

DYNAMIC MATERIALS CORP  
Form 10-Q  
July 31, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**Form 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

OR

- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934 FOR THE TRANSITION PERIOD FROM      TO      .**

Commission file number 001-14775

---

**DYNAMIC MATERIALS CORPORATION**

(Exact name of Registrant as Specified in its Charter)

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

**Delaware**  
(State of Incorporation or Organization)

**84-0608431**  
(I.R.S. Employer Identification No.)

**5405 Spine Road, Boulder, Colorado 80301**

(Address of principal executive offices, including zip code)

**(303) 665-5700**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 under the Act). Yes  No

The number of shares of Common Stock outstanding was 12,877,306 as of July 31, 2009.

Table of Contents

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. In particular, we direct your attention to Part I, Item 1- Condensed Consolidated Financial Statements; Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations; Item 3 - Quantitative and Qualitative Disclosures About Market Risk; and Part II, Item 1A Risk Factors. We intend the forward-looking statements throughout this quarterly report on Form 10-Q and the information incorporated by reference herein to be covered by the safe harbor provisions for forward-looking statements. Statements contained in this report which are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. All projections, guidance and other statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, believe, plan, anticipate, estimate, expect, intend, and other phrases of similar meaning. The forward-looking information is based on information available as of the date of this quarterly report and on numerous assumptions and developments that are not within our control. Although we believe that our expectations as expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Factors that could cause actual results to differ materially include, but are not limited to, the following: the ability to obtain new contracts at attractive prices; the size and timing of customer orders and shipment; our ability to realize sales from our backlog; fluctuations in customer demand; fluctuations in foreign currencies; competitive factors; the timely completion of contracts; the timing and size of expenditures; the timely receipt of government approvals and permits; the price and availability of metal and other raw material; the adequacy of local labor supplies at our facilities; current or future limits on manufacturing capacity at our various operations; the availability and cost of funds; and general economic conditions, both domestic and foreign, impacting our business and the business of the end-market users we serve. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Table of Contents

**INDEX**

PART I - FINANCIAL INFORMATION

<u>Item 1</u>	<u>Condensed Consolidated Financial Statements</u>	4
	<u>Consolidated Balance Sheets as of June 30, 2009 (unaudited) and December 31, 2008</u>	4
	<u>Consolidated Statements of Operations for the three and six months ended June 30, 2009 and 2008 (unaudited)</u>	6
	<u>Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2009 (unaudited)</u>	7
	<u>Consolidated Statements of Cash flows for the six months ended June 30, 2009 and 2008 (unaudited)</u>	8
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	10
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosure about Market Risk</u>	37
<u>Item 4</u>	<u>Controls and Procedures</u>	37

PART II - OTHER INFORMATION

<u>Item 1</u>	<u>Legal Proceedings</u>	38
<u>Item 1A</u>	<u>Risk Factors</u>	38
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>	38
<u>Item 4</u>	<u>Submission of Matters to a Vote of Security Holders</u>	38
<u>Item 5</u>	<u>Other Information</u>	39
<u>Item 6</u>	<u>Exhibits</u>	39
	<u>Signatures</u>	41

Table of Contents**Part I - FINANCIAL INFORMATION****ITEM 1. Condensed Consolidated Financial Statements**DYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	June 30, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 20,794	\$ 14,360
Accounts receivable, net of allowance for doubtful accounts of \$635 and \$614, respectively	29,197	34,719
Inventories	32,548	35,300
Prepaid expenses and other	2,867	2,956
Related party receivable and loan	2,253	2,611
Current deferred tax assets	895	1,103
Total current assets	88,554	91,049
PROPERTY, PLANT AND EQUIPMENT	60,374	58,454
Less - Accumulated depreciation	(20,140)	(17,997)
Property, plant and equipment, net	40,234	40,457
GOODWILL, net	42,434	43,066
PURCHASED INTANGIBLE ASSETS, net	49,540	52,264
DEFERRED TAX ASSETS	722	331
OTHER ASSETS, net	1,301	1,449
INVESTMENT IN JOINT VENTURES	1,065	970
TOTAL ASSETS	\$ 223,850	\$ 229,586

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.



Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)

	June 30, 2009 (unaudited)	December 31, 2008
<b><u>LIABILITIES AND STOCKHOLDERS EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 10,613	\$ 15,402
Accrued expenses	4,083	6,605
Dividend payable	513	
Accrued income taxes	261	846
Accrued employee compensation and benefits	4,022	5,579
Customer advances	3,782	2,685
Related party accounts payable	24	17
Lines of credit - current	151	
Current maturities on long-term debt	10,543	14,450
Current portion of capital lease obligations	92	163
Total current liabilities	34,084	45,747
LONG-TERM DEBT	45,610	46,178
CAPITAL LEASE OBLIGATIONS	298	336
DEFERRED TAX LIABILITIES	15,566	16,833
OTHER LONG-TERM LIABILITIES - RELATED PARTY	344	303
OTHER LONG-TERM LIABILITIES	1,300	1,687
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>		
Total liabilities	97,202	111,084
<b>STOCKHOLDERS EQUITY:</b>		
Preferred stock, \$.05 par value; 4,000,000 shares authorized; no issued and outstanding shares		
Common stock, \$.05 par value; 25,000,000 shares authorized; 12,877,306 and 12,780,877 shares issued and outstanding, respectively	644	639
Additional paid-in capital	44,271	42,050
Retained earnings	83,961	78,042
Other cumulative comprehensive loss	(2,228)	(2,229)
Total stockholders equity	126,648	118,502
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 223,850</b>	<b>\$ 229,586</b>

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.



Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF OPERATIONSFOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008(Dollars in Thousands, Except Share Data)(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
NET SALES	\$ 37,819	\$ 63,183	\$ 87,578	\$ 121,576
COST OF PRODUCTS SOLD	28,665	44,134	63,096	84,816
Gross profit	9,154	19,049	24,482	36,760
COSTS AND EXPENSES:				
General and administrative expenses	3,043	3,815	6,569	6,933
Selling expenses	1,840	2,633	4,164	5,474
Amortization expense of purchased intangible assets	1,232	2,464	2,416	4,825
Total costs and expenses	6,115	8,912	13,149	17,232
INCOME FROM OPERATIONS	3,039	10,137	11,333	19,528
OTHER INCOME (EXPENSE):				
Other income	191	189	74	41
Interest expense	(867)	(1,471)	(1,769)	(2,734)
Interest income	38	99	104	323
Equity in earnings of joint ventures	127	273	79	289
INCOME BEFORE INCOME TAXES	2,528	9,227	9,821	17,447
INCOME TAX PROVISION	1,013	3,017	3,389	5,989
NET INCOME	\$ 1,515	\$ 6,210	\$ 6,432	\$ 11,458
INCOME PER SHARE:				
Basic	\$ 0.12	\$ 0.49	\$ 0.50	\$ 0.91
Diluted	\$ 0.12	\$ 0.49	\$ 0.50	\$ 0.90
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING -				
Basic	12,595,551	12,416,900	12,570,640	12,406,210
Diluted	12,611,430	12,538,362	12,601,160	12,539,580
DIVIDENDS DECLARED PER COMMON SHARE				
	\$ 0.04	\$ 0.15	\$ 0.04	\$ 0.15

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

The accompanying notes are in integral part of these Condensed Consolidated Financial Statements.

