If you would like additional copies, without charge, of this information statement or if you have questions about the asset sale, then you should contact us as follows:

Interpharm Holdings, Inc.
Attn: Peter Giallorenzo
75 Adams Avenue
Hauppauge, New York 11788

INFORMATION REGARDING THE PARTIES

The Company

Interpharm Holdings, Inc. through its operating wholly-owned subsidiary, Interpharm, Inc., has been engaged in the business of developing, manufacturing and marketing generic prescription strength and over-the-counter pharmaceuticals since 1984.

Realty is a New York limited liability company which is a wholly owned subsidiary of the Company. Realty is the former owner of the Company's real property in Yaphank, New York and currently has no assets.

We currently sell our products under (i) our own label to the major retailers, wholesalers, managed care organizations and national distributors, and (ii) under private label to wholesalers, distributors, repackagers, and other manufacturers. As of April 30, 2008, we manufactured and marketed 38 generic pharmaceutical products, which represent various oral dosage strengths for 11 unique products and different dosage strengths for 27 of these products.

Our principal executive offices are located at 75 Adams Avenue, Hauppauge, New York 11788, and our telephone number is 631-952-0214.

Amneal Pharmaceuticals of New York, LLC and Kashiv, LLC

Amneal is a Delaware limited liability company and wholly owned subsidiary of Amneal Pharmaceuticals, LLC. Kashiv, LLC is also a Delaware limited liability company and is owned by the principals of Amneal Pharmaceuticals, LLC.

Amneal Pharmaceuticals, LLC, a Delaware limited liability company, is a pharmaceutical company that develops, manufactures and distributes generic pharmaceutical products, both over the counter and prescription. Amneal Pharmaceuticals, LLC is privately owned and operated since 2001, and its headquarters is in Paterson, New Jersey.

Amneal, Kashiv, LLC and Amneal Pharmaceuticals, LLC each have a mailing address of 209 McLean Boulevard, Paterson, New Jersey 07504, and each of their telephone numbers is (973) 357-0222.

INFORMATION REGARDING THE TRANSACATION

Under the sale agreements, the Company and its subsidiaries will sell to Amneal and Kashiv substantially all of the assets of the Company and its subsidiaries, including the real property located at 50 Horseblock Road, Yaphank, New York, in exchange for an aggregate of $61.6 million in cash (which amount is subject to certain adjustments, including reductions for the mutually agreed value of certain liabilities assumed by the buyers and the amount of reductions in inventory of the Company and its subsidiaries between the dates of signing and closing of the asset purchase agreement, increases for the face amount of receivables of the sellers which are assigned to Amneal and certain adjustments and prorations under the real estate contract). $3.5 million of the purchase price paid at closing will be placed in escrow, as described below. In addition, all amounts advanced by Amneal to Interpharm, Inc. under the loan and security agreement discussed in the subsection entitled “Ancillary Agreements - Loan and Security Agreement” below shall be credited against the cash amount payable by Amneal at the closing of the asset sale. The asset sale will close following the satisfaction or waiver of all closing conditions as contemplated by the sale agreements. See the section in this information statement entitled "The Asset Purchase Agreement and Related Documents."

BACKGROUND OF THE ASSET SALE

On February 9, 2006, the Company and Interpharm, Inc. entered into a credit and security agreement (the "Wells Fargo Credit Agreement") with Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit operating division ("Wells Fargo" or “Wells Fargo Business Credit”). Under the Wells Fargo Credit Agreement, the Company obtained a $41,500,000 credit facility from Wells Fargo. Copies of the Wells Fargo Credit Agreement and related documents are annexed to the Company’s Current Report on Form 8-K filed with the SEC on February 15, 2006.

On October 26, 2007, the Company, Interpharm, Inc. and Wells Fargo Business Credit entered into a Forbearance Agreement, which was subsequently amended on November 12, 2007. The amendment was necessary because as of June 30, 2007, the Company had defaulted under the Wells Fargo Credit Agreement with respect to (i) financial reporting obligations, including the submission of its annual audited financial statements for the fiscal year ended June 30, 2007 and (ii) financial covenants related to minimum net cash flow, maximum allowable leverage ratio, maximum allowable total capital expenditures and unfinanced capital expenditures for the fiscal year ended June 30, 2007 (collectively, the “Existing Defaults”).

Under the terms of the Forbearance Agreement, Wells Fargo agreed to waive the Existing Defaults based upon the receipt by Interpharm Inc. of at least $8,000,000 in proceeds from the sale of equity or subordinated debt. On November 7 and 14, 2007, the Company and Interpharm, Inc. received a total of $8,000,000 in gross proceeds from the issuance and sale of subordinated debt. In addition, the Forbearance Agreement served as an amendment to the Wells Fargo Credit Agreement with respect to certain financial covenants, including, but not limited to, the Company's required "net income before tax" and "net cash flow" for certain periods.

On January 10, 2008, the Company and Interpharm, Inc. received notice of defaults under the Forbearance Agreement with respect to: (i) financial covenants relating to required net income before tax for the months ended October 31, 2007 and November 30, 2007, (ii) financial covenants relating to required net cash flow for the months ended October 31, 2007 and November 30, 2007 and (iii) an obligation to have a designated financial advisor provide an opinion as to Company's and Interpharm, Inc.'s ability to meet their fiscal year 2008 projections.

As a result of the January 10, 2008 defaults, Wells Fargo began a review of the Company's and Interpharm, Inc.'s borrowing base and eligible collateral. At that time, the Company and Interpharm, Inc. did not have any credit availability under the Wells Fargo Credit Agreement, had fallen behind on payments to raw material vendors and had limited ability to procure enough raw materials in order to meet customer orders. On January 21, 2008, Wells Fargo reduced the available credit facility by making wholesale accounts receivables from Cardinal Health, McKesson, and AmeriSource Bergen ineligible from the borrowing base.

On January 28, 2008, the Company's Management, key investors and certain members of the Board of Directors met at the request of Wells Fargo. Wells Fargo registered concern as to the Company's ability to continue as a going concern. In response to Wells Fargo's actions, the Company's management and its Board of Directors developed a plan to overhaul the operations of the Company and to seek financing of equity or debt or alternatively to consider a sale or merger of the business to enhance creditor and shareholder value. Management and a designee of the Board, Richard J. Miller, presented a restructuring plan (the "Plan") to Wells Fargo on January 29, 2008 and negotiated the New Forbearance Agreement with Wells Fargo described below.

As part of the Plan, the Company agreed to reduce the payroll of the business and seek refinancing or sale of the business. In the ensuing four weeks, the Company interviewed several investment bankers to solicit their interest in representing the Company. The bankers suggested that the Company and its creditors and stockholders would be best served to refinance the business. The Board concluded to follow several paths of refinancing and sale and engaged a Board member, Richard Miller, to lead such efforts. In connection with Wells Fargo's review, the Company and Interpharm, Inc. completed a restructuring of their operations pursuant to a new operating plan under which 20% of payroll expenses were eliminated by a reduction in force, research and development activities were substantially reduced and the Company and Interpharm, Inc. began the process to seek an alternative source of financing.

On February 5, 2008, the Company, Interpharm, Inc. and Wells Fargo entered into a new Forbearance Agreement (the "New Forbearance Agreement") whereby Wells Fargo agreed to, among other things, (i) forbear from exercising its remedies arising from the Company's and Interpharm, Inc.'s default under the Wells Fargo Credit Agreement until June 30, 2008 provided no further default occurred; (ii) provide a moratorium on certain principal payments; and (iii) advance the Company up to $2,999,999 under a newly granted real estate line of credit mortgage on the Company's real estate, which amounts were to be due on June 30, 2008.

The New Forbearance Agreement limited the Company's and Interpharm, Inc.'s borrowing base on which certain advances are made, including receivables from certain wholesaler customers which comprised approximately 19% of Interpharm, Inc.'s sales for the nine months ended March 31, 2008. Sales to these wholesale customers were made at a "wholesale acquisition cost" and then the difference between this cost and the price at which the products were resold by the wholesaler was charged against the receivable to Interpharm, Inc.

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The New Forbearance Agreement also provided for a number of events of default, including (i) a material adverse change; (ii) failure of the Company to meet certain budget items by more than 10%; (iii) failure to receive a letter of intent for the sale of the assets of the Company for an amount in excess of the Wells Fargo indebtedness by March 31, 2008; (iv) failure by the Company to receive a commitment for the sale of the assets of the Company for an amount in excess of the Wells Fargo indebtedness by April 30, 2008; (v) failure of the Company to close a transaction for the sale of the assets of the Company for an amount in excess of the Wells Fargo indebtedness by June 30, 2008; and (vi) the Wells Fargo indebtedness remaining outstanding on June 30, 2008.

In addition, the New Forbearance Agreement provided for the payment to Wells Fargo of a "Success Fee" of $500,000 in the event that the Company was able to complete a sale of its stock or assets. In the event that the entire Wells Fargo indebtedness was paid by February 28, 2008, the Success Fee was to be reduced to $250,000, if by March 31, 2008 it was to be reduced to $350,000 and if by April 30, 2008 it was to be reduced to $450,000.

In February 2008, the Company, through Richard Miller, one of its directors, sought refinancing of its debt to Wells Fargo from 29 lending groups and six equity firms. The Company also discussed the possible acquisition of its business with eight companies who expressed various levels of interest in the Company. A sale process was established whereby the Company would provide certain information under a confidentiality agreement to interested acquirers for their review in order to make an initial proposal to the Company. An initial proposal would require a bidder to propose a value for the business, the internal requirements for approval, and any regulatory hurdles to complete a transaction.

Two equity financing sources ("Equity source A" and "Equity source B") expressed significant interest in March 2008. Equity source A expressed an interest in investing $5 million into the Company in connection with a refinancing of the Wells Fargo debt. After diligence with the Company and its investors, Equity source A determined that it was not interested in moving forward in a transaction. Equity source B reviewed materials, held discussions with the Company and informally proposed a $5 million mezzanine investment. After further discussions with the Company, Equity source B withdrew its interest in the investment opportunity.

On March 11, 2008, Mr. Miller met with Wells Fargo to update them on the performance of the Company and the refinancing and sale efforts. Mr. Miller reported the Company's revenue in February 2008 exceeded budget by over 25% and that the Company had EBITDA from operations of over $800,000. In addition, the Company was in compliance with all covenants in the Forbearance Agreement. Mr. Miller outlined the potential lenders for refinancing as well as efforts to sell the business. Wells Fargo expressed satisfaction as to the speed of the turnaround of the business.

On March 13, 2008, the Company received a letter from Wells Fargo that it was reducing the advance rate on its inventory borrowing facility from fifty percent to thirty-nine percent effective March 17, 2008. The reduction eliminated almost all of the availability the Company had built in its working capital line. In response, the Company and its counsel met with the Wells Fargo on March 17, 2008 to discuss the inventory advance rate reduction, Wells Fargo's contractual right to reduce the advance rate and the impact Wells Fargo's actions would have on the Company's business.

Wells Fargo informed the Company that it had reduced the advance rate based upon a recently procured appraisal of the Company's and Interpharm, Inc.'s inventory which resulted in a reduction in available collateral against which to borrow. As a result, on March 25, 2008, the Company, Interpharm, Inc. and Wells Fargo entered into an Amended and Restated Forbearance Agreement (the "Restated Forbearance Agreement") in which, in exchange for a $250,000 payment and other consideration, Wells Fargo agreed to provide the Company with additional borrowing availability through: (i) increasing the cap on Interpharm's revolving credit line by approximately $2.3 million which was secured by a mortgage against its facility at 50 Horseblock Road in Yaphank, New York; (ii) increasing the percentage of inventory which was eligible as collateral for borrowing; and (iii) adding eligible receivables against which to borrow.

In addition to the foregoing, the Restated Forbearance Agreement provided that it was an event of default if the Company did not receive a letter of intent for a purchase of substantially all of its assets for an amount in excess of the amounts owing to Wells Fargo, or a proposal to refinance the amounts owing to Wells Fargo, by March 31, 2008.

On March 18, 2008, the Company received a proposal from a mezzanine lender (“Lender A”) for a $30 million term loan to be used to refinance the amounts owed to Wells Fargo. The contemplated interest rate was 12% with an additional stock dividend equal to 2%. In addition, the Company was to issue to Lender A a number of warrants equal to 5% of the number of fully diluted outstanding shares of common stock of the Company with an exercise price of $0.20 and which were to have a 10 year term.

The proposal also set forth a time frame of between April 4 and April 8, 2008 for Lender A’s credit committee approval. On April 9, 2008, Lender A informed the Company that it was amending its proposal due to the concerns over the impact of the Wells Fargo reduction in inventory advance rates of March 13, 2008. The new proposal included requirements of significant additional due diligence expenses that the Company would be required to prepay and lacked certainty of closing on the transaction by April 30, 2008.

The Company received another refinancing proposal on March 20, 2008 from a bank (“Lender B”). Lender B’s proposal was for a $20,000,000 senior secured revolving credit facility to refinance existing Wells Fargo indebtedness and to provide working capital. The security for the credit facility was to be the Company’s eligible accounts receivable. In early April 2008, Lender B advised that it would not proceed with the proposal due to Lender B’s deemed ineligibility of the Company’s receivables from pharmaceutical wholesalers with agreements providing that when and if the Company is unable to ship products, the wholesaler can obtain substitute products and chargeback any difference in price to the Company.

The only other refinancing proposal received by the Company was a proposal from a lender ("Lender C"). Lender C proposed a refinancing of the Real Property for $10 million which was declined by the Company as it would not have provided the necessary amount of money to repay Wells Fargo, by itself and the Company believed it could obtain a higher amount from a refinancing of the Real Property.

At the time that the Company and Interpharm entered into the Restated Forbearance Agreement, it had been in the process of seeking means of accounts receivable financing for the accounts against which Wells Fargo would not lend, a new credit line which could replace the Wells Fargo Credit Agreement and pay off Wells Fargo all amounts owed and/or a sale of the Company and/or substantially all of its assets.

In March and April, 2008, the Company, through its designated representative, Richard Miller, a director of the Company, held discussions with six potential buyers of the Company or substantially all of its assets. From March 14, 2008 to April 9, 2008, the Company received and responded to inquiries from four interested acquirers. On March 21, 2008, the Company received a proposed letter of intent from Amneal Pharmaceuticals, LLC, Amneal’s parent company, to acquire the Company for $55 million. Except for entering into a non-disclosure agreement in connection with a potential transaction prior to receiving the letter of intent, the Company had no prior relationships with Amneal Pharmaceuticals, LLC which became aware of the Company through a law firm that performed services for both the Company and Amneal Pharmaceuticals, LLC. The Company had several subsequent meetings and conversations with Amneal Pharmaceuticals, LLC management in an effort to communicate to Amneal Pharmaceuticals, LLC's management the value of the Company’s assets.

Three interested parties submitted term sheets. Bidder A conducted on-site due diligence on April 2, 2008, received follow-up due diligence materials and conducted follow-up due diligence calls that culminated in a proposal April 9, 2008. Bidder B met with the Company on March 31, 2008 and performed certain due diligence on the Company information that resulted in a proposal delivered April 2, 2008. Bidder B’s proposal was reviewed and compared for financial comparison, certainty of closure, and structural elements. Bidder C proposed a transaction on March 21, 2008, but was unable to demonstrate an ability to finance the transaction and therefore, the Company did not consider its bid. The Company responded to Amneal Pharmaceuticals, LLC, Bidder A and Bidder B with additional due diligence information and invited each to re-bid. Neither Bidder A nor Bidder B submitted a revised proposal.

On April 7, 2008 Amneal Pharmaceuticals, LLC revised its proposal to $65.5 million for the purchase of substantially all of the Company's assets. After several days during which the parties held multiple calls and negotiations, Amneal Pharmaceuticals, LLC revised its proposal on April 11, 2008 to a total of $68.5 million, exceeding the next highest bid by $3.5 million – Bidder A had bid $50 million and Bidder B had bid $65 million. The Company's Board of Directors approved the proposal and executed a letter of intent for a transaction with $68.5 million of purchase price consideration with interim financing for the Company.

On April 11, 2008, the Company reached agreement on a term sheet for the sale of substantially all of its assets to Amneal. Later that day, Amneal presented to the Company a draft Asset Purchase Agreement, Contract of Sale for the Company's Real Property at 50 Horseblock Road in Yaphank, New York and a Loan and Security Agreement for a $1.5 million loan to the Company from Amneal pending the closing under the Asset Purchase Agreement. The parties began negotiating the draft agreements in meetings which began on April 14, 2008 and which concluded on April 24, 2008 when the transaction documents were executed.

After execution of the Amneal term sheet, the Company received a bid from a prospective purchaser for the Real Property of $12 million. The Compay declined the bid in favor of the Amneal asset sale.

Background to the Amendment to the Asset Purchase Agreement

Under the asset purchase agreement, Amneal had a period to April 30, 2008 (which period was extended to May 2, 2008 by written agreement of the parties) to conduct a due diligence review of the sellers and their assets. Based upon the results thereof, Amneal would have the right to terminate its purchase obligation and receive the return of its advances to Interpharm, Inc. under the loan and security agreement. Prior to the end of the due diligence period, the parties engaged in negotiations and discussion regarding several due diligence issues raised by Amneal. The result of those negotiations was that Amneal committed to continue with the asset sale transaction under the terms of the first amendment to the asset purchase agreement in lieu of exercising its right to terminate the Agreement.

In the first amendment, the parties agreed to a reduction of the base cash amount (a component of the purchase price which does not include $3.5 million to be deposited in escrow by Amneal for the potential payment of up to $3.5 million additional consideration to the Company and Interpharm, to the extent such funds are not used to indemnify Amneal or Kashiv pursuant to the terms of the sale agreements) from $65.0 million to $61.6 million. In addition, the parties agreed to add certain covenants and indemnity obligations of the Company and Interpham, Inc. as well as certain schedules to the original agreement.

Receipt and Consideration of Unsolicited Proposals After Signing Of Asset Purchase Agreement

On April 24, 2008 the Company filed with the SEC a Current Report on Form 8-K disclosing that it had entered into the asset purchase agreement and real estate contract. On May 14, 2008 the Company filed with the SEC a preliminary copy of this Information Statement which described in greater detail the terms of the asset purchase agreement and real estate contract and attached copies of such agreements.

On May 21, 2008 the Company received an unsolicited proposal from Bidder B, which had previously submitted a $65 million bid to the Company as described above. After receipt of such new proposal the Board of Directors of the Company appointed a Special Committee, consisting of Richard J. Miller and David Reback, to initially consider the proposal and any further unsolicited proposals received by the Company.

The new proposal from Bidder B was in the form of a cover letter and a markup of the asset purchase agreement and real estate contract. Among other things, the new bid provided for (a) an increase of $5.5 million in the base purchase price to be paid by Bidder B as compared to Amneal, (b) additional advances to be made by Bidder B to Interpharm, Inc. under a loan and security agreement on the same terms as the loan and security agreement with Amneal to enable the sellers to pay to Amneal the Break-up Fee under the asset purchase agreement as well as other expenses in connection with the termination of the asset purchase agreement and real estate contract, which Bidder B estimated to be $3.5 million, (c) an increase in the indemnity basket from $250,000 to $500,000, (d) an increase in the cap on the sellers' indemnity obligations to $4 million from $3.5 million and (e) the elimination of the concept of "excluded receivables" from the transaction, thereby potentially increasing the purchase price by up to $300,000. The new bid also stated that Bidder B was prepared to increase the base purchase price to the extent that it had underestimated the Break-up Fee and/or other costs of the Company in terminating the agreements with the buyers.

As in the asset purchase agreement with Amneal, Bidder B's obligation to close a signed agreement would not be contingent on its obtaining financing for such purchase. The new bid also eliminated any due diligence contingency to be set forth in the proposed asset purchase agreement and real estate contract to be entered into, but the cover letter for the bid stated the bidder's willingness to enter into such agreements would be subject to its ability to complete a reasonable due diligence investigation of the Company and its subsidiaries and a review of the schedules, disclosure memorandum and exhibits to the asset purchase agreement with Amneal. Bidder B stated that it would expect to accomplish such investigation within five business days after commencement of discussions with the Company concerning its proposal and that it was Bidder B's goal to be "in a position to execute all agreements related to our Proposal as expeditiously as possible." The new bid also contemplated a requirement to file under the Hart-Scott-Rodino Anti-Trust Improvement Act of 1976.

During the period from May 21 to May 26, 2008 the members of the Special Committee analyzed Bidder B's bid, including, among other things, the capability of Bidder B to finance the purchase, Bidder B's ability to obtain required licenses from the FDA, the timing of concluding a transaction with Bidder B as compared to Amneal and the incremental transaction costs in concluding a transaction with Bidder B, including the payment of a Break-up Fee to Amneal.

The Special Committee determined that, net of the incremental costs associated with accepting Bidder B's proposal and terminating the asset sale agreements with Amneal and Kashiv, Bidder B's proposal, though reasonably expected to result in an incremental distribution to the Company's preferred stockholders, was not reasonably expected to result in additional proceeds to the Company's common stockholders. The Special Committee also determined that a transaction with Bidder B was not likely to be consummated before June 30, 2008, which is the expiration date of the period under the New Forbearance Agreement during which Wells Fargo has agreed to forbear from exercising its remedies arising from the Company's and Interpharm, Inc.'s default under the Wells Fargo Credit Agreement.

On May 26, 2008 the Board of Directors of the Company held a meeting by telephone (the "May 26, 2008 Board Meeting"). The members of the Special Committee made a presentation to the Board concerning the terms of Bidder B's proposal and the Special Committee's analysis of such proposal. The Special Committee recommended the rejection of Bidder B's proposal based upon (i) the unlikely prospect of proceeds to the Company's common stockholders, (ii) the likelihood that a transaction could not be consummated until after June 30, 2008 and the absence of any assurance that Wells Fargo would agree to continue to forbear after June 30, 2008 from exercising its remedies arising from the Company's and Interpharm, Inc.'s default under the Wells Fargo Credit Agreement and (iii) the lack of certainty due to the bid's due diligence requirement. Based on the foregoing, the Board of Directors determined to accept the Special Committee's recommendation to reject Bidder B's proposal.

On May 28, 2008 we received a further revised proposal from Bidder B. In the revised proposal Bidder B increased the base purchase price it was offering by $1 million over the base purchase price offered in its May 21, 2008 bid (so that the new base purchase price offered was $68.1 million). The new bid stated that "In order to assure that the common shareholders of the Company receive proceeds in excess of those such common shareholders would receive pursuant to the Amneal Agreements, we will require that the Company and the Preferred Shareholders enter into a proceeds sharing agreement on substantially the same terms as the Amneal Proceeds Sharing Agreement, except that under our proposed proceeds sharing agreement the common shareholders of the Company would be guaranteed to receive up to $4 million rather than the $3 million guaranteed pursuant to the Amneal Proceeds Sharing Agreement. The additional $1 million will come from the increase of $1 million to the Base Purchase Price specified above and our proposed proceeds sharing agreement would require such additional funds to be shared with the common shareholders of the Company by the holders of the Series D-1 Preferred Stock."

During the evening of May 28, 2008 the Board of Directors held a meeting by telephone to discuss the revised proposal from Bidder B at which the members of the Special Committee made a presentation to the Board concerning the terms and their analysis of such revised proposal. It was not known at the time of the meeting whether the D-1

Holders would agree to enter into a new proceeds sharing agreement on the terms required by Bidder B as a condition to its offer.

Based on the foregoing, the Board determined that the Company would not further consider Bidder B's revised proposal unless the D-1 Holders agreed to enter into a new proceeds sharing agreement on the terms required by Bidder B. On May 29, 2008 both of the D-1 Holders informed the Company that they would not agree to enter into a new proceeds sharing agreement on the terms required by Bidder B. Therefore, Bidder B's revised proposal has been rejected.

On May 23, 2008, the Company also received a written proposal from another bidder ("Bidder D") for the purchase of "substantially all of the assets and certain liabilities primarily related to the Company, excluding any tax liabilities, debt, debt-like and inter-company liabilities" for a purchase price of $69.0 million. The offer was not contingent on Bidder D's ability to secure financing for the transaction. The proposal also stated that Bidder D was prepared to "move very quickly to consummate the purchase" and that Bidder D anticipated "that a definitive purchase agreement could be executed by June 15." The proposal did not contain a detailed markup of the agreements with Amneal or Kashiv or otherwise specify more detailed terms regarding the purchase.

The members of the Special Committee also analyzed such proposal and determined that (i) the purchase price under the proposal appeared to be insufficient to provide any proceeds to the common stockholders of the Company, (ii) such proposal lacked sufficient detail to properly evaluate the prospects of certainty to close and related contractual matters and (iii) a transaction with Bidder D would not likely be consummated until July 30, 2008 at the earliest. At the May 26, 2008 Board Meeting the members of the Special Committee also discussed the available details of Bidder D's proposal and after consideration of such details and based on the foregoing, the Board determined to accept the Special Committee's recommendation to reject Bidder D's proposal.

In light of the failure of the unsolicited proposals received by the Company subsequent to the signing of the asset purchase agreement and real estate contract to provide for a reasonable likelihood for proceeds to be available to the common stockholders of the Company, the Company has not requested that Houlihan Lokey or any other advisor consider whether or render an opinion to the Company that the consideration to be received by the sellers in the asset sale is as of May 29, 2008 or any later date fair, from a financial point of view, to the sellers.

THE COMPANY’S REASONS FOR THE ASSET SALE

The Company and Interpharm agreed to enter into the sale agreements because, as a result of certain defaults by the Company under the Restated Forbearance Agreement, under the Restated Forbearance Agreement with Wells Fargo they had a deadline of April 30, 2008 to procure a binding commitment for a sale if they could not refinance their obligations to Wells Fargo under the Wells Fargo Credit Agreement with a new lender. If the sellers could not refinance or otherwise satisfy their indebtedness to Wells Fargo, in accordance with the Restated Forbearance Agreement, Wells Fargo would be entitled to foreclose on the sellers' assets securing such indebtedness (which assets constitute substantially all of the sellers' assets) and effectively put the sellers out of business. The Board of Directors of the Company determined that an asset sale on the terms negotiated with Amneal and Kashiv was more favorable to the Company and its shareholders than other strategic and financial alternatives (including voluntary bankruptcy) then available to the Company.

THE COMPANY’S PLANS FOLLOWING THE ASSET SALE

After the asset sale is completed, we intend to pay off our indebtedness in full, wind up our affairs and dissolve.

In connection with our dissolution, we will pay, or set aside sufficient amounts for the payment of, or otherwise discharge, all of our known debts and obligations, which we expect will be an aggregate amount of approximately $52.5 million. We will also pay amounts under the MIP, which we estimate will aggregate $3.62 million, and thereafter distribute any remaining assets, if any, to our stockholders. Under the asset purchase agreement, we have agreed that, if the asset sale is consummated, we will not make any payment or distribution with respect to our equity securities, whether by way of redemption, dividend, distribution or otherwise, to the holders of our capital stock until more than 90 days after the closing date, and we do not intend to make any payments to our stockholders until more than 90 days after the closing date of the asset sale.

In connection with our dissolution, as of May 27, 2008 holders of outstanding Series A-1 Preferred would be entitled to receive distributions (including for accrued but unpaid dividends) of approximately $3,400,000 in the aggregate before any distribution is made to holders of any other class or series of our capital stock, including Common Stock, and holders of Series C Preferred and Series D-1 Preferred are entitled to receive distributions (including for accrued but unpaid dividends) of approximately $272,000 and $20,825,000, in the aggregate, respectively, before any distribution is made to holders of Common Stock. We expect that, in connection with our dissolution, after paying all of our debts and obligations and the aggregate amounts payable in liquidation to our preferred stockholders, without consideration of the Proceeds Sharing Agreement, no amounts would be available for distribution to holders of Common Stock.

However, the Majority Stockholders have entered into a Proceeds Sharing Agreement which provides, among other things, that, in the event that the holders of the Company’s Common Stock receive aggregate cash distributions from the Company or Amneal with respect to their shares of Common Stock of less than $3 million and the D-1 Holders receive aggregate cash distributions from the Company or Amneal of at least $13 million with respect to their Series D-1 Preferred, each of the D-1 Holders agrees to share proceeds with all holders of Common Stock to the extent that proceeds to each of such D-1 Holders are in excess of $6.5 million, until holders of Common Stock have received proceeds from the Company, Amneal and the D-1 Holders equal to an aggregate of $3 million.

The amount of the purchase price is based on, among other things, certain adjustments to be made to the purchase price pursuant to the terms of the asset purchase agreement, the mutually agreed value of certain liabilities to be assumed by Amneal and indemnification claims by Amneal and Kashiv against the Company, and the final purchase price is not presently determinable. In addition, our assets are subject to the claims of our creditors, which will be senior to the claims of our stockholders. We cannot assure you that we will properly assess all claims that may be potentially brought against us. Accordingly, we cannot assure you that, due to possible reductions in the purchase

price and the claims of our creditors that either of the D-1 Holders would receive amounts in excess of $6.5 million with respect to their Series D-1 Preferred. In such event the D-1 Holders would not be obligated to share with the holders of Common Stock any amounts, if any, that the D-1 Holders receive with respect to their Series D-1 Preferred and it is likely that no distributions would be made or proceeds of the asset sale be otherwise received by the holders of the Common Stock.

The Company is not a party to, nor obligated under, the Proceeds Sharing Agreement to make any payments to the holders of any class or series of the Company's capital stock other than as otherwise provided under the terms of such capital stock. However, based on the receipt by the Company of an assumed purchase price of $67.2 million for its assets (which gives effect to a positive adjustment in the purchase price of $2.1 million pursuant to the asset purchase agreement), payment of $52.5 million in satisfaction of our debts and obligations and payment of an aggregate of $3.62 million to participants in the MIP, we estimate that $12,200,080 will be distributed to the D-1 Holders, $2,768,000 will be distributed to holders of Common Stock and $850,000 and $350,000 (in addition to amounts distributed to them as holders of common stock) will be distributed to Bhupatlal Sutaria and Raj Sutaria, respectively, either by the Company or by the D-1 Holders under the terms of the Proceeds Sharing Agreement. Based on 66,738,426 shares outstanding as of May 27, 2008, holders of Common Stock will receive approximately $.04 per share.

ABSENCE OF DISSENTERS' RIGHTS

No dissenters' or appraisal rights are available to the stockholders under the General Corporation Law of the State of Delaware, the Company's certificate of incorporation or its bylaws in connection with the asset sale.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

No director, executive officer, or affiliate of the Company or any other person has any substantial interest, direct or indirect, by security holdings or otherwise, in any action covered by the related resolutions adopted by the Board of Directors, which is not shared by all other stockholders, except as follows:

1. Maganlal Sutaria, M.D., is a member of the Company's Board of Directors and serves as our Chairman of the Board. Dr. Sutaria and his wife, Vimla Sutaria, are the holders of a Junior Subordinated Secured 12% Promissory Note due 2010, in the principal amount of $3 million (the "Sutaria Note") which evidences a $3 million loan made them to the Company on November 7, 2007. Upon the consummation of the asset sale, the Company is required to pay off in full all of its indebtedness, which indebtedness would include all principal and outstanding interest on the Sutaria Note, before making any distributions to holders of its capital stock, including Common Stock.

2. Raj Sutaria, a son of Maganlal Sutaria and brother of Perry Sutaria, M.D., is an Executive Vice President of the Company, and a 33-1/3% equity holder of Sutaria Family Realty, LLC ("SFR"), which is the holder of the Company's Secured 12% Promissory Note Due 2009 in the principal amount of $2.5 million (the "SFR Star Note"). The SFR Star Note evidences a $2.5 million loan made by SFR to the Company on November 14, 2008. Upon the consummation of the asset sale, the Company is required to pay off in full all of its indebtedness, which indebtedness would include all principal and outstanding interest on the SFR Star Note, before making any distributions to holders of its capital stock, including Common Stock.

3. Perry Sutaria, M.D., a son of Maganlal Sutaria and brother of Raj Sutaria, is a director of the Company. Perry Sutaria is also a 33-1/3% equity holder of SFR which is the holder of the SFR Star Note in the principal amount of $2.5 million which evidences a $2.5 million loan made by SFR to the Company on November 14, 2007. Upon the consummation of the asset sale, the Company is required to pay off in full all of its indebtedness, which indebtedness would include all principal and outstanding interest on the SFR Star Note, before making any distributions to holders of its capital stock, including Common Stock.

4. Tullis-Dickerson Capital Focus III, L.P. ("TD-III") is the holder of the Company's Secured 12% Promissory Note Due 2009 in the principal amount of $833,333 (the TD-III Star Note") which evidences an $833,333 loan made by TD-III to the Company on November 14, 2007. Upon the consummation of the asset sale, the Company is required to pay off in full all of its indebtedness, which indebtedness would include all principal and outstanding interest on the TD-III Star Note, before making any distributions to holders of its capital stock, including Common Stock. Joan P. Neuscheler, a director of the Company, is a member of the general partner of the limited partnership, TD-III.

5. TD-III also is the holder of 10,412.5 shares of Series D-1 Preferred. The Company anticipates that after using the proceeds of the asset sale to pay its creditors, up to $13 million of the remaining proceeds will be used to redeem the Series D-1 Preferred or distributed to holders of Series D-1 Preferred in connection with the Company's dissolution before any amounts will be distributed to holders of Common Stock. The aggregate liquidation preference (not including accrued, but unpaid dividends) of the outstanding shares of Series D-1 Preferred (which includes the 10,412.5 shares held by TD-III and an additional 10,412.5 shares held by Aisling Capital II, L.P.) was $20,825,000 as of May 27, 2008. TD-III is a party to the Proceeds Sharing Agreement which provides, among other things, that in the event that the holders of the Company's Common Stock receive aggregate cash distributions from the Company or Amneal with respect to their shares of Common Stock of less than $3 million and the D-1 Holders receive aggregate cash distributions from the Company or Amneal of at least $13 million with respect to their Series D-1 Preferred, each

of the D-1 Holders agrees to share proceeds with all holders of Common Stock to the extent that proceeds to such D-1 Holders are in excess of $6.5 million, until all holders of Common Stock have received proceeds from the Company, Amneal and the D-1 Holders equal to an aggregate of $3 million. In addition, the D-1 Holders and the holders of a majority of the outstanding shares of Series A-1 Preferred agreed that to the extent that each of the D-1 Holders receive at least $2 million, they would pay Bhupatlal K. Sutaria, the former President of the Company, the brother of Maganlal K. Sutaria and uncle of Perry and Raj Sutaria, an aggregate of $850,000 unless Bhupatlal K. Sutaria receives more than $250,000 as a common stockholder, in which case, the $850,000 would be reduced by such amount. The D-1 Holders and Series A-1 Preferred holders further agreed that if each of the D-1 Holders receive in excess of $2 million, the D-1 Holders and Series A-1 Preferred holders will pay Raj Sutaria an aggregate of $350,000 unless Raj Sutaria receives more than $200,000 as a common stock holder, in which case the $350,000 will be reduced by such amount.

6. On March 5, 2008 the Company's Board of Directors approved the MIP, under which persons selected by the Compensation Committee of the Board of Directors have been granted awards to receive cash distributions from a pool of money based on the sales price received by the Company for its assets less the Company's bank debt. Each person selected has been assigned a preliminary allocation of the total pool, which allocation may be changed in the discretion of the Compensation Committee based on the person's performance through the closing of the asset sale. Based on the receipt by the Company of an assumed purchase price of $67.2 million for its assets (which gives effect to a positive adjustment in the purchase price of $2.1 million pursuant to the asset purchase agreement) and an assumed bank debt of $31.0 million, the pool would be $3.62 million (10% of such difference). The awards under the MIP would be payable after payment of all indebtedness of the Company and before any amounts are paid to holders of preferred or common stock of the Company. Approximately 45 persons may participate in the MIP, including: Cameron Reid, a former director and Chief Executive Officer of the Company who is currently a consultant to the Company under a consulting agreement described below; Jeffrey Weiss, an Executive Vice President - Sales and Marketing of the Company; Peter Giallorenzo, the Chief Operating Officer, Chief Financial Officer and an Executive Vice President of the Company; Kenneth Cappel, an Executive Vice President and General Counsel of the Company; and Raj Sutaria, an Executive Vice President of the Company.

7. The aggregate liquidation preference of all outstanding shares of Series A-1 Preferred as of May 27, 2008 was $3,400,000. The Company anticipates that it will offer to repurchase all of the outstanding shares of Series A-1 Preferred by paying to the holders the aggregate liquidation preference of such shares as of the date of repurchase with a portion of the proceeds of the asset sale. Dr. Maganlal K. Sutaria, Perry Sutaria, Raj Holdings I, LLC ("Raj Holdings") and Rametra Holdings I, LLC ("Rametra Holdings") are the holders of an aggregate of 4,398,827 shares of Series A-1 Preferred, constituting all of the outstanding shares of Series A-1 Preferred. Raj Sutaria is the sole member and Perry Sutaria is the sole manager of Raj Holdings. Mona Rametra is the sole member and Perry Sutaria is the sole manager of Rametra Holdings. Raj Sutaria is the son of Maganlal Sutaria and a brother of Perry Sutaria. Perry Sutaria is the son of Maganlal Sutaria and a brother of Raj Sutaria. Mona Rametra is the daughter of Maganlal Sutaria and the sister of Raj Sutaria and Perry Sutaria.

8. The Company and Cameron Reid, a former director and Chief Executive Officer of the Company, have entered into a consulting agreement under which Mr. Reid is required to perform services for the Company equivalent to those which he performed as Chief Executive Officer. Mr. Reid and the Company were parties to an employment agreement dated June 24, 2005 which was terminated on April 13, 2008. Under that employment agreement the Company has accrued salary payable to Mr. Reid in the aggregate amount of $200,000. The consulting agreement provides for payment to Mr. Reid of his accrued salary (but no other fees), within 20 days after the consummation of the asset sale. In addition, Mr. Reid shall participate in the MIP for 9% of the total amount that can be paid to all participants in the Plan. If the asset sale is not consummated or Mr. Reid voluntarily terminates the consulting agreement prior to an asset sale closing, the Company shall have no obligation to pay any accrued salary to Mr. Reid. Mr. Reid is also the holder of the Company's Secured 12% Promissory Note Due 2009 in the principal amount of $833,333 (the "Reid Star Note") which evidences an $833,333 loan made by Mr. Reid to the Company on November 14, 2007. Upon the consummation of the asset sale, the Company is required to pay off in full all of its indebtedness, which indebtedness would include all principal and outstanding interest on the Reid Star Note, before making any distributions to holders of its capital stock, including Common Stock.

The dissolution of the Company requires the approval of its Board of Directors and stockholders, and any distributions to the Company's preferred or common stockholders or redemptions of outstanding preferred stock will occur only when, as and if authorized by the Company's Board of Directors. Based on the receipt by the Company of assumed purchase prices of $62.2 million and $67.2 million for its assets (which in each case gives effect to a positive adjustment in the purchase price of $2.1 million pursuant to the asset purchase agreement) and assuming that (a) $52.5 million will be sufficient to satisfy all of the Company's debts and obligations and $3.62 million will be paid to participants in the MIP, (b) the Company distributes the remaining proceeds to its stockholders, (c) no outstanding warrants and vested options are exercised, (d) we repurchase all of the outstanding shares of Series A-1 Preferred or pay liquidating distributions to the holders of all of the outstanding shares of Series A-1 Preferred, in either case, by paying to the holders the aggregate liquidation preference (including accrued but unpaid dividends) of such shares as of May 27, 2008 and (e) we repurchase all of the outstanding shares of Series D-1 Preferred or pay liquidating distributions to the holders of all of the outstanding shares of Series D-1 Preferred, in either case, by paying to the D-1 Holders an aggregate of $12,200,080, in the case of a $67.2 million purchase price, and $11,268,000, in the case of a $62.2 million purchase price (which amounts are net of amounts that the Series D-1 Holders shall pay to the holders of Common Stock and Bhupatlal Sutaria and Raj Sutaria under the Proceeds Sharing Agreement), we expect that the Company's directors, executive officers and their associates will receive the following amounts (not including amounts which may be payable under the MIP) from the proceeds of the asset sale. The following table reflects the amounts to be received under two scenarios - in the first, the Company will receive a purchase price of $62.2 million if it fails to settle a claim and litigation on the terms required under the first amendment to the asset purchase agreement and in the second, the Company will receive a purchase price of $67.2 million if it is able to settle a claim and litigation on the terms required under the first amendment:

Name	Proceeds - $62.2 million purchase price	Proceeds - $67.2 million purchase price	
Maganlal Sutaria, M.D.	4,952,547	$5,174,143	1
Raj Sutaria	$1,236,513	$1,974,913	2
Perry Sutaria, M.D.	$1,368,997	$1,722,613	3
Ravi Sutaria	$0	$439,879	4
Bhupatlal K. Sutaria	$850,000	$872,933	5
Sutaria Family Realty, LLC	$2,659,540	$2,659,540	6
P&K Holdings, LLC	$0	$335,176	7
Raj Holdings I, LLC	$0	$1,232,572	8
Ravis Holdings I, LLC	$0	$439,879	9
Rametra Holdings I, LLC	$482,484	$817,663	10
Cameron Reid	$886,513	$1,086,513	11
Jeffrey Weiss	$0	$9,869	12

Peter Giallorenzo	$0	$0	
Kenneth Cappel	$0	$0	
Richard J. Miller	$0	$0	
Tullis-Dickerson Capital Focus III, L.P.	$6,467,333	$7,010,333	13
Aisling Capital II, L.P.	$6,467,333	$7,007,695	14

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	$62.2 mm	$67.2 mm	
1	$3,000,000	$3,200,686	Payable upon satisfaction of the Sutaria Note, including accrued interest as of May 27, 2008.
	$1,952,547	$1,952,547	Anticipated distribution with respect to Series A-1 Preferred owned (less amounts that we expect to be payable under the Proceeds Sharing Agreement).
	$0	$20,910	Anticipated payment pursuant to Proceeds Sharing Agreement with respect to common stock owned.
2	$886,513	$886,513	Pro-rata portion of amount payable to SFR upon satisfaction of the SFR STAR Note, including accrued interest as of May 27, 2008.
	$350,000	$350,000	Anticipated payment pursuant to Proceeds Sharing Agreement, other than with respect to common stock owned.
	$0	$89,114	Anticipated payment pursuant to Proceeds Sharing Agreement with respect to common stock owned.
	$0	$649,286	Anticipated aggregate payments to Raj Holdings, of which Raj Sutaria is the sole member. See footnote 8.
3	$886,513	$886,513	Pro-rata portion of amount payable to SFR upon satisfaction of the SFR STAR Note, including accrued interest as of May 27, 2008.
	$482,484	$416,484	Anticipated distribution with respect to Series A-1 preferred owned (less amounts that we expect to be payable under the Proceeds Sharing Agreement).
	$0	$84,440	Anticipated payment pursuant to Proceeds Sharing Agreement with respect to common stock owned.
	$0	$335,176	Anticipated aggregate payments to P&K Holdings, of which Perry Sutaria is the sole member and manager. See footnote 7.
4	$0	$439,879	Anticipated payment pursuant to Proceeds Sharing Agreement with respect to common stock owned.