Table of Contents

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2009

(Amounts in Thousands)

(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Loss	Total	Comprehensive Income for the Period
Balances, December 31, 2008	12,781	\$ 639	\$ 42,050	\$ 78,042	\$ (2,229)	\$ 118,502	
Shares issued for stock option exercises	78	4	260			264	
Restricted stock awards	12	1	(1)				
Shares issued in connection with the employee stock purchase plan	6		109			109	
Excess tax benefit related to stock options			93			93	
Stock-based compensation			1,760			1,760	
Dividends declared				(513)		(513)	
Net income				6,432		6,432	6,432
Derivative valuation adjustment, net of tax of \$106					197	197	197
Change in cumulative foreign currency translation adjustment					(196)	(196)	(196)
Balances, June 30, 2009	12,877	\$ 644	\$ 44,271	\$ 83,961	\$ (2,228)	\$ 126,648	\$ 6,433

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(Dollars in Thousands)

(unaudited)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 6,432	\$ 11,458
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation (including capital lease amortization)	2,441	2,354
Amortization of purchased intangible assets	2,416	4,825
Amortization of capitalized debt issuance costs	141	114
Stock-based compensation	1,760	1,543
Deferred income tax benefit	(954)	(2,410)
Equity in earnings of joint ventures	(79)	(289)
Change in -		
Restricted cash		386
Accounts receivable, net	4,374	1,237
Inventories	2,475	4,731
Prepaid expenses and other	1,540	(844)
Accounts payable	(4,407)	(5,086)
Customer advances	1,029	(2,859)
Accrued expenses and other liabilities	(4,797)	(3,347)
Net cash provided by operating activities	12,371	11,813
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	(2,231)	(4,203)
Change in other non-current assets	23	31
Net cash used in investing activities	(2,208)	(4,172)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008(Dollars in Thousands)

	2009	2008
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment on syndicated term loans	(3,885)	
Payment on term loan with French bank		(443)
Payment on Nord LB term loans	(438)	(542)
Borrowings on bank lines of credit, net	143	12,081
Payment of capital lease obligations	(102)	(216)
Payment of deferred debt issuance costs	(19)	(140)
Change in other long-tem liabilities		33
Net proceeds from issuance of common stock to employees and directors	373	240
Excess tax benefit related to exercise of stock options	93	132
Net cash provided by (used in) financing activities	(3,835)	11,145
EFFECTS OF EXCHANGE RATES ON CASH	106	553
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,434	19,339
CASH AND CASH EQUIVALENTS, beginning of the period	14,360	9,045
CASH AND CASH EQUIVALENTS, end of the period	\$ 20,794	\$ 28,384

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

**DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Dollars in Thousands, Except Share and Per Share Data)**

**(unaudited)**

**1. BASIS OF PRESENTATION**

The information included in the Condensed Consolidated Financial Statements is unaudited but includes all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the interim periods presented. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements that are included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2008. Certain prior year balances in the consolidated financial statements and notes have been reclassified to conform to the 2009 presentation.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

**The Condensed Consolidated Financial Statements include the accounts of the Company and its controlled subsidiaries. Only subsidiaries in which controlling interests are maintained are consolidated. The equity method is used to account for our ownership in entities where we do not have a controlling interest. All significant intercompany accounts, profits, and transactions have been eliminated in consolidation.**

**Foreign Operations and Foreign Exchange Rate Risk**

**The functional currency for the Company's foreign operations is the applicable local currency for each affiliate company. Assets and liabilities of foreign subsidiaries are translated at exchange rates in effect at period-end, and the statements of operations are translated at the average exchange rates during the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded as a separate component of stockholders' equity and are included in other cumulative comprehensive income (loss).**

Transactions denominated in currencies other than the local currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from the Company's operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. As a result, amounts related to assets and liabilities reported in the consolidated statements of cash flows will not agree to changes in the corresponding balances in the consolidated balance sheets. The effects of exchange rate changes on cash balances held in foreign currencies are reported as a separate line item below cash flows from financing activities.

Table of Contents

**Revenue Recognition**

Sales of clad metal products and welding services are generally based upon customer specifications set forth in customer purchase orders and require the Company to provide certifications relative to metals used, services performed, and the results of any non-destructive testing that the customer has requested be performed. All issues of conformity of the product to specifications are resolved before the product is shipped and billed. Products related to the oilfield products segment, which include detonating cords, detonators, bi-directional boosters, and shaped charges, as well as, seismic related explosives and accessories, are standard in nature. In all cases, revenue is recognized only when all four of the following criteria have been satisfied: persuasive evidence of an arrangement exists; the price is fixed or determinable; delivery has occurred; and collection is reasonably assured. For contracts that require multiple shipments, revenue is recorded only for the units included in each individual shipment. If, as a contract proceeds toward completion, projected total cost on an individual contract indicates a probable loss, the Company will account for such anticipated loss.

**Fair Value of Financial Instruments**

The carrying values of cash and cash equivalents, trade accounts receivable and payable, accrued expenses, and notes receivable are considered to approximate fair value due to the short-term nature of these instruments. We estimate that a hypothetical 200 basis point increase in our LIBOR/EURIBOR basis borrowing spread would decrease the fair value of our long-term debt by approximately 5%. The majority of the Company's debt was incurred in connection with the acquisition of DYNAenergetics.

In September 2006, the Financial Accounting Standards Boards ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS 157 ). Although this statement does not require any new fair value measurements, in certain cases its application has changed previous practice in determining fair value. SFAS 157 became effective for the Company beginning January 1, 2008 as it relates to fair value measurements of financial assets and liabilities and non-financial assets and liabilities that are recognized at fair value in its financial statements on a recurring basis (at least annually).

On January 1, 2009, the Company adopted the deferred provisions of SFAS 157 as defined by FASB Staff Position ( FSP ) No. 157-2, *Effective Date of FASB Statement No. 157*, ( FSP No. 157-2 ). FSP No. 157-2 deferred the adoption date for certain non-financial assets and liabilities that are recognized or disclosed at fair value on a non-recurring basis. The adoption in 2009 of SFAS 157 for certain non-financial assets and liabilities did not have any impact on the Company's results of operations or financial position.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a hierarchy for fair value measurements based upon the inputs to the valuation and the degree to which they are observable or not observable in the market. The three levels in the hierarchy are as follows:

- Level 1 Inputs to the valuation based upon quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.
- Level 2 Inputs to the valuation include quoted prices in either markets that are not active, or in active markets for similar assets or liabilities, inputs other than quoted prices that are





Table of Contents

observable, and inputs that are derived principally from or corroborated by observable market data.

- Level 3 Inputs to the valuation that are unobservable inputs for the asset or liability.

SFAS 157 assigns the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

As discussed in Note 6, the Company uses an interest rate swap agreement to mitigate interest rate risk on portions of its variable rate term loan debt. The swap agreement is not exchange listed and is therefore valued with models that use Level 2 inputs. The degree to which the Company's credit worthiness impacts the value requires management judgment but as of June 30, 2009 and December 31, 2008, the impact of this assessment on the overall value of the outstanding interest rate swap was not significant and the Company's valuation of the agreement is classified within Level 2 of the hierarchy.

Related Party Transactions

The Company has related party transactions with its unconsolidated joint ventures, as well as with the minority shareholder of one of its consolidated joint ventures. A summary of related party balances as of June 30, 2009 and December 31, 2008 is summarized below:

	As of June 30, 2009			As of December 31, 2008		
	Accounts receivable from and loan to	Accounts payable to and loan from	Other long-term loan from	Accounts receivable from and loan to	Accounts payable to and loan from	Other long-term loan from
Perfoline	\$ 505	\$ 17	\$	\$ 449	\$ 17	\$
DYNAenergetics RUS	1,228			1,582		
Noncontrolling Interest Partner	520	7	344	580		303
Total	\$ 2,253	\$ 24	\$ 344	\$ 2,611	\$ 17	\$ 303

Table of Contents

A summary of related party transactions for the three and six months ended June 30, 2009 and 2008 is summarized below:

	Three months ended June 30, 2009			Three months ended June 30, 2008		
	Sales to	Interest income from		Sales to	Interest income from	
Perfoline	\$ 17	\$ 10		\$ 14	\$ 13	
DYNAenergetics RUS	692			1,137		
Noncontrolling Interest Partner	146			460		
<b>Total</b>	<b>\$ 855</b>	<b>\$ 10</b>		<b>\$ 1,611</b>	<b>\$ 13</b>	

	Six months ended June 30, 2009			Six months ended June 30, 2008		
	Sales to	Interest income from		Sales to	Interest income from	
Perfoline	\$ 57	\$ 20		\$ 47	\$ 26	
DYNAenergetics RUS	734			1,137		
Noncontrolling Interest Partner	444			984		
<b>Total</b>	<b>\$ 1,235</b>	<b>\$ 20</b>		<b>\$ 2,168</b>	<b>\$ 26</b>	

Earnings Per Share

In 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, and it became effective for the Company beginning January 1, 2009. Under this standard, unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock awards (RSAs), are considered participating securities for purposes of calculating earnings per share (EPS). Under the two-class method required by EITF 03-6-1, a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock, as shown in the table below. This FSP requires retrospective applications for periods prior to the effective date and as a result, all prior period earnings per share data presented herein have been adjusted to conform to these provisions. The Company's adoption of this FSP resulted in a \$.01 per share reduction to the previously reported basic EPS and no change to the diluted EPS for the three months ended June 30, 2008. The adoption of this FSP resulted in a \$.01 per share reduction to the previously reported basic EPS and diluted EPS for the six months ended June 30, 2008.