5	$850,000	$850,000	Anticipated payment pursuant to Proceeds Sharing Agreement, other than with respect to common stock owned.
	$0	$22,933	Anticipated payment pursuant to Proceeds Sharing Agreement with respect to common stock owned.
6	$2,659,540	$2,659,540	Amount payable to SFR upon satisfaction of the SFR STAR Note, including accrued interest of $159,540 as of May 27, 2008. Raj Sutaria, Perry Sutaria and Mona Rametra are each 33 % equity owners of SFR.
7	$0	$335,176	Anticipated payment pursuant to Proceeds Sharing Agreement with respect to common stock owned.
8	$0	$583,286	Anticipated distribution with respect to Series A-1 Preferred owned (less amounts that we expect to be payable under the Proceeds Sharing Agreement).
	$0	$649,286	Anticipated payment pursuant to Proceeds Sharing Agreement with respect to common stock owned.
9	$0	$439,879	Anticipated payment pursuant to Proceeds Sharing Agreement with respect to common stock owned.
10	$0	$335,179	Anticipated payment pursuant to Proceeds Sharing Agreement with respect to common stock owned. Mona Rametra is the sole equity owner and Perry Sutaria is the sole manager of Rametra Holdings.
	$482,484	$482,484	Anticipated distribution with respect to Series A-1 Preferred owned (less amounts that we expect to be payable under the Proceeds Sharing Agreement).
11	$886,513	$886,513	Amount payable upon satisfaction of Reid Star Note, including accrued interest as of May 27, 2008.
	$200,000	$200,000	Amount of accrued salary payable under consulting agreement.
12	$0	$9,869	Anticipated payment pursuant to Proceeds Sharing Agreement with respect to common stock owned.
13	$886,513	$886,513	Payable upon satisfaction of TD-III STAR Note, including accrued interest as of May 27, 2008.
	$5,634,000	$6,100,040	Anticipated distribution with respect to Series D-1 Preferred owned (less amounts that we expect to be payable under the Proceeds Sharing Agreement).
	$0	$23,780	Anticipated payment pursuant to Proceeds Sharing Agreement with respect to common stock owned.
14	$886,513	$886,513	

		Amount payable upon satisfaction of the Company's Secured 12% Promissory Note Due 2009 in the principal amount of $833,333 (including accrued interest as of May 27, 2008) payable to Aisling Capital II, L.P. which note evidences an $833,333 loan made by Aisling Capital II, L.P. to the Company on November 14, 2007.
$5,634,000	$6,100,040	Anticipated distribution with respect to Series D-1 Preferred owned (less amounts that we expect to be payable under the Proceeds Sharing Agreement).
$0	$21,142	Anticipated payment pursuant to Proceeds Sharing Agreement with respect to common stock owned.

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THE ASSET PURCHASE AGREEMENT AND RELATED DOCUMENTS

Purchase and Sale of Assets

In exchange for $61.6 million (as such amount shall be adjusted pursuant to the terms of the asset purchase agreement and the real estate contract) and the potential payment of up to $3.5 million additional consideration to the Company and Interpharm, to the extent such funds are not used to indemnify Amneal and Kashiv pursuant to the terms of the sale agreements and the assumption by Amneal of certain liabilites of sellers, the sellers will sell and transfer to Amneal substantially all of the rights, properties and assets owned by the sellers (except for the excluded assets described below), free and clear of all liens encumbrances and other claims, except for certain liabilities that Amneal has agreed to assume. Kashiv has agreed to purchase the Real Property.

Excluded Assets

The assets of the sellers that Amneal will not be purchasing (the “Excluded Assets”) include the rights of the sellers under certain contracts which Amneal elects not to assume; certain receivables of the sellers; the sellers’ corporate minute books, stock ledgers, certificates of incorporation, bylaws, shareholders agreements, employee files and records, and related corporate documents and instruments; the shares of capital stock, limited liability company interests (except APR, LLC) or other securities which any seller holds in any of its subsidiaries; the rights of each Seller in and to the names and logos for “Interpharm”, “Interpharm Holdings” and certain other names and logos and any other assets Amneal elects to exclude before the closing. For a period of three years from and after the closing, Amneal shall have a royalty free transferable license to use the names “Interpharm” and “Interpharm Holdings” and the related logos in connection with its seeking to obtain regulatory approval to market and sell the products marked by the sellers.

Assumption of Liabilities by Amneal

As of and after the closing date of the sale agreement, Amneal shall assume certain liabilities, capital leases, trade payables and the performance obligations of the sellers under certain contracts.

Assumption of Mortgage on Real Property by Kashiv

The real estate contract provides that the sellers shall, upon request of Kashiv, use commercially reasonable efforts to cause the holder of the existing mortgage(s) encumbering the Real Property to assign such mortgage(s) to Kashiv’s lender at the closing. In such event Kashiv shall pay any and all costs in connection with the assignment. The amount paid by or on behalf of Kashiv to the holder(s) of such mortgage(s) shall be deemed a payment on account of the purchase price for the asset sale.

Payment of Purchase Price

At the closing, the Company will receive an amount equal to $61.6 million plus or minus adjustments to such amount, including reductions for the mutually agreed value of all liabilities assumed by Amneal and the amount of reductions in inventory of the sellers between the dates of signing of the original agreement and closing of the asset sale and increases for the face amount of receivables of the sellers which are assigned to Amneal) as well as certain adjustments and prorations under the real estate contract. Amneal will also establish an escrow fund of $3.5 million for the potential payment of up to $3.5 million additional consideration to the Company and Interpharm, to the extent such funds are not used to indemnify Amneal and Kashiv pursuant to the terms of the asset purchase agreement and the real estate contract. In addition, all amounts advanced by Amneal to Interpharm, Inc. under the loan and security agreement discussed in the subsection entitled "Ancillary Agreements - Loan and Security Agreement" below shall be credited against the cash amount payable by Amneal at the closing of the asset sale.

Representations, Warranties, and Covenants

The sale agreements contain substantial representations and warranties of the Company and Interpharm, Inc. regarding the business and the assets being transferred to the buyers. These representations are effective as of the date of signing of the asset purchase agreement and as of the date of the closing of the asset sale. The primary representations and warranties made by the Company and Interpharm, Inc. are as follows:

- Organization: proper organization, good standing, requisite power and authority to own, lease and operate its properties and to carry on business; qualification as a foreign corporation where necessary;

- Authority: requisite power and authority to enter into and perform the sale agreements and transact the asset sale; due authorization of execution and delivery of the sale agreements and the consummation of the transactions contemplated by the sale agreements; due execution and delivery and enforceability of the sale agreements;

- Consents: consents required to enter into the sale agreements and complete the asset sale;

- No violations: execution and performance of sale agreements will not (i) violate the governing documents of any seller or any other subsidiary of the Company, (ii) violate any applicable laws or (iii) result in a violation or breach of, or constitute a default under, or result in the creation of any lien upon, or create any rights of termination, cancellation or acceleration in any person with respect to any contract to which any seller or any other subsidiary of the Company is a party or by which the assets to be sold to the buyers are bound or any permit of any seller or any other subsidiary of the Company;

- SEC Reports: Company has filed all forms, reports and documents ("SEC Reports") required to be filed by it with the SEC since May 30, 2003;

  - as of their respective dates, none of the SEC Reports, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

  - maintenance of adequate and effective disclosure controls and procedures required by Rule 13a-15 or 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act");

  - preparation of financial statements included in the SEC Reports in accordance with GAAP; and

  - Compliance with all certification requirements under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

· Litigation: Absence of pending or threatened litigation other than as disclosed.

· Absence of Changes since December 31, 2007: Except (i) as reflected in the Company's unaudited consolidated balance sheet at December 31, 2007 or liabilities described in any notes, (ii) for liabilities incurred in the ordinary course of business or in connection with the asset purchase agreement or the transactions contemplated thereby, or (iii) performance obligations under contracts required in accordance with their terms, or performance obligations, to the extent required under applicable laws, in each case to the extent arising after the date of signing of the asset purchase agreement, since December 31, 2007 no seller or any other subsidiary of the Company has any material liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) required by GAAP to be set forth on a financial statement or in the notes thereto. Since December 31, 2007 the business of the sellers has been conducted only in the ordinary course consistent with past practice and there has not been any change in the accounting methods, principles or practices of any seller or any other subsidiary of the Company.

The Company specifically notes, however, that since October 25, 2007, Wells Fargo Bank has limited the financing available to sellers under the terms of its Loan Agreement with sellers dated February 9, 2006, as amended, as modified by its forbearance agreements with sellers and, as a result of this limited financing, the sellers have experienced certain difficulties in obtaining raw materials and inventory items necessary to the operation of their business, which has had a materially adverse effect on the operations, inventory, sales, margins and financial condition of the business, and have resulted in sellers' operation of the business in a manner which is not consistent with past practice, all as more particularly described in the Disclosure Memorandum.

· Ordinary Course: Except as described in the preceding paragraph, from December 31, 2007 to the date of signing of the asset purchase agreement: (i) the sellers' business has been operated in the ordinary course, consistent with past practice; (ii) there has been no event, change or development which, individually or in the aggregate, has had a material adverse effect on the sellers, their business or their ability to perform their obligations under the asset purchase agreement; and (iii) there has not been any damage, destruction or casualty loss to the physical properties of any seller or any of their suppliers.

· Intellectual Property: The sellers and other subsidiaries of the Company whose intellectual property is being sold own all of the intellectual property to be transferred to Amneal, free and clear of any liens or restrictions of any kind (other than permitted liens). To the Company's knowledge, there is no unauthorized use, disclosure, infringement or misappropriation of any sellers' intellectual property by any third party. No seller owes any royalties or other payments to third parties in respect of any sellers' intellectual property.

The Company and Interpharm, Inc. have also made various additional customary representations and warranties in the asset purchase agreement and real estate contract with respect to following matters, among other things:

§ capitalization of the sellers;

§ matters related to the Company's auditors;

§ accuracy of the sellers' books and records;

(Loss)
$
9,449

$

766

$
(8,484
)
Add Back:

Depreciation and Amortization
6,208

6,302

5,725

Income Tax Provision (Benefit)
3,276

2,895

(2,844
)
Interest Charges
1,112

1,776

2,374

Non-Cash Charges
4,377

1,758

3,380

Other (i)
(60
)

242

5,724

Adjusted EBITDA
$
24,362

$
13,739

$
5,875

(i) Allowable Add backs Pursuant to Credit Facility Agreement

Adjusted EBITDA is a non-GAAP financial measure and the presentation of this non-GAAP financial measure is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. The items excluded from this non-GAAP financial measure are significant components of our financial statements and must be considered in performing a comprehensive analysis of our overall financial results. We use this measure, together with our GAAP financial metrics, to assess our financial performance, allocate resources, evaluate our overall progress towards meeting our long-term financial objectives, and to assess compliance with our debt covenants. We believe that this non-GAAP financial measure is useful to investors and analysts in allowing for greater transparency with respect to the supplemental

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information used by us in our financial and operational decision making. Our calculation of Adjusted EBITDA may not be consistent with calculations of similar measures used by other companies.

Matters Affecting Comparability

Our financial performance over the past few years has been driven by several factors, principally the general economic conditions within our global markets, fluctuations in the relationship of foreign currencies to the U.S. dollar, product and project mix and the impact of investments in our business. These key factors have impacted the comparability of our results of operations in the past and are likely to affect them in the future.

General Economic Conditions in our Global Markets

Our products and services are available worldwide. Demand for our products depends on the level of new capital investment and planned maintenance by our customers. The level of capital expenditures depends, in turn, on the general economic conditions within that market as well as access to capital at reasonable cost. Our financial performance will continue to be affected by our ability to address a variety of challenges and opportunities that are a consequence of our global operations, including efficiently utilizing our global channels of distribution, manufacturing capabilities, the expansion of market opportunities, and successfully engineering innovative new product applications for end users in a variety of geographic markets. However, we believe that our geographic end markets and product diversification has and will continue to minimize the impact that any one country or economy has on our consolidated results.

Product and Project Mix

Our profit margins vary in relation to the relative product and geographic mix, including the market segments that we serve, the type of product we sell, the geographic location in which the product is sold, the end market for which the product is designed, and the relative percentage of total revenue represented by our Standard systems, Advanced systems, aftermarket sales and services.

Foreign Currency Fluctuations

The volatility in the global economic environment continues to result in significant volatility in the global currency markets. For the year ended April 30, 2012, approximately 59% of our total consolidated sales were to customers outside the United States. Since the majority of our international operations are conducted in currencies other than the U.S. dollar, currency
fluctuations can have a significant impact on the translation of our international revenues and earnings into U.S. dollar amounts. During fiscal year 2012, the U.S. dollar strengthened against the average exchange rates for these currencies versus the comparable prior year period, negatively impacting the translation of our international revenues and earnings during the current fiscal year.

In addition, some of our transactions that occur in our international locations are denominated in U.S. dollars, exposing them to exchange rate fluctuations when converted to their local currencies. These transactions include U.S. dollar denominated purchases of inventory and intercompany liabilities. Fluctuations in exchange rates can impact the profitability of our foreign operations and reported earnings and are largely dependent on the transaction timing and magnitude during the period that the currency fluctuates.

Reinstatement of Previously Reduced Wages and Suspended Employee Benefits

As the global recession set in during the end of fiscal year 2008 we responded by implementing permanent and temporary
changes to adjust our operating costs. Some of these changes included a temporary reduction in wages or hours worked for a
majority of our employees and suspension of certain employee benefits. While these temporary wage reductions and benefit
suspensions helped us through the economic downturn, they did not fit into our long-term strategy of attracting and retaining
skilled and knowledgeable people. We therefore initiated the reinstatement of these wages and employee benefits using a
phased in approach starting in the third quarter of fiscal year 2010. As a result of these reinstatements, our comparable year-over-year operating expenses are higher in the current comparative periods.

Launch of new Enterprise Resource Planning (“ERP”) System

We placed a new ERP system with a carrying value of $10.6 million into service at the end of the second quarter in fiscal year 2010 when it was launched in the first of our geographic locations. This ERP system is being depreciated over a useful life of five years since its launch. Full-year and partial-year depreciation expense related to this asset in the respective years ended

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April 30, 2012, 2011 and 2010, will impact year-over-year operating expense comparisons.

Restructuring and Other Operating Charges

In fiscal year 2010, we recorded a $6 million charge pursuant to the provisions of an amended Merger Agreement with OMAX, net of a $2.8 million discount on two subordinated notes issued to OMAX in fiscal year 2010.

Also during fiscal year 2010, we recognized $1.0 million in restructuring activities as a result of the global recession in order to improve performance and better position us for existing market conditions and longer-term growth. The restructuring charges recorded in fiscal year 2010 were net of a $0.6 million credit related to the gain recognized on the sale of our building in Hsinchu, Taiwan. There were no further restructuring activities during fiscal years 2011 and 2012, and there are no further planned restructuring activities as of April 30, 2012.

Our restructuring liability was satisfied as of April 30, 2011. The following table summarizes our restructuring and other operating charges, net:

	Fiscal Year Ended April 30, 2010
Severance and termination benefits	$1,604
Gain on sale of building	(601)
Merger termination charge	3,219
	$4,222

Discontinued Operations

In fiscal year 2009, we were notified by the purchaser of our Avure business (reported as a discontinued operation for the fiscal year ended April 30, 2006), that the Swedish Tax Authority was conducting an audit which included periods when we owned the business. In the sale agreements, we made commitments to indemnify the purchaser for certain claims, including tax matters relating to the periods when we owned the business. The Swedish tax authority concluded its audit and issued a final report in November 2009 initially asserting that Avure owes 19.5 million Swedish Krona, approximately $2.8 million at the initial date of assessment, in additional taxes, penalties and fines. In April 2010, we filed an appeal to contest the Swedish tax authority's assertion. Since the filing of our appeal, there has been further correspondence with the Swedish tax authorities as we continue to contest the findings, and there has been a hearing before the Swedish district court regarding the appeal, but there has been no decision in the matter and we are awaiting this court's decision. A charge was recorded in fiscal year 2010 related to the periods when we owned Avure. This charge was accounted for as an adjustment to the loss on the disposal of the Avure business and is reported as a charge to discontinued operations in our Consolidated Statements of Operations. As of April 30, 2012, we have accrued $1.3 million related to the Avure matter. The balance of the accrued liability will fluctuate period over period with changes in foreign currency rates until such time as the matter is ultimately resolved.

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Results of Operations
(Tabular amounts in thousands)

Summary Consolidated Results

	Fiscal Year Ended April 30,			2012 vs 2011 Increase (Decrease)		2011 vs 2010 Increase (Decrease)	
	2012	2011	2010	$	%	$	%
	(In thousands)						
Sales	$253,768	$216,524	$173,749	$37,244	17 %	$42,775	25 %
Gross Margin	99,368	84,461	67,767	14,907	18 %	16,694	25 %
Selling, General, and Administrative Expenses	84,699	79,574	70,545	5,125	6 %	9,029	13 %
Restructuring and Other Operating Charges, net	—	—	4,222	—	NM	(4,222)	(100)%
Operating Income (Loss)	14,669	4,887	(7,000)	9,782	NM	11,887	NM
Expressed as a % of Sales:							
Gross Margin	39 %	39 %	39 %		—		—
Selling, General, and Administrative Expenses	33 %	37 %	41 %		(400) bpts		(400) bpts
Restructuring and Other Operating Charges, net	— %	— %	2 %		NM		(200) bpts
Operating Income (Loss)	6 %	2 %	(4)%		400 bpts		600 bpts

bpts = basis points
NM = not meaningful

Consolidated Sales by Category

	Fiscal Year Ended April 30,			2012 vs 2011 Increase (Decrease)		2011 vs 2010 Increase (Decrease)	
	2012	2011	2010	$	%	$	%
	(In thousands)						
Standard System Sales	$150,456	$117,721	$81,799	$32,735	28 %	$35,922	44 %
Advanced System Sales	23,358	28,431	34,333	(5,073)	(18)%	(5,902)	(17)%
Consumable Parts Sales	79,954	70,372	57,617	9,582	14 %	12,755	22 %
	$253,768	$216,524	$173,749	$37,244	17 %	$42,775	25 %

Segment Results of Operations

We report our operating results to our Chief Executive Officer, who is our chief operating decision maker, based on market segments which is consistent with management's long-term growth strategy. Our reportable segments are Standard and Advanced. The Standard segment includes sales and cost of sales related to our cutting and surface preparation systems using ultrahigh-pressure water pumps as well as parts and services to sustain these installed systems. Systems included in this segment do not require significant custom configuration. The Advanced segment includes sales and cost of sales related to our complex aerospace projects which require specific custom configuration

and advanced features, including robotics, to match unique customer applications as well as parts and services to sustain these installed systems.

This section provides a comparison of net sales and gross margin for each of our reportable segments for the last three fiscal years. For further discussion on our reportable segments, refer to Note 16 - Business Segments and Geographic Information of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data.

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Standard Segment

	Fiscal Year Ended April 30,			2012 vs 2011 Increase (Decrease)		2011 vs 2010 Increase (Decrease)	
	2012	2011	2010	$	%	$	%
	(In thousands)						
Sales	$230,272	$187,887	$137,514	$42,385	23 %	$50,373	37 %
% of total company sales	91 %	87 %	79 %		NM		NM
Gross Margin	93,843	78,321	56,097	15,522	20 %	22,224	40 %
Gross Margin as % of sales	41 %	42 %	41 %		(100) bpts		100 bpts

bpts = basis points
NM = not meaningful

Fiscal year 2012 compared to fiscal year 2011

Sales in our Standard segment increased $42.4 million or 23% over the prior year. Excluding the impact of foreign currency changes, sales in the Standard segment increased $40.5 million or 22% in fiscal year 2012 compared to the prior year.
The year over year increases were primarily driven by the following:

- Continued double-digit growth in system sales across all geographies on higher system sales volume for an aggregate growth of $32.7 million or 28% over the comparative prior year.
- Consumable parts sales for this segment also increased by $9.7 million or 14% over the prior comparative year based on higher system utilization by our customers and increased system sales volumes with nearly all geographies reporting double-digit growth over the prior fiscal year.

Gross margin in fiscal year 2012 was $93.8 million or 41% of sales compared to $78.3 million or 42% of sales in the prior year. Generally, comparisons of gross margin rates in this segment will vary period over period based on changes in our product sales mix and prices and levels of production volume.

Fiscal year 2011 compared to fiscal year 2010

Sales in our Standard segment increased $50.4 million or 37% over the prior year. Excluding the impact of foreign currency changes, sales in Standard segment increased $50.3 million or 37% in fiscal year 2011 compared to the prior year. These increases were driven by the following:

- Significant improvements in system sales volume across all geographies as the global economic environment improved and businesses increased capital spending.
- Consumable parts revenue for the Standard segment also increased by $14.5 million or 26% in fiscal year 2011 on higher system sales volume and improved system utilization by our customers with all geographies reporting double-digit growth over the prior fiscal year.

Gross margin in fiscal year 2011 was $78.3 million or 42% of sales compared to $56.1 million or 41% of sales in the prior year. The improvement in our margins over the prior year was primarily attributable to product mix. Generally, comparisons of gross margin rates in this segment will vary period over period based on changes in our product sales mix and prices and levels of production volume.

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Advanced Segment

	Fiscal Year Ended April 30,			2012 vs 2011 Increase (Decrease)		2011 vs 2010 Increase (Decrease)	
	2012	2011	2010	$	%	$	%
	(In thousands)						
Sales	$23,496	$28,637	$36,235	$(5,141)	(18)%	$(7,598)	(21)%
% of total company sales	9%	13%	21%		NM		NM
Gross Margin	5,525	6,140	11,670	(615)	(10)%	(5,530)	(47)%
Gross Margin as % of sales	24%	21%	32%		300 bpts		(1,100) bpts

bpts = basis points
NM = not meaningful

Fiscal year 2012 compared to fiscal year 2011

Sales in the Advanced segment vary period over period for various reasons, such as the timing of contract awards, timing of project design and manufacturing schedules, the timing of shipments to customers, and timing of installation at customer sites. In fiscal year 2012, sales in our Advanced segment decreased $5.1 million or 18% when compared to the prior fiscal year. This decrease was consistent with our expectations and primarily due to the timing of contract awards, as well as the completion of certain multi-year aerospace systems under contract in fiscal year 2012.

Advanced segment gross margins will vary period over period based on changes in project mix, geographic mix and levels of production. Gross margin in fiscal year 2012 amounted to $5.5 million or 24% of sales compared to $6.1 million or 21% of sales in the prior year. The increase in gross margin as a percentage of sales when compared to the prior year is attributable to changes in project mix as well as adjustments in original estimates related to material and installation costs on certain project contracts in the prior year comparative period.

Fiscal year 2011 compared to fiscal year 2010

In fiscal year 2011, sales in our Advanced segment decreased $7.6 million or 21%. The decrease was primarily due to the timing of revenue recognition for some of our significant aerospace contracts that were in the production phase during the comparative prior year. During fiscal year 2011, a significant number of these aerospace contracts were in the installation phase.

Gross margin in fiscal year 2011 amounted to $6.1 million or 21% of sales compared to $11.7 million or 32% of sales in the prior year. The decrease in gross margin as a percentage of sales when compared to the prior year is attributable to adjustments in original cost estimates on certain aerospace contracts during fiscal year 2011 as more experience was gained and new information obtained regarding installation constraints and customer expectations. The revised cost estimates amounted to $3.4 million, representing an amount valued at less than 10% of the total value of the contracts involved, resulting in lower overall margin for the fiscal year ended April 30, 2011.

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Selling, General and Administrative Expenses

	Fiscal Year Ended April 30,			2012 vs 2011 Increase (Decrease)		2011 vs 2010 Increase (Decrease)	
	2012	2011	2010	$	%	$	%
	(In thousands)						
Sales and Marketing	$49,454	$45,359	$37,259	$4,095	9%	$8,100	22%
Research and Engineering	10,863	10,074	8,104	789	8%	1,970	24%
General and Administrative	24,382	24,141	25,182	241	1%	(1,041)	(4)%
	$84,699	$79,574	$70,545	$5,125	6%	$9,029	13%

Fiscal year 2012 compared to fiscal year 2011

Our consolidated selling, general and administrative expenses decreased 400 basis points as a percentage of sales when compared to fiscal year 2011. In total dollars our consolidated selling, general and administrative expenses for the year ended April 30, 2012 increased $5.1 million from fiscal year 2011. The increase in absolute dollars was primarily a result of the following:

- higher commission expense of $3.2 million due to comparatively higher sales volume and increased sales through our indirect channels;
- increased labor and compensation related costs of $2.9 million driven by the reinstatement of previously reduced wages and suspended employee benefits, incremental investment in personnel, stock-based compensation and other labor related costs;
- offset by lower investment of $0.7 million in technology infrastructure and new product development; and
- other general cost reductions of $0.4 million over the prior fiscal year due in part to the timing of internal projects, and also to management and operational efficiencies.

Fiscal year 2011 compared to fiscal year 2010

Our consolidated operating expenses decreased 400 basis points as a percentage of sales when compared to fiscal year 2010. However, in total dollars our consolidated operating expenses for the year ended April 30, 2011 increased $9.0 million from fiscal year 2010. The increases were primarily as a result of the following:

- higher commission expense of $2.7 million on improved sales volume in all geographies and increased sales through our indirect channels;
- an increase of $1.9 million as a result of the reinstatement of previously reduced wages and suspended employee benefits in the latter half of fiscal year 2010 and into the first half of fiscal year 2011, as well as incremental investments in our employees in the last quarter of fiscal year 2011;
- the timing of investments for new product development which increased $1.6 million over the prior year comparative period;
- increased marketing and related travel expense of $1.1 million due to the timing and activity of tradeshows and the generation of customer leads; and
- additional depreciation expense of $0.4 million related to our new ERP system which was placed into service in October of fiscal year 2010.

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Interest Income (Expense), net

	Fiscal Year Ended April 30,			2012 vs 2011 Increase (Decrease)		2011 vs 2010 Increase (Decrease)	
	2012	2011	2010	$	%	$	%
	(In thousands)						
Interest Income	$62	$106	$252	$(44)	(42)%	$(146)	(58)%
Interest Expense	(1,112)	(1,776)	(2,374)	(664)	(37)%	(598)	(25)%
Net Interest Income (Expense)	$(1,050)	$(1,670)	$(2,122)	$(620)	(37)%	$(452)	(21)%

Interest expense primarily consists of imputed interest on two subordinated notes that carry a below market interest rate, amortization of deferred financing fees and interest charges on the used and unused portion of our Credit Facility, as well as outstanding letters of credit. Net interest expense was $1.1 million, $1.7 million, and $2.1 million for the respective fiscal years ended April 30, 2012, 2011, and 2010.

For fiscal year 2012 net interest expense decreased $0.6 million primarily due to lower average balances outstanding on our Credit Facility and lower average interest rates. The decrease in net interest expense in fiscal year 2011 compared to fiscal year 2010 is primarily due to lower average balances outstanding on our Credit Facility, as well as lower balances in outstanding standby letters of credit. In addition, fiscal year 2010 included a $0.3 million write-off of deferred financing fees as a result of reducing our available borrowing capacity by 50%.

Other Income (Expense), Net

	Fiscal Year Ended April 30,			2012 vs 2011 Increase (Decrease)		2011 vs 2010 Increase (Decrease)	
	2012	2011	2010	$	%	$	%
	(In thousands)						
Realized Foreign Exchange Gains (Losses), net	$(249)	$177	$(1,215)	$(426)	NM	$1,392	NM
Unrealized Foreign Exchange Gains (Losses), net	(587)	412	66	(999)	NM	346	NM
Other	(118)	97	38	(215)	NM	59	NM
Other Income (Expense), net	$(954)	$686	$(1,111)	$(1,640)	NM	$1,797	NM

NM = not meaningful

During the fiscal year ended April 30, 2012, we recorded net Other Expense of $1.0 million, compared to net Other Income of $0.7 million in the prior fiscal year. The changes in other income and expense during the current fiscal year were primarily related to fluctuations in realized and unrealized foreign exchange gains and losses on revaluation of third party and intercompany settled and unsettled balances whose payment is anticipated in the foreseeable future.

During fiscal year 2010, we recorded a $1.3 million foreign currency translation adjustment related to the liquidation of two dormant subsidiaries as a realized foreign exchange loss. This non-cash charge was previously recorded as an unrealized foreign exchange loss in our currency translation account as a component of other comprehensive income.

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Income Taxes

Our (benefit)/provision for income taxes for our continuing operations over the last three years consisted of:

	Fiscal Year Ended April 30,			2012 vs 2011 Increase (Decrease)		2011 vs 2010 Increase (Decrease)	
	2012	2011	2010	$	%	$	%
	(In thousands)						
Current Tax Expense (Benefit)	$1,972	$1,139	$1,206	$833	73%	$(67)	(6)%
Deferred Tax Expense (Benefit)	1,304	1,756	(4,050)	(452)	(26)%	5,806	NM
Total Tax Expense (Benefit)	$3,276	$2,895	$(2,844)	$381	13%	$5,739	NM

We recognize a net deferred tax asset for items that will generate a reduction in future taxable income to the extent that it is “more likely than not” that these deferred assets will be realized. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the period in which the tax benefit will be realized. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which the tax benefit will be realized. In determining the realizability of these assets, we considered numerous factors, including historical profitability, estimated future taxable income and the industry in which we operate. At April 30, 2012, the recorded amount of our deferred tax assets was $20.8 million, net of valuation allowance on certain foreign and domestic NOLs.

Our foreign tax provision consists of current and deferred tax expense (benefit). The United States tax provision consists of current and deferred tax expense (benefit), state taxes and foreign withholding taxes. With the exception of certain of our subsidiaries, it is our general practice and intention to reinvest the earnings of our non-U.S. subsidiaries in those operations. As of April 30, 2012, we had not made a provision for U.S. or additional foreign withholding taxes of the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries with the exception of our subsidiaries in Taiwan and Switzerland for which we provide deferred taxes. During fiscal year 2011, we repatriated a total of $1.9 million from one foreign subsidiary that was deemed to be a dividend for tax reporting purposes and in fiscal year 2010 we repatriated a total of $0.2 million, net of tax of less than $0.1 million.

Our effective tax rates for the respective fiscal years ended April 30, 2012, 2011 and 2010 were approximately 26%, 74% and (28)%. Our fiscal year 2012 effective tax rate was lower than the U.S. federal statutory rate primarily as a result from an examination settlement and release of valuation allowances in foreign jurisdictions. Our 2011 effective tax rate was higher than the U.S. federal statutory rate as a result of the repatriation of cash from one foreign subsidiary that was deemed to be a dividend for tax purposes, additional valuation allowances for certain foreign deferred tax assets and uncertain tax benefits. Our 2010 effective tax rate was lower than the U.S. federal statutory rate as a result of foreign earnings taxed at lower rates and nontaxable items.

Liquidity and Capital Resources

Sources of Cash

Historically, our most significant sources of financing have been funds generated by operating activities, available cash and cash equivalents and available lines of credit. From time to time, we raised funds through the sale of common stock.

Cash Generated by Operating Activities

Cash generated by operating activities for the respective fiscal years ended April 30, 2012, 2011 and 2010 was $12.7 million, $2.9 million and $3.8 million. Changes in our working capital resulted in a net use of cash of $14.0 million, $14.1 million, and $2.8 million for the respective fiscal years ended April 30, 2012, 2011, and 2010. The changes in working capital are attributable to the timing of inventory purchases and collection of accounts receivable, purchases from vendors, and deferred revenue and customer deposits due to the timing of contract awards and shipments to customers.

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Available Cash and Cash Equivalents

At April 30, 2012 we had total cash and cash equivalents of $12.9 million, of which $7.7 million was held by our foreign subsidiaries. To the extent that our cash needs in the U.S. exceed our cash reserves and availability under our Credit Facility Agreement, we may repatriate cash from certain of our foreign subsidiaries; however, this is not our current intent and could be limited by our ability to repatriate such cash in a tax efficient manner. We believe that our existing cash and cash equivalents as of April 30, 2012, anticipated funds generated from our operations, and financing available under our existing credit facilities will be sufficient to fund our operations for at least the next twelve months. However, in the event there are changes in our expectations or circumstances, we may need to raise additional funds through public or private debt or sale of equity to fund our operations. Cash balances not available for general corporate purposes are classified as restricted cash and are primarily related to cash which collateralizes commercial letters of credit.

In the first quarter of fiscal year 2010, we filed a registration statement on Form S-3 filed with the SEC covering the offer and sale, at our discretion, of up to $35 million in common and preferred stock, warrants, and units. This registration statement was declared effective by the SEC in July 2009. In September 2009, we completed a public offering of 8,998,750 common shares at an offering price of $2.10 per share, generating net proceeds of approximately $17.2 million after deducting underwriting commissions and estimated offering expenses. The proceeds from this offering were used to reduce a significant portion of our outstanding debt, including outstanding amounts under our Senior Credit Facility.

Refer to Part I, Item 1A - Risk Factors for a discussion of the risks and uncertainties pertaining to our business and industry.

Credit Facilities

We have a $25.0 million Credit Facility agreement which will mature March 2, 2014. Under the terms of the Credit Facility in effect as of April 30, 2012, we are required to maintain a maximum consolidated leverage ratio of 2.75x, and a minimum fixed charge coverage ratio of 1.75x. The terms of the Credit Facility define the leverage ratio as the ratio of consolidated indebtedness, excluding our outstanding subordinated notes, to consolidated adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") for the most recent four fiscal quarters. The Fixed Charge Coverage Ratio is defined as the ratio of Adjusted EBITDA, less income taxes and maintenance capital expenditures, during the most recent four fiscal quarters to the sum of interest changes during the most recent four quarters and scheduled debt repayments in the next four quarters.

The financial covenants are measured on a quarterly basis. Our leverage ratio and fixed charge coverage ratio were 0.17 and 95.1, respectively as of the fiscal quarter ended April 30, 2012. Our calculations of these financial ratios are reported in Exhibit No. 99.1 of this Annual Report on Form 10-K. A violation of any of the Credit Facility covenants would result in an event of default and accelerate the repayment of all unpaid principal and interest and the termination of any letters of credit. All of our domestic assets and certain interests in some foreign subsidiaries are pledged as collateral under the three-year Credit Facility Agreement. In addition, the terms of the Credit Facility limit our ability to pay dividends. We were in compliance with all our financial covenants as of the end of each quarter during the fiscal year ended April 30, 2012.

Interest on the Credit Facility is based on the bank’s prime rate or LIBOR rate plus a percentage spread between 0.00% and 2.25% depending on whether it uses the bank’s prime rate or LIBOR rate and based on our current leverage ratio. We also pay an annual letter of credit fee ranging from 1.25% to 2.25% of the amount available to be drawn under

each outstanding stand-by letter of credit. The annual letter of credit fee is payable quarterly in arrears and varies depending on our leverage ratio.

As of April 30, 2012, we had $21.0 million available under our Credit Facility, net of $4.0 million in outstanding letters of credit. There were no outstanding borrowings against the Credit Facility as of April 30, 2012.

We expect to be in compliance with our covenants pursuant to the Credit Facility Agreement for at least the next twelve months. However, in the event there is a possibility of default, we may institute cost reductions; raise additional funds through public or private debt or sale of equity; possibly seek an amendment to our Credit Facility Agreement or a combination of these items. Refer to Part I, Item 1A - Risk Factors for discussion of the risks and uncertainties pertaining to our business and industry.

We have two unsecured credit facilities in Taiwan and there were no outstanding balances under these credit facilities as of April 30, 2012. The unsecured commitment for the Taiwan credit facilities totaled $3.1 million at April 30, 2012, bearing interest at 2.5% per annum.

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Other Sources of Cash

In fiscal year 2010, we consummated the sale of our building in Hsinchu, Taiwan receiving $4.7 million from the proceeds of the sale, and simultaneously entered into an asset lease agreement for an insignificant portion of the building which was treated as an operating lease. This sale concluded our efforts to consolidate our manufacturing activities. We recorded a gain of approximately $0.6 million after paying off an aggregate of $4.1 million related to closing costs, the outstanding balances on the two unsecured credit facilities in Taiwan, and the outstanding mortgage.

Uses of Cash

Capital Expenditures

Our capital spending plans currently provide for outlays ranging from approximately $6 million to $8 million over the next twelve months, primarily related to investments in machinery and equipment to support manufacturing, investments in information technology structure and related projects, the continued implementation of our ERP system, as well as patent and trademark maintenance. It is expected that funds necessary for these expenditures will be generated internally or from available financing. To the extent that sufficient funds cannot be generated through operations or we are unable to obtain financing on reasonable terms, we may reduce our capital expenditures accordingly. Our capital spending for the each of the respective fiscal years ended April 30, 2012, 2011, and 2010 amounted to $4.6 million, $3.5 million, and $10.0 million.

Subordinated Notes

We issued subordinated notes to OMAX with an aggregate value of $10.0 million and a stated interest rate of 2%, which matures in August 2013. We expect to pay the subordinated notes and related interest, aggregating to approximately $10.8 million, from cash generated from our operations or from our existing credit facilities.

Other Strategic Investments

In fiscal year 2010, we terminated our option to acquire OMAX following a thorough investigation of financing alternatives to complete the merger and unsuccessful attempts to negotiate a lower purchase price with OMAX. Pursuant to the terms of the amended Merger Agreement and the Settlement and Cross Licensing Agreement, amounts previously held in escrow were released to OMAX. In addition, we recorded a $6 million charge pursuant to the provisions of the amended Merger Agreement in fiscal year 2010, net of a $2.8 million discount.

Borrowings and Repayment of Notes Payable and Other Debt

For the respective fiscal years ended April 30, 2012 and 2010 we had net repayments on our Credit Facility of $5.5 million and $12.7 million compared to net borrowings of $5.2 million for the fiscal year ended April 30, 2011. Activity on our Credit Facility will fluctuate to augment our working capital needs. In addition, we also had net borrowings and repayments of long-term obligations and other debt of less than $0.1 million for the respective fiscal years ended April 30, 2012 and 2011 and $5.6 million for the fiscal year ended April 30, 2010.

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Disclosures about Contractual Obligations and Commercial Commitments

The following table summarizes our known future payments pursuant to certain contracts as of April 30, 2012 and the estimated timing thereof. More detail about our contractual obligations and commercial commitments are in Note 7 - Notes Payable and Note 8 - Commitments and Contingencies of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data.

	Payment by Fiscal Year						
	2013	2014	2015	2016	2017	Thereafter	Total
	(In thousands)						
Operating Leases	$2,387	$2,004	$1,835	$1,746	$1,280	$2,781	$12,033
Long-term Debt, Notes Payable & Capital Leases	37	34	16	8	—	—	95
Interest on Long-term Debt and Notes Payable	24	—	—	—	—	—	24
Purchase Commitments (i)	16,645	—	—	—	—	—	16,645
Subordinated Notes (ii)	—	10,824	—	—	—	—	10,824
Liabilities related to Unrecognized Tax benefits, including Interest and Penalties (iii)	—	—	—	—	—	6,766	6,766
Total	$19,093	$12,862	$1,851	$1,754	$1,280	$9,547	$46,387

i. Purchase commitments include agreements to purchase goods or services that are enforceable, are legally binding and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations do not include agreements that are cancelable without penalty. Additionally, although they are not legally binding agreements, open purchase orders for inventory purchases are included in the table above. Substantially all open purchase orders are fulfilled within 30 days. We expect to fund these commitments with existing cash and our cash flows from operations in future periods.

ii. Subordinated promissory notes with an aggregate face value of $10 million, due August 2013 along with accumulated interest.

iii. We have unrecognized tax benefits of $6.8 million associated with uncertain tax positions as of April 30, 2012. This potential liability may result in cash payments to tax authorities. The timing of payments related to these obligations is uncertain; however, none of this amount is expected to be paid within the next twelve months.

Off-Balance Sheet Arrangements

As of April 30, 2012, we had stand-by letter of credit reimbursement agreements totaling $4.0 million compared to $2.3 million at April 30, 2011. These stand-by letter of credit agreements relate to performance on contracts with our customers and vendors.

Critical Accounting Estimates

Our discussion and analysis of the financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make certain assumptions and estimates about future events, and apply judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our consolidated financial statements. We base our assumptions, estimates, and judgment on historical experience, current trends and other factors which management believes to be relevant and appropriate at the time our consolidated financial statements are prepared. On a regular basis, management reviews its assumptions, estimates, and judgments to ensure that our consolidated financial statements are presented fairly. However, because future events cannot be determined with certainty, actual results may differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are summarized in Note 1 - The Company and Summary of Significant Accounting Policies of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data. Management identifies its most critical accounting policies as those that are the most pervasive and important to the

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portrayal of our financial position and results of operations, and that require the most difficult, subjective and/or complex judgments by management regarding estimates that are inherently uncertain.