Table of Contents**Computation and reconciliation of earnings per common share are as follows:**

	For the Three Months Ended June 30, 2009			For the Three Months Ended June 30, 2008		
	Income	Shares	EPS	Income	Shares	EPS
<b>Basic earnings per share:</b>						
Net income	\$ 1,515			\$ 6,210		
Less income allocated to RSAs	31			97		
Net income allocated to common stock for basic EPS calculation	\$ 1,484	12,595,551	\$ 0.12	\$ 6,113	12,416,900	\$ 0.49
<b>Adjust shares for Dilutives:</b>						
Stock-based compensation plans		15,879			121,462	
<b>Diluted earnings per share:</b>						
Net income	\$ 1,515			\$ 6,210		
Less income allocated to RSAs	31			96		
Net income allocated to common stock for dilutive EPS calculation	\$ 1,484	12,611,430	\$ 0.12	\$ 6,114	12,538,362	\$ 0.49
	For the Six Months Ended June 30, 2009			For the Six Months Ended June 30, 2008		
	Income	Shares	EPS	Income	Shares	EPS
<b>Basic earnings per share:</b>						
Net income	\$ 6,432			\$ 11,458		
Less income allocated to RSAs	132			183		
Net income allocated to common stock for basic EPS calculation	\$ 6,300	12,570,640	\$ 0.50	\$ 11,275	12,406,210	\$ 0.91
<b>Adjust shares for Dilutives:</b>						
Stock-based compensation plans		30,520			133,370	
<b>Diluted earnings per share:</b>						
Net income	\$ 6,432			\$ 11,458		
Less income allocated to RSAs	132			182		
Net income allocated to common stock for dilutive EPS calculation	\$ 6,300	12,601,160	\$ 0.50	\$ 11,276	12,539,580	\$ 0.90

**Recent Accounting Pronouncements**

**In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements*, an amendment of ARB No. 51. These new standards significantly changed the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements on January 1, 2009 and were required to be adopted simultaneously. The adoption of these standards in 2009 did not have any impact on the Company's results of operations or financial position.**

Table of Contents

**In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS 161 requires additional disclosures related to the use of derivative instruments, the accounting for derivatives and how derivatives impact financial statements on January 1, 2009. The adoption of SFAS No. 161 in 2009 did not have any impact on the Company's results of operations or financial position.**

In April 2009, the FASB issued FASB Staff Position ( FSP ) FAS 107-1 and Accounting Principles Board Opinion ( APB ) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ( FSP FAS 107-1 ). The FSP amends FAS 107, *Disclosures about Fair Value of Financial Instruments*, and APB 28, *Interim Financial Reporting*, to require disclosures about fair value of financial instruments for interim financial statements of publicly traded companies. FSP FAS 107-1 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP FAS 107-1 in the second quarter of 2009 did not have any impact on the Company's results of operations or financial position.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 is effective for financial statements issued for fiscal years and interim periods beginning after June 15, 2009 and will be applied prospectively. The Company has adopted SFAS 165 in the periods ended June 30, 2009 and has evaluated for subsequent events through July 31, 2009, the issuance date of the Company's consolidated financial statements. No recognized or non-recognized subsequent events were noted.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. SFAS 168 will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles ( GAAP ), superseding existing FASB, American Institute of Certified Public Accountants ( AICPA ), Emerging Issues Task Force ( EITF ), and related accounting literature. SFAS 168 reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. SFAS 168 will be effective for financial statements issued for reporting periods that end after September 15, 2009. This will have an impact on the notes to the Company's financial statements since all future references to authoritative accounting literature will be references in accordance with SFAS 168.

### **3. INVESTMENT IN JOINT VENTURES**

Operating results include the Company's proportionate share of income from unconsolidated joint ventures, which are accounted for under the equity method. These investments (all of which resulted from the acquisition of DYNAenergetics and pertain to the Company's Oilfield Products business segment) include the following: (1) 65.19% interest in Perfoline, which is a Russian manufacturer of perforating gun systems and (2) 55% interest in DYNAenergetics RUS which is a Russian trading company that sells the Company's oilfield products. Due to certain noncontrolling interest veto rights that allow the noncontrolling interest shareholders to participate in ordinary course of business decisions, these joint ventures have been accounted for under the equity method

Table of Contents

instead of being consolidated in these financial statements. Investments in these joint ventures totaled \$1,065 and \$970 as of June 30, 2009 and December 31, 2008, respectively.

Summarized unaudited financial information for the joint ventures accounted for under the equity method as of June 30, 2009 and December 31, 2008 and for the three and six months ended June 30, 2009 and 2008 is as follows:

	<b>June 30, 2009</b>		<b>December 31, 2008</b>	
Current assets	\$	3,825	\$	4,667
Noncurrent assets		671		714
Total assets	\$	4,496	\$	5,381
Current liabilities	\$	1,530	\$	2,064
Noncurrent liabilities		657		830
Equity		2,309		2,487
Total liabilities and equity	\$	4,496	\$	5,381

	<b>Three Months Ended June 30,</b>				<b>Six Months Ended June 30,</b>			
	<b>2009</b>		<b>2008</b>		<b>2009</b>		<b>2008</b>	
Net sales	\$	1,676	\$	2,522	\$	2,782	\$	4,725
Operating income	\$	284	\$	617	\$	363	\$	788
Net income	\$	232	\$	549	\$	142	\$	535
Equity in earnings of joint ventures	\$	127	\$	273	\$	79	\$	289

**4. INVENTORY**

The components of inventory are as follows at June 30, 2009 and December 31, 2008:

	<b>June 30, 2009</b>		<b>December 31, 2008</b>	
Raw materials	\$	11,180	\$	11,610
Work-in-process		16,232		18,950
Finished goods		4,454		3,903
Supplies		682		837
	\$	32,548	\$	35,300

Table of Contents**5. PURCHASED INTANGIBLE ASSETS**

The following table presents details of our purchased intangible assets, other than goodwill, as of June 30, 2009:

	<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Core technology	\$ 23,514	\$ (1,910)	\$ 21,604
Customer relationships	31,726	(5,729)	25,997
Trademarks / Trade names	2,561	(622)	1,939
<b>Total intangible assets</b>	<b>\$ 57,801</b>	<b>\$ (8,261)</b>	<b>\$ 49,540</b>

The following table presents details of our purchased intangible assets, other than goodwill, as of December 31, 2008:

	<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Core technology	\$ 23,596	\$ (1,327)	\$ 22,269
Customer relationships	31,837	(3,980)	27,857
Trademarks / Trade names	2,570	(432)	2,138
<b>Total intangible assets</b>	<b>\$ 58,003</b>	<b>\$ (5,739)</b>	<b>\$ 52,264</b>

The decrease in the gross value of our purchased intangible assets from December 31, 2008 to June 30, 2009 is due to the impact of foreign currency translation. The decrease in goodwill from \$43,066 at December 31, 2008 to \$42,434 at June 30, 2009 is also due to the impact of foreign currency translation.



Table of Contents**6. DEBT**

Lines of credit consist of the following at June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
Nord LB line of credit	\$ 151	\$

Long-term debt consists of the following at June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
Syndicated credit agreement term loan	\$ 37,756	\$ 40,500
Syndicated credit agreement Euro term loan	16,501	17,763
Nord LB 3,000 Euro term loan	1,896	2,326
Nord LB 500 Euro term loan		39
	56,153	60,628
Less current maturities	(10,543)	(14,450)
Long-term debt	\$ 45,610	\$ 46,178

Loan Covenants and Restrictions

The Company's existing loan agreements include various covenants and restrictions, certain of which relate to the incurrence of additional indebtedness; mortgaging, pledging or disposition of major assets; limits on capital expenditures; and maintenance of specified financial ratios. As of June 30, 2009, the Company was in compliance with all financial covenants and other provisions of its debt agreements.

Swap Agreement

On November 17, 2008, the Company entered into a two-year interest rate swap agreement with an initial notional amount of \$40,500 (decreasing to \$33,750 in November 2009) that effectively converted the LIBOR based variable rate US borrowings under the syndicated credit agreement to a fixed rate of 4.87% (4.62% effective April 1, 2009 due to an improvement in the Company's leverage ratio). The Company had designated the swap agreement as an effective cash flow hedge with matched terms and, as a result, changes in the fair value of the swap agreement were recorded in other comprehensive income with the offset as a swap agreement asset or liability. During the quarter ended June 30, 2009, the Company made an unanticipated repayment of \$2,744 on its variable rate US borrowings and elected to de-designate this portion of the cash flow hedge. Due to the resulting ineffectiveness of this portion of the cash flow hedge, the Company recorded an immaterial loss of less than \$100 during the quarter ended June 30, 2009. Future settlements and changes in the fair value related to the de-designated portion of the cash flow hedge will be recorded as realized and unrealized gains/losses on swap agreement within other income in the Company's statement of operations.



Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Table of Contents

The Company has recorded the fair value of its interest rate swap agreement as follows:

Interest rate swap liability	June 30, 2009		December 31, 2008	
	Balance sheet location	Fair value	Balance sheet location	Fair value
Current portion	Accrued expenses	\$ 839	Accrued expenses	\$ 759
Long-term portion	Other long-term liabilities	299	Other long-term liabilities	647
		\$ 1,138		\$ 1,406

**7. BUSINESS SEGMENTS**

The Company is organized in the following three segments: Explosive Metalworking, Oilfield Products, and AMK Welding. The Explosive Metalworking segment uses explosives to perform metal cladding and shock synthesis of industrial diamonds. The most significant products of this group are clad metal plates which are used by customers in the fabrication of pressure vessels, heat exchangers and other equipment for various industries, including upstream oil and gas, oil refinery, petrochemicals, alternative energy, hydrometallurgy, power generation, industrial refrigeration, and similar industries and internally to produce transition joints for use in the aluminum production and shipbuilding industries. The Oilfield Products segment manufactures, markets and sells oilfield perforating equipment and explosives, including detonating cords, detonators, bi-directional boosters and shaped charges, and seismic related explosives and accessories. AMK Welding utilizes a number of welding technologies to weld components for manufacturers of jet engine and ground-based turbines.

The accounting policies of all the segments are the same as those described in the summary of significant accounting policies. The Company's reportable segments are separately managed strategic business units that offer different products and services. Each segment's products are marketed to different customer types and require different manufacturing processes and technologies.

Segment information is presented for the three and six months ended June 30, 2009 and 2008 as follows:

	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the three months ended June 30, 2009:				
Net sales	\$ 31,604	\$ 4,014	\$ 2,201	\$ 37,819
Depreciation and amortization	\$ 1,435	\$ 857	\$ 115	\$ 2,407
Income from operations	\$ 4,601	\$ (906)	\$ 306	\$ 4,001
Equity in earnings of joint ventures	\$	\$ 127	\$	\$ 127
Unallocated amounts:				
Stock-based compensation				(962)
Other income				191
Interest expense				(867)
Interest income				38
Consolidated income before income taxes				\$ 2,528



Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Table of Contents

	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the three months ended June 30, 2008:				
Net sales	\$ 52,996	\$ 7,922	\$ 2,265	\$ 63,183
Depreciation and amortization	\$ 2,660	\$ 937	\$ 108	\$ 3,705
Income from operations	\$ 9,815	\$ 616	\$ 585	\$ 11,016
Equity in earnings of joint ventures	\$	\$ 273	\$	\$ 273
Unallocated amounts:				
Stock-based compensation				(879)
Other income				189
Interest expense				(1,471)
Interest income				99
Consolidated income before income taxes			\$	9,227

	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the six months ended June 30, 2009:				
Net sales	\$ 75,076	\$ 8,048	\$ 4,454	\$ 87,578
Depreciation and amortization	\$ 2,925	\$ 1,704	\$ 228	\$ 4,857
Income from operations	\$ 14,012	\$ (1,600)	\$ 681	\$ 13,093
Equity in earnings of joint ventures	\$	\$ 79	\$	\$ 79
Unallocated amounts:				
Stock-based compensation				(1,760)
Other income				74
Interest expense				(1,769)
Interest income				104
Consolidated income before income taxes			\$	9,821

	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the six months ended June 30, 2008:				
Net sales	\$ 104,638	\$ 12,373	\$ 4,565	\$ 121,576
Depreciation and amortization	\$ 5,044	\$ 1,919	\$ 216	\$ 7,179
Income from operations	\$ 19,799	\$ 50	\$ 1,222	\$ 21,071
Equity in earnings of joint ventures	\$	\$ 289	\$	\$ 289
Unallocated amounts:				
Stock-based compensation				(1,543)
Other income				41
Interest expense				(2,734)
Interest income				323
Consolidated income before income taxes			\$	17,447

During the three months ended June 30, 2009, sales to one customer represented approximately \$3,912 (10.3%) of total net sales. During the six months ended June 30, 2009, no sales to any one customer accounted for more than 10% of total sales. During the three and six months ended June 30, 2008, no sales to any one customer accounted for more than 10% of total net sales.



Table of Contents**8. COMPREHENSIVE INCOME**

The Company's comprehensive income for the three and six months ended June 30, 2009 and 2008 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income for the period	\$ 1,515	\$ 6,210	\$ 6,432	\$ 11,458
Interest rate swap valuation adjustment, net of tax	160	195	197	(90)
Foreign currency translation adjustment	5,722	(148)	(196)	7,109
Comprehensive income	\$ 7,397	\$ 6,257	\$ 6,433	\$ 18,477

Other cumulative comprehensive loss as of June 30, 2009 and December 31, 2008 consisted of the following:

	June 30, 2009	December 31, 2008
Currency translation adjustment	\$ (1,539)	\$ (1,343)
Interest rate swap valuation adjustment, net of tax of \$398 and \$520, respectively	(689)	(886)
	\$ (2,228)	\$ (2,229)

Table of Contents

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with our historical consolidated financial statements and notes, as well as the selected historical consolidated financial data that are included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2008.

Unless stated otherwise, all dollar figures in this discussion are presented in thousands (000's).

**Executive Overview**

Our business is organized into three segments: Explosive Metalworking, Oilfield Products, and AMK Welding. For the six months ended June 30, 2009, Explosive Metalworking accounted for 86% of our net sales and 107% of our income from continuing operations before consideration of stock-based compensation expense, which is not allocated to our business segments. Our Oilfield Products and AMK Welding segments accounted for 9% and 5%, respectively, of our first half 2009 net sales.

Our net sales for the six months ended June 30, 2009 decreased by \$33,998 (28.0%) compared to the first six months of 2008, reflecting year-to-year net sales decreases of \$29,562 (28.3%), \$4,325 (35.0%), and \$111 (2.4%) for our Explosive Metalworking, Oilfield Products, and AMK Welding segments, respectively. The sales decrease of approximately \$34 million includes a sales volume decrease of approximately \$26.4 million and an unfavorable foreign exchange translation adjustment of approximately \$7.6 million on our European sales relating to the increased value of the U.S. dollar against the Euro. Income from operations decreased 42% to \$11,333 in the first six months of 2009 from \$19,528 in the first six months of 2008. This \$8,195 decrease reflects declines in Explosive Metalworking's, Oilfield Products', and AMK Welding's operating income of \$5,787, \$1,650, and \$541, respectively, and a \$217 increase in stock-based compensation expense. Our net income decreased by 43.9% to \$6,432 for the six months ended June 30, 2009 from \$11,458 in the same period of 2008.

*Impact of Current Economic Situation on the Company*

The Company was only minimally impacted in 2008 by the global economic slowdown. However, during the first half of 2009, we have seen a significant slowdown in Explosive Metalworking sales to some of the markets we serve. The explosion-weld clad plate market is dependent upon sales of products for use by customers in a limited number of heavy industries, including oil and gas, alternative energy, chemicals and petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, and industrial refrigeration. These industries tend to be cyclical in nature and the current worldwide economic downturn has affected many of these markets. Despite the slowdown we have already seen in certain sectors, including chemical, petrochemical and hydrometallurgy, quoting activity in other end markets remains healthy and we continue to track an extensive list of large infrastructure projects. While timing of new order inflow remains difficult to predict, we believe that our Explosive Metalworking segment is well-positioned to benefit as global economic conditions improve.



As a result of the 28% decline in our net sales during the first half of 2009 and the decrease in our Explosive Metalworking backlog from \$97,247 at December 31, 2008 to \$57,090 at June 30, 2009, we now expect our consolidated net sales in 2009 to decrease approximately 28% to 32% (previous guidance was for a decrease of 17% to 23%) from the amount we achieved in 2008.