Accounting Policy	Judgments/Uncertainties Affecting Application
Impairment of Long Lived Assets	- Judgment about triggering events
	- Recoverability of investments through future operations
	- Estimated useful lives of assets
	- Estimates of future cash flows
Valuation of Deferred Tax Assets and Uncertain Tax Positions	- Ability of tax authority decisions to withstand legal challenges and appeals
	- Anticipated future decisions of tax authorities
	- Application of tax statutes and regulations to transactions
	- Ability to utilize tax benefits through carrybacks to prior periods and carryforwards to future periods
Contingencies	- Judgment about likelihood of event(s) occurring
	- Estimated financial impact of event(s)
	- Regulatory and political environments and requirements
Revenue Recognition	- Judgment regarding the relative selling price in multiple element arrangements
	- Estimates about anticipated contract costs and progress made towards the completion of projects
Allowance for Doubtful Accounts	- Judgment regarding the amount of probable credit loss on existing receivables
Inventory Reserves	- Judgment regarding inventory aging, forecasted consumer demand, the promotional environment and technological obsolescence
	- Application of judgment regarding historical results and current inventory loss trends
Warranty Liability	- Judgment regarding historical experience to estimate future liability
Cost Method Investments	- Judgment about fair value
	- Recoverability of investments

Impairment of Long Lived Assets

We routinely consider whether indicators of impairment are present for our long-lived assets, which consist of property and equipment, particularly our manufacturing equipment, and patents subject to amortization. Factors we consider include, but are not limited to, significant underperformance relative to historical or projected operating results; significant changes in the manner of use of long-lived assets or the strategy for the overall business; and significant negative industry or economic trends. If such indicators are present, we determine whether the sum of the estimated undiscounted cash flows attributable to the asset group in question is less than their carrying value. For purposes of impairment testing, long-lived assets are grouped at the component level, which for us is by regional locations, as this is the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If the sum of the undiscounted cash flows attributable to the asset group is less than the carrying value of the asset group, an impairment loss is recognized based on the excess of the carrying value of the asset group over its respective fair value. Fair value is determined by discounting estimated future cash flows, appraisals or other methods deemed appropriate. If the asset group determined to be impaired is to be held and used, we recognize an impairment charge to the extent the present value of anticipated net cash flows attributable to the

asset group is less than the assets' carrying value. The fair value of the assets then becomes the assets' new carrying value, which is depreciated over the remaining estimated useful life of the assets.

We concluded that there were no long-lived assets impairment indicators in each of the fiscal years ended April 30, 2012 and 2011. We will continue to monitor circumstances and events in future periods to determine whether asset impairment testing is warranted based on the existence of one or more of the above impairment indicators.

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Valuation of Deferred Tax Assets and Uncertain Tax Positions

We account for uncertain tax positions in accordance with ASC 740 which utilizes a two-step approach for evaluating tax positions. Recognition (Step 1) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (Step 2) is only addressed if Step 1 has been satisfied. Under Step 2, the tax benefit is measured at the largest amount of benefit, determined on a cumulative probability basis that is more likely than not to be realized upon settlement. As used in ASC 740, the term “more likely than not” means that the likelihood of an occurrence is greater than 50%. To the extent that we prevail in matters for which unrecognized tax benefits have been established, or are required to pay amounts in excess of our unrecognized tax benefits, our effective tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would require the use of our cash and would result in an increase to our effective income tax rate in the period of resolution. A favorable tax settlement would be recognized as a reduction in our effective income tax rate in the period of resolution.

Our annual effective tax rate is based on income, statutory tax rates and tax planning strategies available in various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining our tax expense and in evaluating tax positions. Tax positions are reviewed quarterly and balances are adjusted as new information becomes available. Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse. Future tax benefits of tax losses and credit carryforwards are recognized to the extent that realization of these benefits is considered more likely than not. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative net operating losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future federal, state and foreign pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage our business.

As of April 30, 2012, we had approximately $52.4 million of domestic net operating loss and $35.6 million of state net operating loss carryforwards to offset certain earnings for federal and state income tax purposes. These net operating loss carryforwards expire between fiscal year 2023 and fiscal year 2031. Net operating loss carryforwards in foreign jurisdictions amount to $40.1 million. A valuation allowance of $25.0 million has been provided against these net operating loss carryforwards in certain of our foreign jurisdictions as realization of the tax benefit in those jurisdictions is uncertain. Most of the foreign net operating losses can be carried forward indefinitely, with certain amounts expiring between fiscal years 2016 and 2020. The federal, state and foreign net operating loss carryforwards per the income tax returns filed include uncertain tax positions taken in prior years. Due to the application of ASC 740, the net operating loss carryforwards per the income tax returns are larger than the net operating loss carryforwards considered more likely than not to be realized in recognizing deferred tax assets for consolidated financial statement purposes. We also have a capital loss carryover of $1.3 million, for which we provide a valuation allowance that expires after 2017. Utilization of net operating losses may be subject to limitation due to ownership changes and other limitations provided by the Internal Revenue code and similar state provisions. If such a limitation applies, the net operating loss may expire before full utilization.

Our income tax returns are periodically audited by domestic and foreign tax authorities. These audits include questions regarding our filing tax positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any one time, multiple tax years are subject to audit by the various tax authorities.

Contingencies

At any time, we may be involved in legal proceedings or other claims and assessments arising in the normal course of business. Our policy is to routinely assess the likelihood of any adverse judgments or outcomes related to these matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is based on historical experience and/or after analysis of each known issue. We record reserves related to these matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. With respect to other matters, management has concluded that a loss is only reasonably possible or remote and, therefore, no liability is recorded. Management discloses the facts regarding material matters assessed as reasonably possible and potential exposure, if determinable. Costs incurred defending claims are expensed as incurred. As of April 30, 2012, we have accrued our estimate of the probable liabilities for the settlement of these claims. Refer to Note 8 - Commitments and Contingencies of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data.

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Revenue Recognition

We sell ultrahigh-pressure waterjet systems. Sales of waterjet systems within the Standard segment are primarily related to cutting and surface preparation systems using ultrahigh-pressure water pumps and do not require significant custom configuration or modifications. Installation of these waterjet systems by us is not essential to the functionality of the waterjet systems, but we do provide installation as a separate service. Sales of waterjet systems within the Advanced segment are generally complex aerospace and automation systems, which require specific custom configuration and advanced features to match unique customer applications. Installation by us is essential to the functionality of waterjet systems sold within the Advanced segment.

We recognize revenue, net of excise and sales taxes, when it is realized or realizable and earned. We consider these criteria met when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured.

We recognize revenue for sales of ultrahigh-pressure waterjet pumps, consumables, and services, and billing for freight charges, in accordance with Accounting Standard Codification ("ASC") 605, Revenue Recognition, (“ASC 605”), when the customer has assumed risk of loss of the goods sold and all performance obligations are complete, or over the period as services are rendered.

We recognize revenue for our Standard segment waterjet systems which do not require significant modification or customization in accordance with ASC 605-25, Multiple-Element Arrangements. Standard segment waterjet systems contain two separate deliverables consisting of the system and installation services. The deliverables are treated as separate units of accounting. Standard segment waterjet systems also include a proprietary software component which functions together with the hardware to deliver the systems' essential functionality. We perform an analysis to determine the relative selling price of each unit of accounting, and we have established vendor-specific objective evidence ("VSOE") for our system hardware and installation services based on standalone transactions.

We allocate consideration to our deliverables at the inception of an arrangement based on their relative selling price, and the applicable revenue recognition criteria are applied to each of the separate units of accounting. In instances where we have not established VSOE for our Standard segment waterjet deliverables, we will use the estimated selling price in accordance with the selling price hierarchy to allocate arrangement consideration to each unit of accounting until such time that VSOE exists. Estimated selling prices would be determined by considering multiple factors, which may include existing and forecasted market conditions, internal costs, gross margin objectives, prior pricing practices, and geographic market strategies. We use estimated selling prices in the absence of VSOE since we are unable to establish comparable third-party evidence of selling price for our deliverables based on limited availability of information and the level of customization and differentiation of similar products. Furthermore, we are unable to reliably determine what similar competitor product selling prices are on a standalone basis.

In general, sales of the our waterjet systems within our Standard segment are FOB shipping point or FOB destination, depending on geographical location, and the title passes to the customer based on the specific terms in each contract.

Deferred revenue is recorded for products or services that have not been provided but have been invoiced under contractual agreements or paid for by a customer, or when products or services have been provided but all the criteria for revenue recognition have not been met.

For complex aerospace and application systems designed and manufactured to buyers' specification, we recognize revenue using the percentage of completion method in accordance with ASC 605-35, Construction-Type and

Production-Type Contracts. Typical lead times can range from 12 to 24 months. Sales and profits on such contracts are recorded based on the ratio of total actual incurred costs to date to the total estimated costs for each contract (the “cost-to-cost” method). We review these estimates as work progresses and the effect of any change in cost estimates is reflected in the calculation of the expected margin and the percent complete. If the contract is projected to generate a loss, the entire estimated loss is recognized in the period such loss first becomes known. Accounting for the profit on a contract requires (1) the total contract value, (2) the estimated total cost to complete, which is equal to the sum of the actual incurred costs to date on the contract and the estimated costs to complete the scope of work, and (3) the measurement of progress towards completion. The estimated profit or loss on a contract is equal to the difference between the contract value and the estimated total cost to completion. Adjustments to original cost estimates may be required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change, or if contract modifications occur. For contract modifications supported by a change in contract price, profit on such contract modifications are only recognized upon receipt of a signed contract amendment and only in the proportion of such contract's progress towards completion. For

modifications not supported by a change in contract price, those additional costs are treated as contract costs and charged to expense in the proportion of such contract's progress towards completion.

A number of internal and external factors affect our cost of sales estimates, including material costs, labor rates and efficiency variances and installation and testing requirements. While we believe that our historical experience provides a sound basis for our estimates, changes in the customer's requirements, design or other changes in the specifications, or in the timing of delivery and installation may affect the timing of revenue related to, or the gross margin on, a system if they are substantially different from what was anticipated. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the percentage of completion method affect the amounts reported in our financial statements.

Shipping revenues and expenses are recorded in revenue and cost of goods sold, respectively.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses on existing receivables. We estimate the allowance based on the age of the related receivables, knowledge of the financial condition of our customers, review of historical receivables and reserve trends and other relevant information. Account balances are charged against the allowance when management determines that it is probable the receivable will not be recovered.

Valuation of Obsolete/Excess Inventory

We currently write-down obsolete or excess parts and equipment inventory that is no longer used due to design changes to our products or lack of customer demand. We regularly monitor our inventory levels and, if we identify an excess condition based on our usage, we record a corresponding inventory reserve which establishes a new cost basis for our inventory. Subsequent changes in facts or circumstances do not result in the reversal of previously recorded markdowns or an increase in that newly established cost basis. The amount of inventory write-down requires the use of management judgment regarding technological obsolescence and forecasted customer demand. If estimates regarding consumer demand are inaccurate or changes in technology affect demand for certain products in an unforeseen manner, we may be exposed to losses that could be material.

Warranty Liability

Products are warranted to be free from material defects for a period of at least one year from the date of installation. Warranty obligations are limited to the repair or replacement of products. Warranty liability is recorded at time of the sale. Flow's warranty accrual is reviewed quarterly by management for adequacy based upon recent shipments and historical warranty experience. Credit is issued upon receipt of the returned goods, or, if material, at the time of notification and approval.

Valuation of Cost Method Investments

We evaluate our cost method investments for impairment on a quarterly basis in accordance with ASC 325, Cost Method Investments, which specifically addresses accounting for cost method investments subsequent to initial measurement. An impairment charge is recorded whenever a decline in value of an investment below its carrying amount is determined to be other-than-temporary. In determining if a decline is other-than-temporary, factors such as the length of time and extent to which the fair value of the investment has been less than the carrying amount of the

investment, the near-term and longer-term operating and financial prospects of the affiliate and the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery are considered.

Recently Issued Accounting Pronouncements

Refer to Note 2 - Recently Issued Accounting Pronouncements of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data, for a discussion of recently issued accounting developments.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The types of market risk we are exposed to in our normal business activities are interest rate risk and currency exchange risk.

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Interest Rate Risk

We are subject to fluctuations in interest rates through our issuance of variable rate debt, which includes borrowings against our Credit Facility and outstanding stand-by letters of credit. We did not have any borrowings outstanding on our Credit Facility as of April 30, 2012, and interest charged on outstanding stand-by letters of credit was not material for any of the fiscal years presented.

Foreign Currency Exchange Rate Risk

We transact business in a number of countries around the world and as a result are exposed to changes in foreign currency exchange rates. Costs in some countries are incurred, in part, in currencies other than the applicable functional currency. Approximately 59% of our total consolidated sales related to operations outside the United States. Based on our results for the year ended April 30, 2012 for our foreign subsidiaries, a hypothetical 10% favorable and unfavorable change in foreign currency exchange rates would have affected our annualized foreign-currency-denominated operating results by approximately $7.2 million. Our consolidated financial position and cash flows could be similarly impacted. We may from time to time selectively utilize forward exchange rate contracts, which we may or may not designate as cash flow hedges, to protect against the adverse effect exchange rate fluctuations may have on foreign currency denominated accounts receivable and accounts payable (both trade and inter-company).

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Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements are filed as a part of this report:

Index to Consolidated Financial Statements	Page in this Report
Report of Independent Registered Public Accounting Firm	37
Consolidated Balance Sheets as of April 30, 2012 and 2011	38
Consolidated Statements of Operations for the fiscal years ended April 30, 2012, 2011, and 2010	39
Consolidated Statements of Comprehensive Income (Loss) for the fiscal years ended April 30, 2012, 2011, and 2010	40
Consolidated Statements of Cash Flows for the fiscal years ended April 30, 2012, 2011, and 2010	41
Consolidated Statements of Shareholders' Equity for the fiscal years ended April 30, 2012, 2011, and 2010	43
Notes to Consolidated Financial Statements	44
Financial Statement Schedule	
Schedule II Valuation and Qualifying Accounts	66

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Flow International Corporation
Kent, Washington

We have audited the accompanying consolidated balance sheets of Flow International Corporation and subsidiaries (the "Company") as of April 30, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended April 30, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Flow International Corporation and subsidiaries as of April 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of April 30, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 27, 2012, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Seattle, Washington
June 27, 2012

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FLOW INTERNATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except par values)

	April 30, 2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$12,942	$9,096
Restricted Cash	1,435	1,766
Receivables, net	46,830	47,082
Inventories, net	40,069	28,609
Other Current Assets	14,269	11,539
Total Current Assets	115,545	98,092
Property and Equipment, net	17,488	19,104
Intangible Assets, net	4,936	4,738
Deferred Income Taxes, net	23,304	25,171
Other Long-Term Assets	5,793	5,958
Total Assets	$167,066	$153,063
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes Payable	$—	$5,500
Current Portion of Long-Term Obligations	21	25
Accounts Payable	22,577	17,363
Accrued Payroll and Related Liabilities	7,774	7,080
Taxes Payable and Other Accrued Taxes	3,735	2,378
Deferred Revenue and Customer Deposits	13,910	13,317
Other Accrued Liabilities	11,083	11,298
Total Current Liabilities	59,100	56,961
Deferred Income Taxes	5,777	5,711
Subordinated Notes	9,587	8,723
Other Long-Term Liabilities	1,554	2,214
Total Liabilities	76,018	73,609
Commitments and Contingencies		
Shareholders' Equity:		
Series A 8% Convertible Preferred Stock, $.01 par value, 1,000 shares authorized; no shares issued and outstanding	—	—
Common Stock, $.01 par value, 84,000 shares authorized; 47,891 and 47,378 shares issued and outstanding	474	469
Capital in Excess of Par	164,882	161,741
Accumulated Deficit	(69,672)	(79,121)
Accumulated Other Comprehensive Loss:		
Defined Benefit Plan Obligation, net of income tax	(81)	(68)
Cumulative Translation Adjustment, net of income tax	(4,555)	(3,567)
Total Shareholders' Equity	91,048	79,454

Total Liabilities and Shareholders’ Equity	$167,066	$153,063

See Accompanying Notes to the Consolidated Financial Statements

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FLOW INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Fiscal Year Ended April 30,		
	2012	2011	2010
Sales	$253,768	$216,524	$173,749
Cost of Sales	154,400	132,063	105,982
Gross Margin	99,368	84,461	67,767
Operating Expenses:			
Sales and Marketing	49,454	45,359	37,259
Research and Engineering	10,863	10,074	8,104
General and Administrative	24,382	24,141	25,182
Restructuring and Other Operating Charges, net	—	—	4,222
Total Operating Expenses	84,699	79,574	74,767
Operating Income (Loss)	14,669	4,887	(7,000)
Interest Income	62	106	252
Interest Expense	(1,112)	(1,776)	(2,374)
Other Income (Expense), net	(954)	686	(1,111)
Income (Loss) Before Taxes	12,665	3,903	(10,233)
(Provision) Benefit for Income Taxes	(3,276)	(2,895)	2,844
Income (Loss) from Continuing Operations	9,389	1,008	(7,389)
Income (Loss) from Discontinued Operations, net of Income Tax of $0, $0, and $0	60	(242)	(1,095)
Net Income (Loss)	$9,449	$766	$(8,484)
Basic and Diluted Income (Loss) Per Share:			
Income (Loss) from Continuing Operations	$0.20	$0.02	$(0.17)
Discontinued Operations	—	—	(0.02)
Net Income (Loss)	$0.20	$0.02	$(0.19)
Weighted Average Shares Used in Computing Basic and Diluted Income (Loss) Per Share:			
Basic	47,766	47,216	43,567
Diluted	47,766	47,228	43,567

See Accompanying Notes to Consolidated Financial Statements

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FLOW INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Fiscal Year Ended April 30,		
	2012	2011	2010
Net Income (Loss)	$9,449	$766	$(8,484)
Other Comprehensive Income (Loss):			
Adjustment to Minimum Pension Liability, net of tax of $3, $14, and $6	(13)	(77)	89
Cumulative Translation Adjustment, net of tax (benefit) of $(476), ($578), and $190	(988)	1,001	967
Realization of Foreign Currency Translation Loss from the Liquidation of Dormant Foreign Entities	—	—	1,277
Total Comprehensive Income (Loss)	$8,448	$1,690	$(6,151)

See Accompanying Notes to Consolidated Financial Statements

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FLOW INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended April 30,		
	2012	2011	2010
Cash Flows from Operating Activities:			
Net Income (Loss)	$9,449	$766	$(8,484)
Adjustments to Reconcile Net Income (Loss) to Cash Provided by Operating Activities:			
Depreciation and Amortization	6,208	6,302	5,725
Deferred Income Taxes	720	2,368	(4,131)
Provision for Slow Moving and Obsolete Inventory	477	884	733
Bad Debt Expense	531	434	813
Warranty Expense	4,235	2,695	3,367
Incentive Stock Compensation Expense	3,546	2,347	1,911
Unrealized Foreign Exchange Currency (Gains) Losses	587	(412)	(66)
Amortization and Write-off of Deferred Debt Issuance Costs	38	402	253
OMAX Termination Charge	—	—	3,219
Indemnification Charge	(60)	242	1,175
Interest Accretion on Subordinated Notes	864	769	735
Realized Loss on Liquidation of Dormant Foreign Entities	—	—	1,277
Other	119	261	112
Changes in Operating Assets and Liabilities:			
Receivables	(2,071)	(10,051)	(3,547)
Inventories	(13,368)	(6,392)	(1,702)
Other Operating Assets	(1,246)	(2,485)	(1,713)
Accounts Payable	4,672	2,088	6,816
Accrued Payroll and Related Liabilities	609	694	389
Deferred Revenue and Customer Deposits	1,282	2,406	2,016
Release of Funds from Escrow	—	—	17,000
Payment for Patent Litigation Settlement	—	—	(15,000)
Payment for OMAX Termination	—	—	(2,000)
Other Operating Liabilities	(3,881)	(393)	(5,071)
Net Cash Provided by Operating Activities	12,711	2,925	3,827
Cash Flows From Investing Activities:			
Expenditures for Property and Equipment	(3,947)	(2,675)	(9,196)
Expenditures for Intangible Assets	(654)	(855)	(773)
Proceeds from Sale of Property and Equipment	98	30	4,685
Restricted Cash	185	(959)	(403)
Net Cash Used in Investing Activities	(4,318)	(4,459)	(5,687)
Cash Flows from Financing Activities:			
Borrowings Under Credit Facility	63,450	51,050	19,441
Repayments Under Credit Facility	(68,950)	(45,900)	(32,091)
Borrowings Under Other Financing Arrangements	19	38	—
Repayments Under Other Financing Arrangements	(14)	(74)	(1,398)
Repayments of Long-Term Obligations	—	—	(4,214)
Proceeds from Issuance of Common Stock, net of Issuance Costs	—	—	17,199

Payments for Debt Issuance Costs	—	—	(607)
Net Cash Provided by (Used In) Financing Activities	(5,495)	5,114	(1,670)
Effect of Changes in Exchange Rates	948	(851)	(220)

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Net Change in Cash And Cash Equivalents	3,846	2,729	(3,750)
Cash and Cash Equivalents, Beginning of Year	9,096	6,367	10,117
Cash and Cash Equivalents, End of Year	$12,942	$9,096	$6,367
Supplemental Disclosures of Cash Flow Information:			
Cash Paid during the Year for:			
Interest	$300	$403	$1,142
Income Taxes	1,252	950	1,160
Supplemental Disclosures of Noncash Investing Activities:			
Accounts Payable Incurred to Acquire Property and Equipment and Intangible Assets	$949	$135	$516

See Accompanying Notes to Consolidated Financial Statements

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FLOW INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock		Capital In Excess of Par	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Par Value				
Balances, April 30, 2009	37,705	372	140,634	(71,403)	(6,892)	62,711
Net Loss				(8,484)		(8,484)
Other Comprehensive Income, net of tax of $196					2,333	2,333
Sale of Common Stock at $2.10 per share, net of Stock Issuance Cost of $1.7 million	8,999	90	17,109			17,199
Stock Compensation	223	3	1,862			1,865
Balances, April 30, 2010	46,927	465	159,605	(79,887)	(4,559)	75,624
Net Income				766		766
Other Comprehensive Income, net of tax benefit of $(564)					924	924
Stock Compensation	451	4	2,136			2,140
Balances, April 30, 2011	47,378	469	161,741	(79,121)	(3,635)	79,454
Net Income				9,449		9,449
Other Comprehensive Loss, net of tax benefit of $(473)					(1,001)	(1,001)
Stock Compensation	513	5	3,141			3,146
Balances, April 30, 2012	47,891	474	164,882	(69,672)	(4,636)	91,048

See Accompanying Notes to Consolidated Financial Statements

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FLOW INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All tabular amounts in thousands, except share and option amounts)

Note 1: The Company and Summary of Significant Accounting Policies

Reporting Policies

Operations and Segments

Flow International Corporation and its subsidiaries (“Flow" or the "Company”) is a global technology-based company providing customer-driven waterjet cutting and surface preparation solutions. Flow's ultrahigh-pressure water pumps generate pressures from 40,000 to over 94,000 pounds per square inch (psi) and power waterjet systems that are used to cut and clean materials. Waterjet cutting is a fast-growing alternative to traditional methods, which utilize lasers, saws, knives, shears, plasma, electrical discharge machining ("EDM"), routers, drills, soda blasting and abrasive blasting techniques, and has uses in many applications from food and paper products to steel and carbon fiber composites. In addition to ultrahigh-pressure water systems, the Company provides automation and articulation systems. The Company provides technologically-advanced, environmentally-sound solutions to the manufacturing, industrial and marine cleaning markets.