Table of Contents

In light of the slowdown in order inflow that we are experiencing, we have deferred some of our previous planned capital expenditures and are continuing to carefully manage expenses. We generated cash flow from operations of \$12,371 during the first half of 2009 and expect to generate positive cash flow from operations during the second half of 2009.

*Net sales*

Explosive Metalworking's revenues are generated principally from sales of clad metal plates and sales of transition joints, which are made from clad plates, to customers that fabricate industrial equipment for various industries, including oil and gas, petrochemicals, alternative energy, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration, and similar industries. While a large portion of the demand for our clad metal products is driven by new plant construction and large plant expansion projects, maintenance and retrofit projects at existing chemical processing, petrochemical processing, oil refining, and aluminum smelting facilities also account for a significant portion of total demand.

Oilfield Products' revenues are generated principally from sales of shaped charges, detonators and detonating cord, bi-directional boosters and perforating guns to customers who perform the perforation of oil and gas wells and from sales of seismic products to customers involved in oil and gas exploration activities.

AMK Welding's revenues are generated from welding, heat treatment, and inspection services that are provided with respect to customer-supplied parts for customers primarily involved in the power generation industry and aircraft engine markets.

*Gross profit and cost of products sold*

Cost of products sold for Explosive Metalworking include the cost of metals and alloys used to manufacture clad metal plates, the cost of explosives, employee compensation and benefits, freight, outside processing costs, depreciation of manufacturing facilities and equipment, manufacturing supplies, and other manufacturing overhead expenses.

Cost of products sold for Oilfield Products include the cost of metals, explosives and other raw materials used to manufacture shaped charges, detonating products, and perforating guns as well as employee compensation and benefits, depreciation of manufacturing facilities and equipment, manufacturing supplies, and other manufacturing overhead expenses.

AMK Welding's cost of products sold consists principally of employee compensation and benefits, welding supplies (wire and gas), depreciation of manufacturing facilities and equipment, outside services, and other manufacturing overhead expenses.

*Income taxes*

Our effective income tax rate increased slightly to 34.5% for the first half of 2009 from 34.3% for the same period of 2008. Going forward, based upon existing tax regulations and current federal, state and foreign statutory tax rates, we expect our full year 2009 effective tax rate on our projected consolidated pre-tax income to range between 34% and 35%.

Table of Contents*Backlog*

We use backlog as a primary means of measuring the immediate outlook for our business. We define backlog at any given point in time as consisting of all firm, unfulfilled purchase orders and commitments at that time. Generally speaking, we expect to fill most backlog orders within the following 12 months. From experience, most firm purchase orders and commitments are realized.

Our backlog with respect to the Explosive Metalworking segment decreased to \$57,090 at June 30, 2009 from \$97,247 at December 31, 2008 and \$74,174 at March 31, 2009. As a result of the lower sales that we reported during the first half of the 2009 and this significant decline in backlog that reflects a slow down in new order inflow during the first half of year, we are now forecasting that our consolidated net sales for fiscal 2009 will decline approximately 28% to 32% from those reported in fiscal 2008. We anticipate this sales decline because of uncertainty associated with current global economic conditions, the slowdown we have already seen in the chemical, petrochemical, and hydrometallurgy sectors, and the difficulty in predicting the timing of large orders that we continue to quote.

**Three and Six Months Ended June 30, 2009 Compared to Three and Six Months Ended June 30, 2008***Net sales*

	Three Months Ended June 30,			Change	Percentage Change
	2009	2008			
Net sales	\$ 37,819	\$ 63,183	\$ (25,364)	(40.1)%	

	Six Months Ended June 30,			Change	Percentage Change
	2009	2008			
Net sales	\$ 87,578	\$ 121,576	\$ (33,998)	(28.0)%	

Net sales for the second quarter of 2009 decreased 40.1% to \$37,819 from \$63,183 in the second quarter of 2008. Explosive Metalworking sales decreased 40.4% to \$31,604 in the three months ended June 30, 2009 (84% of total sales) from \$52,996 in the same period of 2008 (84% of total sales). The decrease in Explosive Metalworking sales reflects a business slowdown in several of the industries that this business segment serves and includes approximately \$3.0 million of unfavorable foreign exchange translation adjustments.

Oilfield Products contributed \$4,014 to second quarter 2009 sales (10% of total sales), which represents a 49.3% decrease from sales of \$7,922 in the second quarter of 2008 (12% of total sales). The \$3,908 decline in sales reflects a significant volume decrease as well as approximately \$1.0 million in unfavorable foreign exchange adjustments.

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

AMK Welding contributed \$2,201 to second quarter 2009 sales (6% of total sales), which represents a 2.8% decrease from sales of \$2,265 in the second quarter of 2008 (4% of total sales).

Net sales for the first half of 2009 decreased 28.0% to \$87,578 from \$121,576 in the first half of 2008. Explosive Metalworking sales decreased 28.3% to \$75,076 in the six months ended June 30, 2009 (86% of total sales) from \$104,638 in the same period of 2008 (86% of total sales). The decrease in Explosive Metalworking sales reflects a business slowdown in several of the

Table of Contents

industries that this business segment serves and includes approximately \$6.0 million of unfavorable foreign exchange translation adjustments.

Oilfield Products contributed \$8,048 to first half of 2009 sales (9% of total sales), which represents a 35.0% decrease from sales of \$12,373 in the first half of 2008 (10% of total sales). The \$4,325 decline in sales reflects both a volume decrease and a negative impact of approximately \$1.6 million from unfavorable foreign exchange adjustments.

AMK Welding contributed \$4,454 to first half of 2009 sales (5% of total sales), which represents a 2.4% decrease from sales of \$4,565 in the first half of 2008 (4% of total sales).

*Gross profit*

	Three Months Ended June 30,			Change	Percentage Change
	2009	2008	2008		
Gross profit	\$ 9,154	\$ 19,049	\$ (9,895)	(51.9)%	
Consolidated gross profit margin rate	24.2%	30.1%			

  

	Six Months Ended June 30,			Change	Percentage Change
	2009	2008	2008		
Gross profit	\$ 24,482	\$ 36,760	\$ (12,278)	(33.4)%	
Consolidated gross profit margin rate	28.0%	30.2%			

Gross profit decreased by 51.9% to \$9,154 for the three months ended June 30, 2009 from \$19,049 for the three months ended June 30, 2008. Our second quarter 2009 consolidated gross profit margin rate decreased to 24.2% from 30.1% in the second quarter of 2008. For the six months ended June 30, 2009, gross profit decreased to \$24,482 from \$36,760 for the same period of 2008. Our year to date consolidated gross profit margin rate decreased to 28.0% from 30.2% for the first six months of 2008.

The gross profit margin rate for Explosive Metalworking decreased from 29.7% in the second quarter of 2008 to 25.5% in the second quarter of 2009. The decreased second quarter 2009 gross profit margin rate for Explosive Metalworking relates entirely to our European cladding operations where the gross margin rate for the quarter was 37% lower than the gross margin rate reported in the second quarter of 2008 on a year to year sales decline of 35%. Our U.S. clad division was able to report a slightly higher gross margin rate in the second quarter of 2009 versus the comparable period of 2008 despite a 45% drop in sales. Our year to date gross profit margin rate for Explosive Metalworking decreased to 29.2% from 30.2%. Historically, gross margins for our European explosion welding divisions have been lower than those reported by our U.S. division due to less efficient fixed manufacturing cost structures associated with our smaller European facilities. The gap between our U.S. and European gross margins has widened this year as a result of the sales declines we have experienced and a more competitive pricing environment in certain of the markets served by our European divisions. We are taking steps to reduce fixed manufacturing overhead costs at all of our facilities but the benefit of these actions will not be fully reflected in our gross margin performance until 2010 and will likely be muted by the expected continuation of a very competitive pricing environment. As has been the case historically, we expect to see continued fluctuations in Explosive Metalworking's quarterly gross margin rates during the remainder of 2009 that result from anticipated fluctuations in quarterly sales volume and changes in product mix. Due largely to the expected decline in sales during the



Table of Contents

second half of 2009 from those reported in the first half of the year and resultant less favorable absorption of fixed manufacturing overhead expenses, we currently expect second half 2009 gross margins for Explosive Metalworking to be in a range of 21% to 23% and full year gross margins to be in a range of 25% to 27%.



## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Oilfield Products reported a gross profit margin rate of 17.7% for the second quarter of 2009 compared to a gross profit margin rate of 33.6% for the second quarter of 2008. Oilfield Products reported a gross profit margin rate of 21.2% for the first half of 2009 compared to a gross profit margin rate of 30.6% for the first half of 2008. The large decrease in Oilfield Products' second quarter and first half gross margin relate principally to second quarter and year to date sales declines of 49.3% and 35.0%, respectively, and resultant less favorable absorption of fixed manufacturing overhead expenses but also include the impact of non-recurring costs associated with the relocation of certain production activities during the second quarter and changes in product/customer mix. We expect incremental improvement in this segment's quarterly sales and gross margin performance during the third and fourth quarters of 2009 and expect Oilfield Products to report a gross margin in the range of 28% to 30% for the full year 2009.

The gross profit margin rate for AMK Welding decreased to 23.7% in the second quarter of 2009 from 34.3% in the second quarter of 2008. The gross profit margin rate for AMK Welding decreased to 24.9% in the first six months of 2009 from 35.3% in the first six months of 2008. The decrease in AMK Welding's gross margin relates principally to an increase in manufacturing overhead associated with internal and external engineering and product development expenses as AMK seeks to expand both its service offerings and customer base. We expect modest improvement in AMK Welding's sales during the second half of 2009 from those reported in the first half of the year and expect this segment to report a full year gross margin in the range of 28% to 30%.

*General and administrative expenses*

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

	Three Months Ended June 30,				Change	Percentage Change
	2009		2008			
General & administrative expenses	\$	3,043	\$	3,815	\$ (772)	(20.2)%
Percentage of net sales		8.0%		6.0%		

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

	Six Months Ended June 30,				Change	Percentage Change
	2009		2008			
General & administrative expenses	\$	6,569	\$	6,933	\$ (364)	(5.3)%
Percentage of net sales		7.5%		5.7%		

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

General and administrative expenses decreased by \$772, or 20.2%, to \$3,043 in the second quarter of 2009 from \$3,815 in the second quarter of 2008. This decrease includes a \$224 decrease in accrued incentive compensation, a \$105 decrease in salary expense associated principally with increased utilization of accrued vacation time carried over from prior years that more than offset the impact of annual salary adjustments, a decrease of \$76 in legal, audit and consulting expenses, and a net decrease of \$367 in all other expenses categories that reflects the impact of tight controls over discretionary spending as well as certain non-recurring professional service fees that we incurred in 2008 relating to the integration of DYNAenergetics. The \$772 decrease in total general and administrative expenses also reflects the positive effect of \$230 in

Table of Contents

favorable foreign exchange translation adjustments. As a percentage of net sales, general and administrative expenses increased to 8.0% in the second quarter of 2009 from 6.0% in the second quarter of 2008.

General and administrative expenses for the six months ended June 30, 2009 totaled \$6,569 compared to \$6,933 for the same period of 2008. General and administrative expenses of our European divisions decreased by \$266, or 8.7%, as a result of a 5.5% increase in net expenses as measured in Euros being offset by \$393 in favorable foreign exchange translation adjustments. Our U.S. general and administrative expenses decreased by \$98 or 2.5%. As a percentage of net sales, general and administrative expenses increased to 7.5% in the first half of 2009 from 5.7% in the first half of 2008.

*Selling expenses*

	Three Months Ended				Percentage Change
	June 30,				
	2009	2008	Change		
Selling expenses	\$ 1,840	\$ 2,633	\$ (793)		(30.1)%
Percentage of net sales	4.9%	4.2%			

	Six Months Ended				Percentage Change
	June 30,				
	2009	2008	Change		
Selling expenses	\$ 4,164	\$ 5,474	\$ (1,310)		(23.9)%
Percentage of net sales	4.8%	4.5%			

Selling expenses, which include sales commissions of \$425 in 2009 and \$598 in 2008, decreased by 30.1% to \$1,840 in the second quarter of 2009 from \$2,633 in the second quarter of 2008. The \$793 decrease in our consolidated selling expenses includes decreased selling expenses of \$427 and \$366 at our European and U.S. divisions, respectively. The decrease in European selling expenses relates principally to staff reductions within our European explosion welding divisions and also includes \$174 of favorable foreign exchange translation adjustments. The \$366 decrease in our U.S. selling expenses reflects decreased sales commissions of \$174, a \$90 decrease in bad debt expense, a \$93 decrease in accrued incentive compensation and a \$90 reduction in business development, advertising and promotional expenses that were partially offset by a \$64 increase in salary expense and a net increase of \$17 in other spending categories. As a percentage of net sales, selling expenses increased to 4.9% in the second quarter of 2009 from 4.2% in the second quarter of 2008.

Selling expenses decreased by 23.9% to \$4,164 in the first half of 2009 from \$5,474 in the same period of 2008. These selling expenses include sales commissions of \$808 and \$1,052 for 2009 and 2008, respectively. The \$1,310 decrease in our consolidated selling expenses includes decreased year to date selling expenses of \$1,101 and \$209 at our European and U.S. divisions, respectively. The decrease in European selling expenses relates principally to staff reductions within our European explosion welding divisions and non-recurring expenses in the first quarter of 2008 relating to the termination of contracts with former sales agents and also includes \$396 of favorable foreign exchange translation adjustments. The \$209 decrease in our U.S. selling expenses reflects decreased sales commissions of \$67, a \$52 decrease in bad debt expense, a \$98 decrease in accrued incentive compensation, a \$32 decrease in travel expenses and a \$174



Table of Contents

reduction in business development, advertising and promotional expenses that were partially offset by a \$139 increase in salary expense, a \$47 increase in stock-based compensation and a net increase of \$28 in other spending categories. As a percentage of net sales, selling expenses increased to 4.8% in the first half of 2009 from 4.5% in the first half of 2008.

*Amortization expenses*

	Three Months Ended June 30,			Change	Percentage Change
	2009	2008	2008		
Amortization expense of purchased intangible assets	\$ 1,232	\$ 2,464	\$ (1,232)	(50.0)%	
Percentage of net sales	3.3%	3.9%			

	Six Months Ended June 30,			Change	Percentage Change
	2009	2008	2008		
Amortization expense of purchased intangible assets	\$ 2,416	\$ 4,825	\$ (2,409)	(49.9)%	
Percentage of net sales	2.8%	4.0%			

Amortization expense relates entirely to the amortization of values assigned to intangible assets in connection with the November 15, 2007 acquisition of DYNAenergetics. Amortization expense for the three months ended June 30, 2009 includes \$854, \$285 and \$93 relating to values assigned to customer relationships, core technology and trademarks/trade names, respectively. Amortization expense for the three months ended June 30, 2008 includes \$1,050, \$981, \$327 and \$106 relating to values assigned to order backlog, customer relationships, core technology and trademarks/trade names, respectively.

Amortization expense for the six months ended June 30, 2009 includes \$1,675, \$559 and \$182 relating to values assigned to customer relationships, core technology and trademarks/trade names, respectively. Amortization expense for the six months ended June 30, 2008 includes \$2,055, \$1,921, \$640 and \$209 relating to values assigned to order backlog, customer relationships, core technology and trademarks/trade names, respectively. The value assigned to order backlog was fully amortized during the first six months of 2008. Amortization expense variances for the other categories of purchased intangible assets relate to foreign exchange translation adjustments. Amortization expense for 2009 (as measured in Euros) is expected to approximate 905 per quarter for the remaining two quarters of 2009 and is expected to remain at this level for most of calendar year 2010.

Table of Contents*Operating income*

	Three Months Ended June 30,				Change	Percentage Change
	2009	2008	2009	2008		
Operating income	\$ 3,039	\$ 10,137	\$ (7,098)		(70.0)%	

	Six Months Ended June 30,				Change	Percentage Change
	2009	2008	2009	2008		
Operating income	\$ 11,333	\$ 19,528	\$ (8,195)		(42.0)%	

Income from operations ( operating income ) decreased by 70% to \$3,039 in the second quarter of 2009 from \$10,137 in the second quarter of 2008. For the first six months of 2009 operating income decreased by 42% to \$11,333 from \$19,528 for the first six months of 2008.

Explosive Metalworking reported operating income of \$4,601 in the second quarter of 2009 as compared to \$9,815 in the second quarter of 2008. This 53.1% decrease in Explosive Metalworking operating income is largely attributable to the 40.4% decrease in net sales discussed above. Explosive Metalworking reported operating income of \$14,012 in the first half of 2009 as compared to \$19,799 in the first half of 2008. This 29.2% decrease in Explosive Metalworking operating income is largely attributable to the 28.3% decrease in net sales discussed above.