The Company reports its operating results to its Chief Executive Officer, who is the chief operating decision maker, based on market segments which is consistent with management's long-term growth strategy. The Company has two reportable segments: Standard and Advanced. The Standard segment includes sales and cost of sales related to the Company's cutting and surface preparation systems using ultrahigh-pressure water pumps, as well as parts and services to sustain these installed systems. Systems included in this segment do not require significant custom configuration. The Advanced segment includes sales and cost of sales related to complex Advanced segment systems which require specific custom configuration and advanced features, including robotics, to match unique customer applications.

Financial information about the Company's segments is included in Note 16 - Business Segments and Geographic Information.

Principles of Consolidation

The consolidated financial statements include the accounts of Flow International Corporation and its wholly-owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation. The Company accounts for its investments in non-marketable equity securities of less than 20% ownership that do not have a readily determinable fair value under the cost method of accounting.

Foreign Currency Translation

The local currency is the functional currency for all operations outside of the United States. Assets and liabilities are translated at the exchange rate in effect as of our balance sheet date. Revenues and expenses are translated at the average monthly exchange rates throughout the year. The effects of exchange rate fluctuations in translating assets and liabilities of international operations into U.S. dollars are accumulated and reflected as a cumulative translation adjustment in the accompanying Consolidated Statements of Comprehensive Income (Loss).

Use of Estimates

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make certain assumptions and estimates about future events, and apply judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the consolidated financial statements. The Company bases its assumptions, estimates, and judgment on historical experience, current trends and other factors which management believes to be relevant and appropriate at the time the consolidated financial statements are prepared. Actual results could differ from management's estimates and assumptions.

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Accounting for Certain Key Items

This section provides information about how the Company accounts for certain key items related to:
•operations;
•capital investments; and
•financing its business.

Policies related to Operations

Revenue Recognition

The Company sells ultrahigh-pressure waterjet systems. Sales of waterjet systems within the Standard segment are primarily related to the Company's cutting and surface preparation systems using ultrahigh-pressure water pumps and do not require significant custom configuration or modifications. Installation of these waterjet systems by the Company is not essential to the functionality of the waterjet systems, but the Company does provide installation as a separate service. Sales of waterjet systems within the Advanced segment are generally complex aerospace and automation systems, which require specific custom configuration and advanced features to match unique customer applications. Installation by the Company is essential to the functionality of waterjet systems sold within the Advanced segment.

The Company recognizes revenue, net of excise and sales taxes, when it is realized or realizable and earned. The Company considers these criteria met when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured.

Revenue for sales of ultrahigh-pressure waterjet pumps, consumables and services, and billing for freight charges, is recognized by the Company in accordance with Accounting Standard Codification ("ASC") 605, Revenue Recognition, (“ASC 605”), when the customer has assumed risk of loss of the goods sold and all performance obligations are complete, or over the period as services are rendered.

The Company recognizes revenue on its Standard segment waterjet systems which do not require significant modification or customization in accordance with ASC 605-25, Multiple-Element Arrangements. Standard segment waterjet systems contain two separate deliverables consisting of the system and installation services. The deliverables are treated as separate units of accounting. Standard segment waterjet systems also include a proprietary software component which functions together with the hardware to deliver the systems' essential functionality. Management performs an analysis to determine the relative selling price of each unit of accounting, and it has established vendor-specific objective evidence ("VSOE") for its system hardware and installation services based on standalone transactions.

The Company allocates consideration received to its deliverables at the inception of an arrangement based on their relative selling price, and the applicable revenue recognition criteria are applied to each of the separate units of accounting. In instances where the Company has not established VSOE for its Standard segment waterjet deliverables, it will use the estimated selling price ("ESP") in accordance with the selling price hierarchy to allocate arrangement consideration to each unit of accounting until such time that VSOE exists. Estimated selling prices would be determined by considering multiple factors, which may include existing and forecasted market conditions, internal costs, gross margin objectives, prior pricing practices, and geographic market strategies. The Company uses estimated selling prices in the absence of VSOE since it is unable to establish comparable third-party evidence of selling price for its deliverables based on limited availability of information and the level of customization and differentiation of

similar products. Furthermore, the Company is unable to reliably determine what similar competitor product selling prices are on a standalone basis.

In general, sales of the Company's waterjet systems within its Standard segment are FOB shipping point or FOB destination, depending on geographical location, and the title passes to the customer based on the specific terms in each contract.

Deferred revenue is recorded for products or services that have not been provided but have been invoiced under contractual agreements or paid for by a customer, or when products or services have been provided but all the criteria for revenue recognition have not been met.

For complex aerospace and application systems designed and manufactured to buyers' specification, the Company recognizes revenue using the percentage of completion method in accordance with ASC 605-35, Construction-Type and Production-Type Contracts. Typical lead times can range from 12 to 24 months. Sales and profits on such contracts are recorded based on the ratio of total actual incurred costs to date to the total estimated costs for each contract (the “cost-to-cost”

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method). Management reviews these estimates as work progresses and the effect of any change in cost estimates is reflected in the calculation of the expected margin and the percent complete. If the contract is projected to generate a loss, the entire estimated loss is recognized in the period such loss first becomes known. Accounting for the profit on a contract requires (1) the total contract value, (2) the estimated total cost to complete, which is equal to the sum of the actual incurred costs to date on the contract and the estimated costs to complete the scope of work, and (3) the measurement of progress towards completion. The estimated profit or loss on a contract is equal to the difference between the contract value and the estimated total cost to completion. Adjustments to original cost estimates may be required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change, or if contract modifications occur. For contract modifications supported by a change in contract price, profit on such contract modifications are only recognized upon receipt of a signed contract amendment and only in the proportion of such contract's progress towards completion. For modifications not supported by a change in contract price, those additional costs are treated as contract costs and charged to expense in the proportion of such contract's progress towards completion.

A number of internal and external factors affect the Company's cost of sales estimates, including material costs, labor rates and efficiency variances and installation and testing requirements. While management believes that the Company's historical experience provides a sound basis for its estimates, changes in the customer's requirements, design or other changes in the specifications, or in the timing of delivery and installation may affect the timing of revenue related to, or the gross margin on, a system if they are substantially different from what was anticipated. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the percentage of completion method affect the amounts reported in our financial statements.

Shipping revenues and expenses are recorded in revenue and cost of goods sold, respectively.

Cost of Sales

Cost of sales are generally recognized when products are shipped or services are delivered. In the case of waterjet systems, cost of sales for delivered systems are generally recognized in the period when the revenue for the waterjet system sale is recognized. Cost of sales includes direct and indirect costs associated with the manufacture, installation and service of the Company's systems and consumable parts sales, including estimated future warranty obligations. Direct costs include material and labor, while indirect costs include, but are not limited to, depreciation, inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs and other costs of the Company's distribution network.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses on existing receivables. The Company estimates the allowance based on the age of the related receivables, knowledge of the financial condition of its customers, review of historical receivables and reserve trends and other relevant information. Account balances are charged against the allowance when the Company determines that it is probable the receivable will not be recovered.

Inventories

Inventories are stated at the lower of cost or market. Costs included in inventories consist of materials, labor and manufacturing overhead, which are related to the purchase or production of inventories. The Company uses the first-in, first-out method to determine its cost of inventories.

The Company writes-down obsolete or excess parts and equipment inventory that is no longer used due to design changes to its products or lack of customer demand. The Company regularly monitors its inventory levels and, if it identifies an excess condition based on its usage, the Company records a corresponding inventory reserve which establishes a new cost basis for its inventory. Subsequent changes in facts or circumstances do not result in the reversal of previously recorded markdowns or an increase in that newly established cost basis. The amount of inventory write-down requires the use of management judgment regarding technological obsolescence and forecasted customer demand.

Warranty Liability

Products are warranted to be free from material defects for a period of at least one year from the date of installation. Warranty obligations are limited to the repair or replacement of products. Warranty liability is recorded at time of the sale. The Company's warranty accrual is reviewed quarterly by management for adequacy based upon recent shipments and historical warranty experience. Credit is issued upon receipt of the returned goods, or, if material, at the time of notification and approval.

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Research and Engineering

The majority of research and engineering expenses are related to research and development efforts undertaken by the Company which are expensed as incurred. Research and engineering expenses were $10.9 million, $10.1 million and $8.1 million for the respective fiscal years ended April 30, 2012, 2011 and 2010.

Stock-Based Compensation

Compensation cost for stock options or restricted stock units is measured at fair value on the dates they are granted or modified and recognized on a straight-line basis over the requisite service period, and adjusted for forfeitures expected to occur over the vesting period of the award. The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of the Company's common stock. The Company estimates the grant-date fair value of stock options using the Black-Scholes option valuation model. Refer to Note 10 - Shareholders' Equity
for further information related to the Company's stock compensation plans.

Health Benefits

The Company is self-insured for a portion of the cost of employee group health insurance, medical, dental, and vision in the United States. The Company maintains excess loss insurance that covers health care costs in excess of $125,000 per person per year.

Each reporting period, the Company records the costs of its health insurance plan including paid claims, the change in the estimate of incurred but not reported ("IBNR") claims, taxes, and administrative fees (collectively the "Plan Cost"). The Company regularly reviews its estimates of reported and unreported claims and provides for these losses through insurance reserves. These reserves are influenced by rising costs of health care and other costs, increases in claims, time lag in claim information, and levels of excess loss insurance coverage carried. As claims develop and additional information becomes available to us, adjustments to the related loss reserves may occur.

The Company's annual Plan Costs were approximately $3.6 million, $3.5 million, and $2.9 million for the respective fiscal years ended April 30, 2012, 2011 and 2010. The liability, including IBNR, recorded in Accrued Payroll and Related Liabilities, was $0.3 million and $0.3 million as of April 30, 2012 and 2011, respectively.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In the event the Company was to determine that it would not be able to realize its deferred

income tax assets in the future in excess of its net recorded amount, the Company would make an adjustment to the valuation allowance which would increase the provision for income taxes.

The Company's income tax returns are periodically audited by U.S. federal, state and local and foreign tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any one time, multiple tax years are subject to audit by the various tax authorities. In evaluating the tax benefits associated with the Company's various tax filing positions, the Company records a tax benefit for uncertain tax positions using the highest cumulative tax benefit that is more likely than not to be realized. A number of years may elapse before a particular matter, for which a liability has been established, is audited and effectively settled. The Company adjusts its liability for unrecognized tax benefits in the period in which it determines the issue is effectively settled with the tax authorities, the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available.

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The Company recognizes interest and penalties related to unrecognized tax benefits within the interest expense line in the accompanying Consolidated Statement of Operations. Accrued interest and penalties are included within the Other Long-Term Liabilities line in the consolidated balance sheets as the amounts are not material for any of the balance sheet periods presented.

Concentration of Credit Risk

In countries or industries where the Company is exposed to significant credit risk, sufficient collateral, including cash deposits and/or letters of credit, is required prior to the completion of a transaction.

The Company may make use of foreign exchange contracts to cover material transactions denominated in other than the functional currency of the relevant business unit. Credit risks are mitigated by the diversity of customers in the Company's customer base across many different geographic regions and performing creditworthiness analyses on such customers.

No single customer or group of customers under common control accounted for 10% or more of consolidated sales during the respective fiscal years ended April 30, 2012 and 2011. The Company's largest customer in the Advanced segment accounted for approximately 11% of consolidated sales in fiscal year 2010.

Related Parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

A former director of the Company, who retired during fiscal year 2011, was a founder and is a senior member of management in a company which provides insurance brokerage services to the Company. The former director was not considered a related party for reporting purposes in fiscal year 2012. The Company believes that its transactions with this related entity for the respective fiscal years ended April 30, 2011 and 2010 were negotiated at prices that approximated fair value. Premium payments for insurance coverage that this related entity passed on to the insurance underwriters totaled $0.9 million and $1.6 million for the respective fiscal years ended April 30, 2011 and 2010. These amounts included commissions of $0.2 million and $0.2 million, in each of the respective fiscal years. The Company did not owe any amounts to the related entity as of April 30, 2011.

Reclassification

Certain amounts within the fiscal year 2010 Consolidated Statements of Cash Flows have been reclassified to conform to fiscal year 2011 and 2012 presentation. These reclassifications did not impact net cash provided by operations, net cash used in investing activities, or net cash provided by (used in) financing activities of the Company.

Policies related to Capital Investments

Valuation of Cost Method Investment

The Company evaluates its cost method investment for impairment on a quarterly basis. An impairment charge would be recorded whenever a decline in value of an investment below its carrying amount is determined to be

other-than-temporary. In determining if a decline is other-than-temporary, factors such as the length of time and extent to which the fair value of the investment has been less than the carrying amount of the investment, the near-term and longer-term operating and financial prospects of the affiliate, and the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery are considered.

Intangible Assets

Intangible assets consist of acquired and internally developed patents and trademarks. Trademarks have an indefinite life and are not amortized. The Company capitalizes application fees, license fees, legal and other costs of successfully defending a patent from infringement. The remaining costs are expensed as incurred. Patents are amortized on a straight-line basis over the legal life of the underlying patents. The weighted average amortization period for patents is 20 years.

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Impairment of Long-Lived Assets

The Company routinely considers whether indicators of impairment are present for its long-lived assets, which consist of property and equipment, particularly its manufacturing equipment, and patents subject to amortization. Factors considered include, but are not limited to, significant under-performance relative to historical or projected operating results; significant changes in the manner of use of long-lived assets or the strategy for the overall business; and significant negative industry or economic trends. If such indicators are present, the Company determines whether the sum of the estimated undiscounted cash flows attributable to the asset group in question is less than their carrying value. For purposes of impairment testing, long-lived assets are grouped at the component level, which for the Company is by regional locations, as this is the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If the sum of the undiscounted cash flows attributable to the asset group is less than the carrying value of the asset group, an impairment loss is recognized based on the excess of the carrying value of the asset group over its respective fair value. Fair value is determined by discounting estimated future cash flows, appraisals or other methods deemed appropriate. If the asset group determined to be impaired is to be held and used, the Company recognizes an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset group is less than the assets' carrying value. The fair value of the assets then becomes the assets' new carrying value, which is depreciated over the remaining estimated useful life of the assets.

The Company concluded there were no long-lived asset impairment indicators in each of the fiscal years ended April 30, 2012, 2011 and 2010 following an analysis of operating results and consideration of other significant events or changes in the business environment. The Company will continue to monitor circumstances and events in future periods to determine whether asset impairment testing is warranted based on the existence of one or more of the above impairment indicators.

Policies related to Financing

Financial Instruments

The carrying amount of cash and cash equivalents, restricted cash, receivables, accounts payable, accrued expenses, deferred revenue and customer deposits approximate fair value due to their relatively short maturities. Debt and notes payable reflect a market rate of interest, as such recorded amounts approximate fair value.

Cash and Cash Equivalents

The Company considers highly liquid short-term investments with original maturities from the date of purchase of three months or less, if any, to be cash equivalents. The Company's cash consists of demand deposits in large financial institutions. At times, balances may exceed federally insured limits. Cash balances which are not available for general corporate purposes are classified as restricted cash and are primarily related to cash which collateralizes commercial letters of credit.

Derivative Financial Instruments

The Company selectively utilizes forward exchange rate contracts to hedge its exposure to adverse exchange rate fluctuations on foreign currency denominated accounts receivable and accounts payable. These forward contracts have typically not been designated as hedges. At the end of each month, the Company marks the outstanding forward contracts to market and records an unrealized foreign exchange gain or loss for the mark-to-market valuation. The Company did not have any open forward exchange rate contracts for the respective fiscal years ended April 30, 2012

and 2011. The effect of derivative instruments on the Consolidated Statement of Operations is discussed further in Note 15 - Fair Value of Financial Instruments.

Note 2: Recently Issued Accounting Pronouncements

On May 1, 2011, the Company adopted guidance issued by the Financial Accounting Standards Board ("FASB") regarding multiple-deliverable revenue arrangements and software that is essential to the functionality of products. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. In addition, software components that are essential to the functionality of the tangible products are no longer within the scope of the software revenue guidance. Adoption of the new guidance did not have a material impact on the Company's Consolidated Financial Statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income ("or ASU 2011-05"). The new guidance eliminates the current option to report other comprehensive income and its components in the statement of shareholders' equity. Instead, an entity will be required to present either a continuous statement of net income and other

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comprehensive income or two separate but consecutive statements. In December 2011, the FASB issued ASU 2011-12, Comprehensive Income, which superseded certain pending paragraphs in ASU 2011-05. ASU 2011-12 indefinitely defers the presentation of reclassification adjustments for each component of accumulated other comprehensive income in both other comprehensive income and net income on the face of the financial statements. The new guidance provided in both ASU 2011-05 and ASU 2011-12 is effective for the Company beginning in the first quarter of fiscal year 2013. However, the Company elected early adoption of the new guidance for the year ended April 30, 2012 since the impacts of the new guidance are to be applied retrospectively. Adoption of the new guidance by the Company revised the manner in which comprehensive income is presented in the Company's Consolidated Financial Statements, but it did not change the components which were previously reported.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement. The FASB issued the new guidance to achieve common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards. This ASU clarifies existing fair value measurement and disclosure requirements, amends certain fair value measurement principles and requires additional disclosures about fair value measurements. This new guidance was effective for the Company beginning in the fourth quarter of the current fiscal year. The adoption did not have a material impact on the Company's Consolidated Financial Statements.

Note 3: Receivables, Net

Net Receivables as of April 30, 2012 and 2011 consisted of the following:

	April 30, 2012	2011
Trade Accounts Receivable	$36,802	$37,521
Unbilled Revenues	11,152	10,865
	47,954	48,386
Less: Allowance for Doubtful Accounts	(1,124)	(1,304)
Receivables, net	$46,830	$47,082

The Company's unbilled revenues do not contain any amounts which are expected to be collected after one year.

Note 4: Inventories

Inventories as of April 30, 2012 and April 30, 2011 consisted of the following:

	April 30, 2012	2011
Raw Materials and Parts	$26,247	$18,134
Work in Process	3,313	1,945
Finished Goods	10,509	8,530
Inventories, net	$40,069	$28,609

Note 5: Property and Equipment

Property and equipment are stated at cost. Additions, leasehold improvements and major replacements are capitalized. When assets are sold, retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of operations within operating income (loss). Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the related lease term, or the useful life of the

asset. Expenditures for maintenance and repairs are charged to expense as incurred.

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The carrying value of the Company's Property and Equipment and estimated service lives as of April 30, 2012 and 2011 were as follows:

	Range of Lives	April 30, 2012	2011
Land	N/A	$460	$460
Buildings and Leasehold Improvements	10-30	5,189	5,080
Machinery and Equipment	3-10	25,773	27,156
Furniture and Fixtures	3-10	2,518	2,765
Enterprise Resource Planning System	5	12,079	12,061
Construction in Progress		2,721	1,213
		48,740	48,735
Less: Accumulated Depreciation and Amortization		(31,252)	(29,631)
Property and Equipment, net		$17,488	$19,104

Depreciation expense was $5.7 million, $5.9 million, and $5.3 million for the respective fiscal years ended April 30, 2012, 2011 and 2010. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

Note 6: Intangible Assets

The components of the Company's finite lived intangible assets consisted of the following:

	April 30, 2012	2011
Patents	$6,531	$5,954
Less: Accumulated Amortization	(2,729)	(2,205)
Patents, net	$3,802	$3,749

Amortization expense for intangible assets with definite lives for continuing operations for the respective fiscal years ended April 30, 2012, 2011 and 2010 amounted to $0.5 million, $0.4 million, and $0.4 million. The estimated annual amortization expense is $0.6 million for continuing operations for each fiscal year through April 30, 2017.