Oilfield Products reported an operating loss of \$906 for the second quarter of 2009 as compared to operating income of \$616 for the second quarter of 2008. For the first half of 2009, Oilfield Products reported an operating loss of \$1,600 as compared to operating income of \$50 for the first half of 2008.

AMK Welding reported operating income of \$306 for the three months ended June 30, 2009 as compared to \$585 for the same period of 2008. AMK Welding reported operating income of \$681 for the first six months of 2009 as compared to \$1,222 for the first six months of 2008.

Operating income for the three and six months ended June 30, 2009 includes \$962 and \$1,760, respectively, of stock-based compensation compared to stock-based compensation expense for the three and six months ended June 30, 2008 of \$879 and \$1,543, respectively. This expense is not allocated to our business segments and thus is not included in the above first quarter operating income or loss totals for Explosive Metalworking, Oilfield Products and AMK Welding.



Table of Contents*Interest income (expense), net*

	Three Months Ended June 30,			Change	Percentage Change
	2009	2008			
Interest income (expense), net	\$ (829)	\$ (1,372)	\$ 543	(39.6)%	

	Six Months Ended June 30,			Change	Percentage Change
	2009	2008			
Interest income (expense), net	\$ (1,665)	\$ (2,411)	\$ 746	(30.9)%	

We recorded net interest expense of \$829 in the three months ended June 30, 2009 compared to net interest expense of \$1,372 in the same time period of 2008. We recorded net interest expense of \$1,665 in the first half of 2009 compared to net interest expense of \$2,411 in the first half of 2008. This decrease in net interest expense reflects term debt reductions and lower interest rates.

*Income tax provision*

	Three Months Ended June 30,			Change	Percentage Change
	2009	2008			
Income tax provision	\$ 1,013	\$ 3,017	\$ (2,004)	(66.4)%	
Effective tax rate	40.1%	32.7%			

	Six Months Ended June 30,			Change	Percentage Change
	2009	2008			
Income tax provision	\$ 3,389	\$ 5,989	\$ (2,600)	(43.4)%	
Effective tax rate	34.5%	34.3%			

We recorded an income tax provision of \$1,013 in the second quarter of 2009 compared to \$3,017 in the second quarter of 2008. The effective tax rate increased to 40.1% in the second quarter of 2009 from 32.7% in the second quarter of 2008. The income tax provisions for the three months ended June 30, 2009 and 2008 include \$1,054 and \$2,609, respectively, related to U.S. taxes, with the remainder relating to foreign taxes and foreign tax benefits associated with the operations of Nobelclad and its Swedish subsidiary, Nitro Metall, as well as the DYNAenergetics and Dynaplat divisions and related holding companies in Germany and Luxembourg.

For the six month ended June 30, 2009, we recorded an income tax provision of \$3,389 compared to \$5,989 in the same period of 2008. The effective tax rate increased to 34.5% in the first half of 2009 from 34.3% in the first half of 2008. The income tax provisions for the six months ended June 30, 2009 and 2008 include \$3,176 and \$5,560, respectively, related to U.S. taxes, with the remainder relating to foreign taxes and foreign tax benefits associated with the operations of Nobelclad and its Swedish subsidiary, Nitro Metall, as well as the DYNAenergetics and Dynaplat divisions and related holding companies in Germany and Luxembourg. Our blended



Table of Contents

effective tax rate for 2009 is expected to range from 34% to 35% based on projected consolidated pre-tax income.

**Liquidity and Capital Resources**

**We have historically financed our operations from a combination of internally generated cash flow, revolving credit borrowings, various long-term debt arrangements, and the issuance of common stock. In connection with the acquisition of DYNAenergetics, we entered into a five-year syndicated credit agreement. The credit agreement, which provided term loans of \$45,000 and 14,000 Euros and revolving credit loan availability of \$25,000 and 7,000 Euros, is through a syndicate of seven banks. The credit facility in the approximate amount of \$100,000 expires on November 16, 2012. As of June 30, 2009, term loans of \$37,756 and 11,746 Euros (\$16,501) were outstanding under the credit facility and an additional \$1,896 was outstanding under term loan obligations of DYNAenergetics. We had no outstanding revolving credit borrowings under our syndicated credit agreement as of June 30, 2009 and had \$151 outstanding under separate DYNAenergetics line of credit agreements as of that date. While we had approximately \$40,800 of unutilized revolving credit loan capacity as of June 30, 2009 under our various credit facilities, future borrowings are subject to compliance with financial covenants that could limit availability.**

We believe that cash flow from operations and funds available under our current credit facilities and any future replacement thereof will be sufficient to fund the working capital, debt service, and capital expenditure requirements of our current business operations for the foreseeable future. Nevertheless, our ability to generate sufficient cash flows from operations will depend upon our success in executing our strategies. If we are unable to (i) realize sales from our backlog; (ii) secure new customer orders at attractive prices; and (iii) continue to implement cost-effective internal processes, our ability to meet cash requirements through operating activities could be impacted. Furthermore, any restriction on the availability of borrowings under our credit facilities could negatively affect our ability to meet future cash requirements.

*Debt and other contractual obligations and commitments*

**Our existing loan agreements include various covenants and restrictions, certain of which relate to the payment of dividends or other distributions to stockholders, redemption of capital stock, incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets, use of cash for acquisitions, and maintenance of specified financial ratios. As of June 30, 2009, we were in compliance with all financial covenants and other provisions of our debt agreements.**

The Company's principal cash flows related to debt obligations and other contractual obligations and commitments have not materially changed since December 31, 2008.

*Cash flows from operating activities*

Net cash flows provided by operating activities for the first half of 2009 totaled \$12,371. Significant sources of operating cash flow included net income of \$6,432, non-cash depreciation and amortization expense of \$4,998, stock-based compensation of \$1,760 and net positive changes in various components of working capital in the amount of \$214. These sources of operating cash flow were partially offset by a deferred income

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

tax benefit of \$954. Net positive changes in working capital included decreases in accounts receivable, inventories and prepaid expenses of \$4,374, \$2,475 and \$1,540, respectively, and an increase in customer advances of \$1,029. These positive changes in working capital were almost entirely offset by decreases in accounts payable and accrued expenses of \$4,407 and \$4,797, respectively.

Table of Contents

Net cash flows provided by operating activities for the first half of 2008 totaled \$11,813. Significant sources of operating cash flow included net income of \$11,458, non-cash depreciation and amortization expense of \$7,293 and stock-based compensation of \$1,543. These sources of operating cash flow were partially offset by a deferred income tax benefit of \$2,410, \$289 for equity in earnings of joint ventures and net negative changes in various components of working capital in the amount of \$5,782. Net negative changes in working capital included increases in prepaid expenses of \$844 and decreases in accounts payable, customer advances and accrued expenses and other liabilities of \$5,086, \$2,859 and \$3,347, respectively. These negative changes in working capital were partially offset by decreases in restricted cash, accounts receivable and inventories of \$386, \$1,237 and \$4,731, respectively.

*Cash flows from investing activities*

Net cash flows used by investing activities for the first six months of 2009 totaled \$2,208 and consisted almost entirely of capital expenditures.

Net cash flows used by investing activities for the first six months of 2008 totaled \$4,172 and consisted almost entirely of capital expenditures.

*Cash flows from financing activities*

Net cash flows used in financing activities for the first half of 2009 were \$3,835, which consisted primarily of \$3,885 in required prepayments of term loans under our syndicated credit agreement from excess cash flow that we generated in fiscal year 2008, \$438 in principal payments on Nord LB term loans and payment on capital lease obligations of \$102. These uses of cash flow were slightly offset by net borrowings on bank lines of credit of \$143 and \$373 in net proceeds from the issuance of common stock relating to the exercise of stock options.

Net cash flows provided by financing activities for the first six months of 2008 were \$11,145, which consisted primarily of net borrowings on bank lines of credit of \$12,081 and \$240 in net proceeds from the issuance of common stock relating to the exercise of stock options. These sources of cash flow were partially offset by a final principal payment on a term loan with French bank of \$443, a \$542 principal payment on a Nord LB term loan, payments of deferred debt issuance costs of \$140 and payment on capital lease obligations of \$216.

*Payment of Dividends*

On June 8, 2009, our board of directors declared a quarterly cash dividend of \$.04 per share which was paid on July 15, 2009. The dividend totaled \$513 and was payable to shareholders of record as of June 30, 2009. We paid an annual cash dividend in 2008 of \$0.15 per share.