Intangible assets with indefinite lives consisted of the following:

	April 30, 2012	2011
Trademarks	$1,134	$989

Note 7: Notes Payable

Notes payable as of April 30, 2011 consisted of outstanding borrowings on the Company's Credit Facility. There were no outstanding borrowings on the Company's Credit Facility as of April 30, 2012.

The Company has a $25.0 million Credit Facility that matures March 2, 2014. Under the terms of the Credit Facility in effect as of April 30, 2012, the Company was required to maintain a maximum consolidated leverage ratio of 2.75x, and a minimum fixed charge coverage ratio of 1.75x. The terms of the Credit Facility define the leverage ratio as the ratio of consolidated indebtedness, excluding its outstanding subordinated notes, to consolidated adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") for the most recent four fiscal quarters. The Fixed Charge Coverage Ratio is defined as the ratio of Adjusted EBITDA, less income taxes and maintenance

capital expenditures, during the most recent four fiscal quarters to the sum of interest changes during the most recent four quarters and scheduled debt repayments in the next four quarters.

The financial covenants are measured on a quarterly basis. The Company's leverage ratio and fixed charge coverage ratio were 0.17 and 95.1, respectively as of the fiscal quarter ended April 30, 2012. The Company's calculations of these financial ratios are reported in Exhibit No. 99.1 of this Annual Report on Form 10-K. A violation of any of the Credit Facility covenants

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would result in an event of default and accelerate the repayment of all unpaid principal and interest and the termination of any letters of credit. The Company was in compliance with all of its financial covenants as of the end of each quarter during the fiscal year ended April 30, 2012. All of the Company's domestic assets and certain interests in some foreign subsidiaries are pledged as collateral under the three-year Credit Facility Agreement. In addition, the terms of the Credit Facility limit the Company's ability to pay dividends.

Interest on the Credit Facility is based on the bank’s prime rate or LIBOR rate plus a percentage spread between 0.00% and 2.25% depending on whether it uses the bank’s prime rate or LIBOR rate and based on the Company’s current leverage ratio. The Company also pays an annual letter of credit fee ranging from 1.25% to 2.25% of the amount available to be drawn under each outstanding stand-by letter of credit. The annual letter of credit fee is payable quarterly in arrears and varies depending on the Company's leverage ratio.

As of April 30, 2012, the Company had $21.0 million available under its Credit Facility, net of $4.0 million in outstanding letters of credit. There were no outstanding borrowings against the Credit Facility as of April 30, 2012.

Revolving Credit Facilities in Taiwan

There were no outstanding balances under the Company’s unsecured Taiwan credit facilities as of April 30, 2012. The unsecured commitment for the Taiwan credit facilities totaled $3.1 million at April 30, 2012, bearing interest at 2.5% per annum.

Note 8: Commitments and Contingencies

Lease Commitments

The Company rents certain facilities and equipment treated as operating leases for financial reporting purposes. The majority of leases currently in effect are renewable for periods of two to five years. Rent expense under these leases was approximately $3.1 million, $3.2 million and $3.2 million for the respective fiscal years ended April 30, 2012, 2011 and 2010.

Future minimum rents payable under operating leases for the fiscal years ending April 30 are as follows:

2013	$2,387
2014	2,004
2015	1,835
2016	1,746
2017	1,280
2018 and thereafter	2,781
	$12,033

Warranty Obligations

The Company’s estimated obligations for warranty, which are included as part of Costs of Sales in the Consolidated Statements of Operations, are accrued concurrently with the revenue recognized. The Company makes provisions for its warranty obligations based upon historical costs incurred for such obligations adjusted, as necessary, for current conditions and factors. Due to the significant uncertainties and judgments involved in estimating the Company’s warranty obligations, including rates of warranty claims, changing product designs and specifications, and new product releases, the ultimate amount incurred for warranty costs could change in the near term from the current

estimate. The Company believes that its warranty accrual as of April 30, 2012, which is included in the Other Accrued Liabilities line item in the Consolidated Balance Sheets, is sufficient to cover expected warranty costs.

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The following table presents the activity for the Company’s warranty obligations:

Warranty liability as of April 30, 2009	$2,423
Increase in warranty liability on fiscal year 2010 sales	3,367
Reduction in warranty liability for claims paid in fiscal year 2010	(3,257)
Warranty liability as of April 30, 2010	2,533
Increase in warranty liability on fiscal year 2011 sales	2,695
Reduction in warranty liability for claims paid in fiscal year 2011	(2,424)
Warranty Liability as of April 30, 2011	2,804
Increase in warranty liability on fiscal year 2012 sales	4,235
Reduction in warranty liability for claims paid in fiscal year 2012	(4,026)
Warranty liability as of April 30, 2012	$3,013

Product Liability

Currently there are outstanding product liability claims arising out of the sale of current and former products of the Company. To minimize the financial impact of product liability claims, the Company purchases product liability insurance in amounts and under terms considered acceptable to management.

Management periodically evaluates the merit of all claims, including product liability claims, as well as considering unasserted claims. Recoveries, if any, may be realized from indemnitors, codefendants, insurers or insurance guaranty funds. Management believes its insurance coverage is adequate to satisfy any liabilities that are incurred.

Legal Proceedings

At any time, the Company may be involved in legal proceedings arising in the normal course of conducting business. The Company's policy is to routinely assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is based on historical experience and after analysis of each known issue. The Company records reserves related to legal matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. With respect to other matters, management has concluded that a loss is only reasonably possible or remote and, therefore, no liability is recorded. Management discloses the facts regarding material matters assessed as reasonably possible and potential exposure, if determinable. Costs incurred defending claims are expensed as incurred. Other than those described below, the Company does not believe that the resolution of any such matters will have a material adverse effect on its consolidated financial position, results of operations or cash flows.

In litigation arising out of a June 2002 incident at a Crucible Metals' (“Crucible”) facility, the Company's excess insurance carrier is contesting its obligation to provide coverage for property damage. The suits over insurance coverage, Flow Autoclave Systems, Inc., Flow Pressure Systems, ABB Pressure Systems, Avure Technologies AB and Avure Technologies, Inc. v. Lumbermens Mutual Casualty and Kemper Insurance Co., and Lumbermens Mutual Casualty Company v. Flow International Corporation, Flow Autoclave Systems, Inc., Flow Pressure Systems, ABB Pressure Systems, Avure Technologies AB and Avure Technologies, Inc., were originally filed in Supreme Court of the State of New York, County of Onondaga, Index No. 2005-2126 in 2005, and sought a declaratory judgment of the rights of the parties under the insurance policy issued by the carrier. The carrier, Lumbermens Mutual Casualty Company, has settled the claims relating to this incident for a total of approximately $3.4 million and is now seeking a declaratory judgment that it was not obligated to pay the claim, Lumbermens Mutual Casualty Company v. Flow International Corporation, Flow Autoclave Systems, Inc., Flow Pressure Systems, ABB Pressure Systems, Avure Technologies AB, Avure Technologies, Inc., Travelers Property Casualty Company of America and Zurich American

Insurance Company as subrogees of Crucible Materials Corporation, and Crucible Materials Corporation, filed in United States District Court for the Northern District of New York on August 13, 2008, case number 08-CV-865. The Company is vigorously contesting the carrier's claim; however, the ultimate outcome or likelihood of this specific claim cannot be determined at this time and an unfavorable outcome ranging from $0 to $3.4 million is reasonably possible.

Other Claims or Assessments

In fiscal year 2009, the Company was notified by the purchaser of its Avure business (reported as a discontinued operation for the fiscal year ended April 30, 2006), that the Swedish Tax Authority was conducting an audit which included periods when the Company had owned the business. In the sale agreements, the Company made commitments to indemnify the purchaser for

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certain claims, including tax matters relating to the periods when it owned the business. The Swedish tax authority concluded its audit and issued a final report in November 2009 initially asserting that Avure owes 19.5 million Swedish Krona, approximately $2.8 million at the initial date of assessment, in additional taxes, penalties and fines. In April 2010, the Company, on behalf of Avure, filed an appeal to contest the Swedish tax authority's assertion. Since the filing of the Company's appeal, there has been further correspondence with the Swedish tax authorities as the Company continues to contest the findings, and there has been a hearing before the Swedish district court regarding the appeal, but there has been no decision in the matter and the Company is awaiting this court's decision. A charge was recorded in fiscal year 2010 related to the periods when the Company owned Avure. This charge was accounted for as an adjustment to the loss on the disposal of the Avure business and is reported as a charge to discontinued operations in the Company's Consolidated Statements of Operations. As of April 30, 2012, the Company has accrued $1.3 million related to the Avure matter. The balance of the accrued liability will fluctuate period over period with changes in foreign currency rates until such time as the matter is ultimately resolved.

Note 9: Pension and Other Post Retirement Benefits

The Company has a 401(k) savings plan in which employees may contribute a percentage of their compensation. At its discretion, the Company may make contributions based on employee contributions and length of employee service. Company contributions and expense under the plan for the respective fiscal years ended April 30, 2012 and 2011 were $0.8 million and $0.4 million. There were no Company contributions made to the plan for the fiscal year ended April 30, 2010.

The Company sponsors a defined benefit pension plan in Taiwan, which is governed by a local regulation: The Labor Standard Law (1986). As required by the Labor Standard Law, the Company must remit monthly 4% of the employee's base salary into a designated investment account for the Pension Plan. The pension benefit an employee is entitled to ranges from 2 months to 45 months' salary, based upon years of service. An employee is eligible to withdraw their pension benefit upon 25 years of service, age 55 with 15 years of service, or age 60, if the employee is still employed by the Company upon retirement. If an employee terminates prior to retirement, the employee forfeits all accrued benefits under the Plan. Due to a change in Taiwanese law, all new employees hired after July 2005, are not subject to this plan, thus, the plan is frozen. The Company uses an April 30 measurement date for its plan.

All plan assets are deposited in an interest earning account. The amount of net periodic cost recognized for the respective fiscal years ended April 30, 2012, 2011 and 2010 was less than $0.1 million. The accumulated benefit obligation as of April 30, 2012 and 2011 was $1.0 million and $1.0 million, respectively. The unrecognized net transition obligation and unrecognized loss were less than $0.1 million, respectively, as of April 30, 2012 and 2011. The Company does not anticipate any projected benefit payments under this plan over the next year.

The following table provides a reconciliation of the changes in the plan's benefit obligations and fair value of plan assets for the fiscal years ended April 30, 2012 and 2011:

	Fiscal Year Ended April 30,	
	2012	2011
Changes in the Projected Benefit Obligation		
Projected Benefit Obligation - Beginning Balance	$1,327	$1,353
Service Cost	18	22
Interest Cost	26	28
Actuarial Loss	8	78
Benefits Paid	—	(269)
Foreign Exchange Adjustment	(18)	115

Projected Benefit Obligation - Ending Balance	$1,361	$1,327

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	Fiscal Year Ended April 30,	
	2012	2011
Changes in the Value of Plan Assets		
Fair Value of Plan Assets - Beginning Balance	$992	$1,135
Actual Return on Plan Assets	9	10
Employer Contribution	26	27
Benefits Paid	—	(269)
Foreign Exchange Adjustment	(14)	89
Fair Value of Plan Assets - Ending Balance	$1,013	$992

Actuarial assumptions used to determine benefit obligations were as follows:

	Fiscal Year Ended April 30,	
	2012	2011
Discount Rate	1.90%	2.00%
Expected Rate of Return on Assets	1.90%	2.00%
Salary Increase Rate	3.00%	3.00%

Note 10: Shareholders' Equity

Capital Stock

As of April 30, 2012 and 2011, 84 million shares of common stock, par value $0.01, and 1 million shares of preferred stock, par value $0.01, were authorized for issuance. There were 47,891,000 and 47,378,000 shares of common stock outstanding for the respective years ended April 30, 2012 and 2011. There were no shares of preferred stock outstanding as of April 30, 2012 or 2011.

Common Share Rights Purchase Plan

The Company maintains a Rights Agreement which provides a dividend of one common share purchase right ("Right") for each outstanding share of common stock, $0.01 par value per share of the Company. Each Right entitles the registered holder to purchase from the Company one share of Common Stock at a price per share of $18.00. The Rights are not exercisable until after the date of commencement of, or the first public announcement of an intention to commence, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person (other than an Exempted Entity) or group of 15% or more of the shares of Common Stock then outstanding. The Rights will expire on September 1, 2019 unless the final expiration date is extended or unless the Rights are earlier redeemed or exchanged by the Company.

Stock-Based Compensation

The Company maintains a stock-based compensation plan (the “2005 Plan”) to attract and retain talented employees and promote the growth and success of the business by aligning long-term interests of employees with those of shareholders. There are 5 million shares authorized for issuance under the 2005 Plan in the form of stock, stock units, stock options, stock appreciation rights, or cash awards. As of April 30, 2012, the Company had approximately 0.8 million shares of common stock available for future issuance under its 2005 Plan.

Stock Options

The Company grants stock options to employees of the Company with service and/or performance conditions. The compensation cost of stock options expected to vest is based on their fair value at the grant date, net of expected forfeitures, and recognized ratably over the vesting period. The Company uses the Black-Scholes option-pricing model to calculate grant-date fair value of its stock options, including its historical volatility in estimating expected volatility, and historical employee exercise activity and option expiration data to estimate the expected term assumption in its grant-date valuation. The risk-free interest rate assumption is based on U.S. Treasury constant maturity interest rate whose terms are consistent with the expected term of the Company's stock options. The Company has not declared or paid any cash dividends on its Common Stock and does not anticipate that any dividends will be paid in the foreseeable future based upon management intent, and dividend

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limitation terms of the Company's Credit Facility. All options become exercisable upon a change in control of the Company unless the surviving company assumes the outstanding options or substitutes similar awards for the outstanding awards of the 2005 Plan. The maximum term of options is 10 years from the date of grant. There were no options granted during the respective fiscal years ended April 30, 2012, 2011 and 2010.

The following table summarizes stock option activities for the fiscal year ended April 30, 2012:

	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Term (Years)
Outstanding at April 30, 2011	489,438	$ 10.37	$—	5.2
Granted	—	—		
Exercised	—	—		
Expired or forfeited	(101,270)	$ 9.98		
Outstanding at April 30, 2012	388,168	$ 10.47	—	5.4
Exercisable as of April 30, 2012	344,413	$ 10.56	—	5.3
Vested and expected to vest as of April 30, 2012	388,168	$ 10.47	—	5.4

	Fiscal Year Ended April 30,		
	2012	2011	2010
Total intrinsic value of options exercised	$—	$—	$—
Total fair value of options vested	345	345	345
Cash received from exercise of share options	—	—	—
Tax benefit realized from stock options exercised	—	—	—

For the fiscal year ended April 30, 2012, the Company recognized compensation expense related to stock options of $0.4 million, and $0.6 million for the respective fiscal years ended April 30, 2011 and 2010. As of April 30, 2012, unrecognized compensation cost related to nonvested stock options was less than $0.1 million, which is expected to be recognized within the next year.

Service-Based Stock Awards

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

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The following table summarizes the service-based stock award activities for employees for the fiscal years ended April 30, 2012, 2011 and 2010:

	Number of Shares	Weighted-Average Grant-date Fair Value
Nonvested at April 30, 2009	402,555	$8.78
Granted	1,068,610	2.23
Vested	(98,291)	8.91
Forfeited	(134,915)	4.65
Nonvested at April 30, 2010	1,237,959	$3.57
Granted	838,666	2.29
Vested	(348,240)	3.81
Forfeited	(93,607)	2.86
Nonvested at April 30, 2011	1,634,778	$2.90
Granted	846,508	3.44
Vested	(653,447)	2.61
Forfeited	(48,574)	3.26
Nonvested at April 30, 2012	1,779,265	$3.25

For the respective fiscal years ended April 30, 2012, 2011 and 2010, the Company recognized compensation expense related to service-based stock awards of $3.2 million, $1.8 million and $1.3 million, and granted stock awards to employees of 0.8 million, 0.8 million and 1.1 million. As of April 30, 2012, total unrecognized compensation cost related to service-based stock awards of $4.1 million is expected to be recognized over a weighted average period of 2 years.

Note 11: Basic and Diluted Income (Loss) per Share

Basic income (loss) per share is calculated by dividing income (loss) from continuing operations by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is calculated by dividing income (loss) from continuing operations by the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares include the dilutive effects of outstanding stock options and non-vested stock units as determined under the treasury stock method, except where their inclusion would be antidilutive.

The following table sets forth the computation of basic and diluted income (loss) from continuing operations per share:

	Fiscal Year Ended April 31,		
	2012	2011	2010
Income (Loss) from Continuing Operations	$9,389	$1,008	$(7,389)
Weighted average shares used in computing basic income (loss) per share	47,766	47,216	43,567
Dilutive potential common shares from employee stock options and stock units	—	12	—
Weighted average shares used in computing diluted income (loss) per share	47,766	47,228	43,567
	$0.20	$0.02	$(0.17)

Basic and diluted income (loss) from continuing operations per share

There were 2.2 million, 2.1 million and 0.9 million potentially dilutive common shares from employee stock options and stock units which were excluded from the diluted weighted average per share calculation for the respective fiscal years ended April 30, 2012, 2011 and 2010 as their effect would be antidilutive.

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Note 12: Other Income (Expense), Net

The following table summarizes the detail of Other Income (Expense), net:

	Fiscal Year Ended April 30,		
	2012	2011	2010
Realized Foreign Exchange Gains (Losses), net	$(249)	$177	$(1,215)
Unrealized Foreign Exchange Gains (Losses), net	(587)	412	66
Other	(118)	97	38
Other Income (Expense), net	$(954)	$686	$(1,111)

Note 13: Income Taxes

The components of the Company's consolidated income (loss) before income taxes consisted of the following:

	Fiscal Year Ended April 30,		
	2012	2011	2010
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes:			
United States	$1,762	$(2,419)	$(3,478)
Foreign	10,903	6,322	(6,755)
Total	$12,665	$3,903	$(10,233)

The provision (benefit) for income taxes is comprised of:

	Fiscal Year Ended April 30,		
	2012	2011	2010
Federal	$(189)	$(993)	$321
State	112	30	34
Foreign	2,049	2,102	851
Current Tax Expense (Benefit) (after NOL Benefit of $2,040, $1,228, and $1,136)	1,972	1,139	1,206
Federal	1,652	549	(1,969)
State	(49)	252	70
Foreign	(299)	955	(2,151)
Deferred Tax Expense (Benefit) (Net of Change in Valuation Allowance of $(1,830), $(351), and $(182))	1,304	1,756	(4,050)
Provision (Benefit) for Income Taxes	$3,276	$2,895	$(2,844)

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The reconciliation between the Company's effective tax rate on income from continuing operations and the statutory tax rate is as follows:

	Fiscal Year Ended April 30,		
	2012	2011	2010
Income tax provision (benefit) at federal statutory rate	34.0 %	34.0 %	(34.0)%
State and local taxes net of federal tax benefit	0.3	4.7	0.7
Foreign tax rate differential	(2.9)	(0.3)	5.7
Change in valuation allowance	(3.9)	5.1	(1.7)
Non deductible/nontaxable items	7.2	17.4	5.7
Foreign earnings not previously subject to U. S. tax	2.2	—	(0.7)
Foreign withholding taxes	1.0	1.4	0.7
Stock based compensation	0.8	4.5	0.7
Tax credits	—	(0.8)	(0.4)
Prior year reconciled amounts	(3.2)	7.0	(6.4)
Examination settlements	(10.8)	—	—
Other, net	1.2	1.2	1.8
Income tax provision (benefit)	25.9 %	74.2 %	(27.9)%

Components of the net deferred tax assets (liabilities) consisted of the following:\

	April 30, 2012	April 30, 2011
Current deferred tax assets (liabilities):		
Deposits on future sales	$(1,445)	$(1,619)
Net operating loss carryforwards	765	820
Stock-based compensation	758	—
Other current assets	4,385	3,377
Other current liabilities	(1,083)	(99)
Current Deferred Tax Assets	3,380	2,479
Valuation allowance	(78)	(229)
Total Current Deferred Tax Assets	$3,302	$2,250

	April 30, 2012	April 30, 2011
Long-term deferred tax assets (liabilities):		
Net operating loss carryforwards	$21,373	$24,454
Accrued settlement	3,049	2,753
Capital loss carryforwards	456	503
Goodwill	969	1,187
Fixed assets	336	781
Stock-based compensation	1,097	1,435
Intercompany accounts receivable allowances	205	(1,055)
Unrealized foreign exchange loss	(2,350)	(2,849)
Other long-term assets	1,748	2,890
Other long-term liabilities	(1,532)	(1,137)
Long-term deferred tax assets	25,351	28,962
Valuation allowance	(7,824)	(9,503)
Long-term deferred tax assets, net	17,527	19,459
Net Deferred Tax Assets	$20,829	$21,709

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As of April 30, 2012, the Company had approximately $52.4 million of domestic net operating loss and $35.6 million of state net operating loss carryforwards to offset future taxable income for federal and state income tax purposes. These net operating loss carryforwards expire between fiscal year 2023 and fiscal year 2031. Net operating loss carryforwards in foreign jurisdictions amount to $40.1 million. A valuation allowance of $25.0 million has been provided against these net operating loss carryforwards in certain of the Company's foreign jurisdictions as realization of the tax benefit in those jurisdictions is uncertain. Most of the foreign net operating losses can be carried forward indefinitely, with certain amounts expiring between fiscal years 2016 and 2020. The federal, state and foreign net operating loss carryforwards pursuant to the income tax returns filed include uncertain tax positions taken in prior years. The net operating loss carryforwards pursuant to the income tax returns are larger than the net operating loss carryforwards considered more likely than not to be realized in recognizing deferred tax assets for financial statement purposes. The Company also has a capital loss carryover of $1.3 million, for which it has provided a valuation allowance, that expires after fiscal year 2017. Utilization of net operating losses may be subject to limitation due to ownership changes and other limitations provided by the Internal Revenue Code and similar state and foreign provisions. If such a limitation applies, the net operating loss may expire before full utilization.

With the exception of certain of its subsidiaries, it is the general practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. As of April 30, 2012, the Company had not made a provision for U.S. or additional foreign withholding taxes of the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries with the exception of its subsidiaries in Taiwan and Switzerland for which it provides deferred taxes. It is not practicable to estimate the amount of deferred tax liability relating to the Company's investment in its other foreign subsidiaries.

The Company repatriated the following amounts from its foreign subsidiaries:

- $1.9 million from one foreign subsidiary in fiscal year 2011 deemed to be a dividend for tax purposes;
- $0.2 million, net of tax of less than $0.1 million from one foreign subsidiary in fiscal year 2010

The Company is subject to taxation in the United States, various state and foreign jurisdictions. The Company is no longer subject to examinations by tax authorities for years prior to fiscal year 2002.

The table of deferred tax assets and liabilities shown above does not include certain deferred tax assets at April 30, 2012 and 2011 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting. Equity will be increased by $1.6 million if and when such deferred tax assets are ultimately realized. The Company uses ASC 740 ordering for purposes of determining when excess tax benefits have been realized.

The following is a tabular reconciliation of the total amounts of the Company's unrecognized tax benefits for the years ended April 30, 2012, 2011 and 2010:

Balance as of April 30, 2009	$8,679
Gross increases - tax positions in prior periods	432
Gross increases in tax positions due to currency fluctuations	136
Balance as of April 30, 2010	9,247
Gross increases - tax positions in current period	102
Gross increases - tax positions in prior periods	360
Gross increases in tax positions due to currency fluctuations	87
Balance as of April 30, 2011	9,796
Gross increases - tax positions in current period	114
Gross increases - tax positions in prior periods	33

Gross decreases in tax positions due to currency fluctuations	(47)
Gross decreases - tax positions in prior periods	(3,130)
Balance as of April 30, 2012	$6,766

The balance of unrecognized tax benefits as of April 30, 2012 was $6.8 million of tax benefits that, if recognized, would affect the effective tax rate and would result in adjustments to other tax accounts, primarily deferred taxes. The timing of payments related to these unrecognized tax benefits is uncertain; however, none of this amount is expected to be paid within the next twelve months. There is a reasonable possibility that the unrecognized tax benefits may change within the next twelve months, but the Company does not expect this change to be material to the consolidated financial statements.

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Note 14: Restructuring and Other Operating Charges

The Company recognized $1.0 million in restructuring activities as a result of the global recession during fiscal year 2010 in order to improve performance and better position the Company for existing market conditions and longer-term growth. The restructuring charges recorded in fiscal year 2010 were net of a $0.6 million credit related to the gain recognized on the sale of the Company's building in Hsinchu, Taiwan. There were no further restructuring activities during fiscal years 2011 and 2012, and there are no further planned restructuring activities as of April 30, 2012.

In fiscal year 2010, the Company terminated its option to acquire OMAX Corporation ("OMAX") following a thorough investigation of financing alternatives to complete the merger and unsuccessful attempts to negotiate a lower purchase price with OMAX. Pursuant to the terms of the amended Merger Agreement and the Settlement and Cross Licensing Agreement, amounts previously held in escrow were released to OMAX. The Company recorded a $6 million charge pursuant to the provisions of the amended Merger Agreement in fiscal year 2010, net of a $2.8 million discount as the two subordinated notes issued to OMAX were at a stated interest rate of 2%, which was below the Company's incremental borrowing rate. This discount is being amortized as interest expense through the maturity of the subordinated notes in August 2013. The principle amount of $10 million and accrued interest on the notes, aggregating to $10.8 million, is due August 2013.

The Company's restructuring liability was satisfied as of April 30, 2011. The following table summarizes the Company’s restructuring and other operating charges, net:

	Fiscal Year Ended April 30, 2010
Severance and termination benefits	$1,604
Gain on sale of building	(601)
Merger termination charge	3,219
	$4,222

Note 15: Fair Value of Financial Instruments

The Company discloses and classifies fair value measurements in one of the following three categories:
Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2: Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;
Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company selectively utilizes forward exchange rate contracts to hedge its exposure to adverse exchange rate fluctuations on foreign currency denominated accounts receivable and accounts payable. The Company records derivatives at fair value. Historically, such derivatives have consisted primarily of foreign currency forward contracts which have not been designated as hedging instruments for accounting purposes. The Company has therefore marked such forward contracts to market with an unrealized gain or loss for the mark-to-market valuation. Such forward contracts are classified as Level 2 because such measurements are determined using published market prices or

estimated based on observable inputs such as future exchange rates. There were no open forward exchange contracts for the year ended April 30, 2012. Accordingly, the Company had no financial assets and liabilities that qualified for fair value measurement and disclosure.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Nonfinancial nonrecurring assets and liabilities included on the Company's Consolidated Balance Sheets consist of long-lived assets, including cost-method investments and long-term subordinated notes issued to OMAX, that are measured at fair value and tested and measured for impairment, when necessary.

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Cost Method Investment

In fiscal year 2009, the Company entered into an equity purchase agreement in which it acquired a minority interest in Dardi International ("Dardi"), a waterjet manufacturer based in China. As of April 30, 2012, the carrying value of the Company's investment in Dardi was $3.7 million. The fair value of the Company's investment in Dardi was not estimated as there were no events or changes in circumstances that may have a significant adverse effect on the fair value of the investment, and the Company's management determined that it was not practicable to estimate the fair value of the investment. Further, there are no quoted market prices for the Company's investment, and sufficient information is not readily available for the Company to utilize a valuation model to determine its fair value without incurring excessive costs relative to the materiality of the investment. The Company's cost method investment is evaluated, on at least a quarterly basis for potential other-than-temporary impairment, or when an event or change in circumstances has occurred, that may have a significant adverse effect on the fair value of the investment.

Impairment indicators the Company considers in each reporting period include the following: whether there has been a significant deterioration in earnings performance, asset quality or business prospects; a significant adverse change in the regulatory, economic, or technological environment; a significant adverse change in the general market condition or geographic area in which the investment operates; industry and sector performance; current equity and credit market conditions; any bona fide offers to purchase the investment for less than the carrying value; and factors that raise significant concern, such as negative cash flow from operations or working capital deficiencies. Since there is no active trading market for this investment, it is for the most part illiquid. Future changes in market conditions, the future performance of the investment, or new information provided by Dardi's management could affect the recorded value of the investment and the amount realized upon liquidation. Due to the significant unobservable inputs, the fair value measurements used to evaluate impairment are a Level 3 input.

Subordinated Notes

In fiscal year 2010, the Company had an initial fair value measurement of long-term subordinated notes issued to OMAX. These notes were issued to OMAX during the second quarter of fiscal year 2010. These subordinated notes do not trade in an active market and, therefore observable price quotations are not available. In the absence of observable price quotations, the fair value was determined based on a discounted cash flow model which incorporated the effects of the Company's own credit risk in the fair value of the liability. The cash flow assumptions were based on the Company's contractual cash flows and the anticipation that the Company will pay the debt according to its contractual terms and were considered Level 3 inputs. Specifically, in calculating the fair value of these notes, the Company used a four-year maturity date of August 17, 2013 and a discount rate of 10% which was the rate at which management believed the Company could obtain financing of a similar nature from other sources. Since there have been no material changes in the Company's financial condition and no material modifications to the subordinated notes, the estimated fair value of these notes approximates carrying value as of April 30, 2012. The carrying amount of these notes as of April 30, 2012 was $9.6 million.

The carrying values of the Company's current assets and liabilities due within one-year approximate fair values due to the short-term nature of these instruments.

Note 16: Business Segments and Geographic Information

The Company reports its operating results to its Chief Executive Officer, who is the chief operating decision maker, based on market segments which is consistent with management's long-term growth strategy. The Company has two reportable segments: Standard and Advanced. The Standard segment includes sales and cost of sales related to the

Company’s cutting and surface preparation systems using ultrahigh-pressure water pumps, as well as parts and services to sustain these installed systems. Systems included in this segment do not require significant custom configuration. The Advanced segment includes sales and cost of sales related to the Company’s complex aerospace and automation systems which require specific custom configuration and advanced features, including robotics, to match unique customer applications.

Segment results are measured based on revenue growth and gross margin. All other expenses and earnings are aggregated and reported on a consolidated basis. It is not practicable to segregate total assets by segment due to reporting system limitations. Total assets for the respective fiscal years ended April 30, 2012 and 2011 were $167.1 million and $153.1 million.

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The following table sets forth the revenue and gross margin of operations by reportable segment:

	Fiscal Year Ended April 30,		
	2012	2011	2010
Standard Segment:			
Sales	$230,272	$187,887	$137,514
Gross Margin	93,843	78,321	56,097
	41 %	42 %	41 %
Advanced Segment:			
Sales	23,496	28,637	36,235
Gross Margin	5,525	6,140	11,670
	24 %	21 %	32 %
Total:			
Sales	253,768	216,524	173,749
Gross Margin	99,368	84,461	67,767
	39 %	39 %	39 %

The Company's largest customer in the Advanced segment accounted for approximately 11% of consolidated sales in fiscal year 2010 or $19.2 million. No single customer or group of customers under common control accounted for 10% or more of sales during the respective fiscal years ended April 30, 2012 and 2011.

The table below represents the Company's sales by category:

	Fiscal Year Ended April 30,		
	2012	2011	2010
Standard System Sales	$150,456	$117,721	$81,799
Advanced System Sales	23,358	28,431	34,333
Consumable Parts Sales	79,954	70,372	57,617
	$253,768	$216,524	$173,749

The table below presents the Company's sales to unaffiliated customers and long-lived assets by geographical region:

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	United States	Europe, Middle East, Africa	Asia	Latin America	Other Foreign	Eliminations	Consolidated
Fiscal Year 2012							
Sales:							
Customers (i)	$130,342	$51,429	$41,119	$28,365	$2,513	$—	$253,768
Inter-area (ii)	42,728	44	3,003	313	—	(46,088)	—
Total Sales	$173,070	$51,473	$44,122	$28,678	$2,513	$(46,088)	$253,768
Long-Lived Assets	$43,194	$5,858	$1,562	$907	$—	$—	$51,521
Fiscal Year 2011							
Sales:							
Customers (i)	$118,882	$42,929	$32,011	$20,373	$2,329	$—	$216,524
Inter-area (ii)	39,554	63	1,592	138	—	(41,347)	—
Total Sales	$158,436	$42,992	$33,603	$20,511	$2,329	$(41,347)	$216,524
Long-Lived Assets	$46,686	$6,300	$1,294	$691	$—	$—	$54,971
Fiscal Year 2010							
Sales:							
Customers (i)	$104,032	$31,555	$25,365	$10,929	$1,868	$—	$173,749
Inter-area (ii)	51,396	830	897	—	—	(53,123)	—
Total Sales	$155,428	$32,385	$26,262	$10,929	$1,868	$(53,123)	$173,749
Long-Lived Assets	$47,715	$7,050	$2,080	$269	$—	$—	$57,114

i. U.S. sales to unaffiliated customers in foreign countries were $27.2 million, $25.5 million, and $33.1 million in fiscal years 2012, 2011, and 2010, respectively.

ii. Inter-area sales represent products that were transferred between geographic areas at negotiated prices. These amounts have been eliminated in the consolidation.

Note 17: Selected Quarterly Financial Information (unaudited)

Quarterly financial data provides a review of the Company's results and performance throughout the year. The Company's earnings (loss) per share for the full year may not equal the sum of the four quarterly earnings per share amounts because of common share activity during the year. The operating results for any quarter are not necessarily indicative of results for any future period.

Summarized unaudited quarterly financial data was as follow:

	Fiscal Year Ended April 30, 2012				
	First	Second	Third	Fourth	Total
Sales	$60,030	$64,533	$65,808	$63,397	$253,768
Gross Margin	23,120	25,316	26,071	24,861	99,368
Income From Continuing Operations	654	2,731	3,259	2,745	9,389
Net Income	711	2,779	3,316	2,643	9,449
Basic and Diluted Income Per Share:					
Income From Continuing Operations	$0.01	$0.06	$0.07	$0.06	$0.20
Net Income	$0.01	$0.06	$0.07	$0.06	$0.20

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	Fiscal Year Ended April 30, 2011				
	First	Second	Third	Fourth	Total
Sales	$46,580	$52,935	$57,473	$59,536	$216,524
Gross Margin	19,333	19,853	23,092	22,183	84,461
Income (Loss) From Continuing Operations	(531)	(220)	1,281	478	1,008
Net Income (Loss)	(540)	(323)	1,241	388	766
Basic and Diluted Income (Loss) Per Share:					
Income (Loss) From Continuing Operations	$(0.01)	$(0.01)	$0.03	$0.01	$0.02
Net Income (Loss)	$(0.01)	$(0.01)	$0.03	$0.01	$0.02

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FLOW INTERNATIONAL CORPORATION

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Classifications	Balance at Beginning of Period (In thousands)	Charged to Costs and Expenses	Other	Deductions*	Balance at End of Period
Fiscal Year Ended April 30:					
Allowance for Doubtful Accounts					
2012	$1,304	$531	$(24)	$(687)	$1,124
2011	$1,152	$434	$25	$(307)	$1,304
2010	$2,234	$813	$144	$(2,039)	$1,152

* Write-offs and recoveries of uncollectible accounts

Classifications	Balance at Beginning of Period (In thousands)	Net Change	Balance at End of Period
Fiscal Year Ended April 30:			
Valuation Allowance on Deferred Tax Assets			
2012	$9,732	$(1,830)	$7,902
2011	$10,083	$(351)	$9,732
2010	$10,265	$(182)	$10,083

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Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (referenced herein as the Exchange Act), we carried out, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of April 30, 2012.

Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the current disclosure controls and procedures as of April 30, 2012 are effective, at the reasonable assurance level, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

The purpose of disclosure controls is to ensure that information required to be disclosed in our reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure. The purpose of internal controls is to provide reasonable assurance that our transactions are properly authorized, our assets are safeguarded against unauthorized or improper use and our transactions are properly recorded and reported to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

Our management does not expect that our disclosure controls or our internal controls will prevent all errors and all fraud. An effective control system provides reasonable assurance that the objectives of the control system are met. The design of a control system must also reflect the fact that there are resource constraints, with the benefits of controls considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud (if any) within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that simple errors or mistakes can occur. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Our internal controls are evaluated on an ongoing basis by our internal audit function. The overall goals of these various evaluation activities are to monitor our disclosure and internal controls and to make modifications as

necessary, as disclosure and internal controls are intended to be dynamic systems that change (including improvements and corrections) as conditions warrant. Part of this evaluation is to determine whether there were any significant deficiencies or material weaknesses in our internal controls, or whether we had identified any acts of fraud involving personnel who have a significant role in our internal controls. Significant deficiencies are deficiencies, or combination of deficiencies, in internal control over financial reporting that are less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting. Material weaknesses are deficiencies, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Changes in Internal Controls

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act, there were no changes identified in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and our directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of April 30, 2012, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (or the COSO criteria).

Based on our assessment, management believes that, as of April 30, 2012 the Company's internal controls over financial reporting were effective. Deloitte & Touche LLP has independently audited the effectiveness of our internal control over financial reporting and its report is included below in this Item 9A.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Flow International Corporation
Kent, Washington

We have audited the internal control over financial reporting of Flow International Corporation and subsidiaries (the "Company") as of April 30, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 30, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended April 30, 2012 of the Company and our report dated June 27, 2012 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP
Seattle, Washington

June 27, 2012

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors and executive officers of the registrant and corporate governance is incorporated herein by reference from our 2012 Proxy Statement.

Item 11. Executive Compensation

Information regarding executive compensation is incorporated herein by reference from our 2012 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding securities authorized for issuance under equity compensation plans, security ownership of certain beneficial owners and management and related stockholder matters is incorporated herein by reference from our 2012 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships, related transactions and director independence is incorporated herein by reference from our 2012 Proxy Statement.

Item 14. Principal Accounting Fees and Services

Information regarding fees paid to our principal accountant and our Audit Committee's pre-approval policies and procedures is incorporated herein by reference from our 2012 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules
(a) The following documents are filed as a part of this report:
1. Consolidated Financial Statements.
See Item 8 of Part II for a list of the Financial Statements filed as part of this report.
2. Financial Statement Schedules.
See Item 8 of Part II for a list of the Financial Statement Schedules filed as part of this report.
3. Exhibits. See subparagraph (b) below.

(b) Exhibits.

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Exhibit Number	
3.1	Restated Articles of Incorporation, filed with the State of Washington on April 27, 2005. (Incorporated by reference to Exhibit 3(i).1 to the registrant's Form 8-K dated May 3, 2005.)
3.1(b)	Articles of Amendment of Restated Articles of Incorporation, field with the State of Washington on September 10, 2009. (Incorporated by reference to Exhibit 3.1(b) to the registrant's Form 8-K dated September 11, 2009.)
3.2	By-Laws of Flow International Corporation as amended on June 23, 2009. (Incorporated by reference to Exhibit 3.4 to the registrant's Form 8-K dated June 25, 2009.)
10.1	Flow International Corporation 1987 Stock Option Plan for Nonemployee Directors, as amended. (Incorporated by reference to Exhibit 10.5 to the registrant's Annual Report on Form 10-K for the year ended April 30, 1994.)
10.2	Flow International Corporation 1995 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.2 to the registrant's Annual Report on Form 10-K for the year ended April 30, 2000.)
10.3	Flow International Corporation Voluntary Pension and Salary Deferral Plan and Trust Agreement, as amended and restated effective January 1, 2002. (Incorporated by reference to Exhibit 10.3 to the registrant's Annual Report on Form 10-K for the year ended April 30, 2003.)
10.4	Form of Long Term Incentive Plan for Executives. (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed September 27, 2005.)
10.5	Flow International Corporation 2005 Equity Incentive Plan, as amended and restated September 10, 2009. (Incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K dated September 11, 2009.)
10.6	Lease dated January 30, 2003 between Flow International and Property Reserve, Inc., as amended by First Amendment dated December 20, 2006 and Second Amendment dated January 31, 2012 (Incorporated by reference to Exhibit 10.11 to the registrant's Annual Report on Form 10-K for the year ended April 30, 2003, and Exhibits 10.1 and 10.2 to the registrant's Form 8-K dated February 6, 2012)
10.7	Credit Agreement dated as of June 10, 2009 among Flow International Corporation, Bank of America, N.A. and U.S. Bank National Association. (Incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K dated June 11, 2009.)
10.8	Second Amended and Restated Credit Agreement dated June 10, 2009. (Incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K dated March 3, 2011.)
10.9	First Amendment dated August 28, 2009 to the Second Amended and Restated Credit Agreement. (Incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K dated September 1, 2009.)
10.10	Third Amended and Restated Credit Agreement Dated as of March 2, 2011 among Flow International Corporation as the Borrower, Bank of America, N.A. as Agent, Swing Line Lender and L/C Issuer, and Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager. (Incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K dated March 3, 2011.)
10.11	Settlement Agreement Including Cross-Licensing Agreement dated March 12, 2009. (Incorporated by reference to Exhibit 10.3 to the registrant's Form 8-K dated March 12, 2009.)
10.12	Employment Agreement dated July 3, 2007 between Flow International Corporation and Charles M. Brown. (Incorporated by reference to Exhibit 99.2 to the registrant's Form 8-K dated July 5, 2007.)
10.13	First Amendment to Employment Agreement dated May 15, 2008 between Flow International Corporation and Charles M. Brown. (Incorporated by reference to Exhibit 99.1 to the registrant's Form 8-K dated May 19, 2008.)
10.14	Severance Agreement by and between Flow International Corporation and Charles M. Brown dated September 21, 2010. (Incorporated by reference to Exhibit 99.1 to the registrant's Form 8-K dated September 23, 2010.)

21.1	Subsidiaries of the Registrant*
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm*
31.1	Certification Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification Pursuant to the 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
99.1	Debt Covenant Compliance as of April 30, 2012*

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

FLOW INTERNATIONAL CORPORATION

/s/ Charles M. Brown
Charles M. Brown
President and Chief Executive Officer
(Principle Executive Officer)
June 27, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities on June 27, 2012.

Signature	Title
/s/ Charles M. Brown Charles M. Brown	President and Chief Executive Officer (Principal Executive Officer)
/s/ Allen M. Hsieh Allen M. Hsieh	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Jerry L. Calhoun Jerry L. Calhoun	Chairman
/s/ Patrick J. Byrne Patrick J. Byrne	Director
/s/ Richard P. Fox Richard P. Fox	Director
/s/ Robert S. Jaffe Robert S. Jaffe	Director
/s/ Larry A. Kring Larry A. Kring	Director
/s/ Lorenzo C. Lamadrid Lorenzo C. Lamadrid	Director
/s/ Bradley D. Tilden Bradley D. Tilden	Director

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