We may continue to pay quarterly dividends in the future subject to capital availability and periodic determinations that cash dividends are in compliance with our debt covenants and are in the best interests of our stockholders, but we cannot assure you that such payments will continue. Future dividends may be affected by, among other items, our views on potential future capital requirements, future business prospects, debt

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

covenant compliance, changes in federal income tax laws, or any other factors that our board of directors deems relevant. Any decision to pay cash dividends is and will continue to be at the discretion of board of directors.

### **Critical Accounting Policies**

Our historical consolidated financial statements and notes to our historical consolidated financial statements contain information that is pertinent to our management's discussion and

Table of Contents

analysis of financial condition and results of operations. Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that our management make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. However, the accounting principles used by us generally do not change our reported cash flows or liquidity. Interpretation of the existing rules must be done and judgments made on how the specifics of a given rule apply to us.

In management's opinion, the more significant reporting areas impacted by management's judgments and estimates are revenue recognition, asset impairments, inventory valuation and impact of foreign currency exchange rate risks. Management's judgments and estimates in these areas are based on information available from both internal and external sources, and actual results could differ from the estimates, as additional information becomes known. We believe the following to be our most critical accounting policies.

*Revenue recognition*

**Sales of clad metal products and welding services are generally based upon customer specifications set forth in customer purchase orders and require us to provide certifications relative to metals used, services performed and the results of any non-destructive testing that the customer has requested be performed. All issues of conformity of the product to specifications are resolved before the product is shipped and billed. Products related to the oilfield products segment, which include detonating cords, detonators, bi-directional boosters and shaped charges, as well as, seismic related explosives and accessories, are standard in nature. In all cases, revenue is recognized only when all four of the following criteria have been satisfied: persuasive evidence of an arrangement exists; the price is fixed or determinable; delivery has occurred; and collection is reasonably assured. For contracts that require multiple shipments, revenue is recorded only for the units included in each individual shipment. If, as a contract proceeds toward completion, projected total cost on an individual contract indicates a probable loss, the Company will account for such anticipated loss.**

*Asset impairments*

We review our long-lived assets to be held and used by us for impairment whenever events or changes in circumstances indicate their carrying amount may not be recoverable. In so doing, we estimate the future net cash flows expected to result from the use of these assets and their eventual disposition. If the sum of the expected future net cash flows (undiscounted and without interest charges) is less than the carrying amount of these assets, an impairment loss is recognized to reduce the asset to its estimated fair value. Otherwise, an impairment loss is not recognized. Long-lived assets to be disposed of, if any, are reported at the lower of carrying amount or fair value less costs to sell.

*Business Combinations*

We accounted for our business acquisition in accordance with the provisions of SFAS No. 141, *Business Combinations*, using the purchase method of accounting. We allocated the total cost of the acquisition to the underlying net assets based on their respective estimated fair values. As part of this allocation process, we identified and attributed values and estimated lives to the intangible assets acquired. These determinations involved significant estimates and assumptions regarding multiple, highly subjective variables, including those with respect to future cash flows, discount rates, asset lives, and the use of different valuation models and therefore required considerable judgment. Our estimates and assumptions were based, in part, on the availability of listed market prices or other transparent market data. These determinations affect the

amount of



Table of Contents

amortization expense recognized in future periods. We based our fair value estimates on assumptions we believe to be reasonable but are inherently uncertain.

Effective January 1, 2009 we will account for business acquisitions in accordance with SFAS No. 141 (Revised), *Business Combinations* ( SFAS 141R ). SFAS 141R, which applies prospectively to business acquisitions with a closing date following the effective date, significantly changes the financial accounting and reporting of business combinations.

*Goodwill and Other Intangible Assets*

We review the carrying value of goodwill at least annually to assess impairment because it is not amortized. Additionally, we review the carrying value of any intangible asset or goodwill whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Examples of such events or changes in circumstances, many of which are subjective in nature, include significant negative industry or economic trends, significant changes in the manner of our use of the acquired assets or our strategy, a significant decrease in the market value of the asset, and a significant change in legal factors or in the business climate that could affect the value of the asset. We assess impairment by comparing the fair value of an identifiable intangible asset or goodwill with its carrying value. The determination of fair value involves significant management judgment as described further below. Impairments are expensed when incurred. Specifically, we test for impairment as follows:

*Goodwill*

In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ), we test goodwill for impairment on a reporting unit level as defined by reference to SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, on at least an annual basis. A reporting unit is a group of businesses (i) for which discrete financial information is available and (ii) that have similar economic characteristics. We test goodwill for impairment using the following two-step approach:

The first step is a comparison of each reporting unit's fair value to its carrying value. We estimate fair value using the best information available, including market information and discounted cash flow projections, also referred to as the income approach. The income approach uses a reporting unit's projection of estimated operating results and cash flows that is discounted using a weighted-average cost of capital that reflects current market conditions. The projections incorporate our best estimates of economic and market conditions over the projected period including growth rates in sales and estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements. We validate our estimates of fair value under the income approach by comparing the values to fair value estimates using a market approach.

If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist, and the second step must be performed to measure the amount of impairment loss. In the second step, we allocate the fair value of the reporting unit to the assets and liabilities of the reporting unit as if it had just been acquired in a business combination and as if the purchase price was equivalent to the fair value of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. We then compare that implied fair value of the reporting unit's goodwill to the carrying value of that goodwill. If the implied fair value is less than the carrying value, we recognize an impairment loss for the excess.



Table of Contents

Our impairment testing in the fourth quarter of 2008 did not result in a determination that any of our goodwill was impaired; however, the passing margin of the first step of our goodwill impairment testing relative to the Oilfield Products reporting unit as of December 31, 2008 was minimal (estimated fair value was less than 10% greater than the carrying value). Future impairment is possible and will occur if (i) the unit's operating results underperform what we have estimated or (ii) additional volatility of the capital markets cause us to raise the 16 percent discount rate utilized in our discounted cash flow analysis or decrease the multiples utilized in our market-based analysis. We did not observe any indicators in the quarter ended June 30, 2009 that would necessitate interim impairment testing of goodwill.

The use of different estimates or assumptions within our discounted cash flow model when determining the fair value of our reporting units or using methodologies other than as described above could result in different values for reporting units and could result in an impairment charge.

*Intangible assets subject to amortization*

An intangible asset that is subject to amortization is reviewed when impairment indicators are present in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. We compare the expected undiscounted future operating cash flows associated with finite-lived assets to their respective carrying values to determine if the asset is fully recoverable. If the expected future operating cash flows are not sufficient to recover the carrying value, we estimate the fair value of the asset. Impairment is recognized when the carrying amount of the asset is not recoverable and when the carrying value exceeds fair value. The projected cash flows require several assumptions related to, among other things, relevant market factors, revenue growth, if any, and operating margins.

*Impact of foreign currency exchange rate risks*

The functional currency for our foreign operations is the applicable local currency for each affiliate company. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated at exchange rates in effect at period-end, and the statements of operations are translated at the average exchange rates during the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded as a separate component of stockholders' equity and are included in other cumulative comprehensive income (loss). Transactions denominated in currencies other than the local currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. As a result, amounts related to assets and liabilities reported in the consolidated statements of cash flows will not agree to changes in the corresponding balances in the consolidated balance sheets. The effects of exchange rate changes on cash balances held in foreign currencies are reported as a separate line item below cash flows from financing activities.

*Income taxes*

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ( SFAS 109 ), which requires the recognition of deferred tax assets and deferred tax liabilities for the expected future income tax consequences of transactions that have been included in our financial statements but not our tax returns. Deferred tax assets and liabilities are determined based on income tax credits and on the temporary differences between the Consolidated Financial Statement basis and the tax basis of assets and



Table of Contents

liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. We routinely evaluate deferred tax assets to determine if they will, more likely than not, be recovered from future projected taxable income; if not, we record an appropriate valuation allowance.

**Recent Accounting Pronouncements**

**In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements*, an amendment of ARB No. 51. These new standards significantly changed the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements on January 1, 2009 and were required to be adopted simultaneously. The adoption of these standards in 2009 did not have any impact on the Company's results of operations or financial position.**

**In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS 161 requires additional disclosures related to the use of derivative instruments, the accounting for derivatives and how derivatives impact financial statements on January 1, 2009. The adoption of SFAS No. 161 in 2009 did not have any impact on the Company's results of operations or financial position.**

In April 2009, the FASB issued FASB Staff Position ( FSP ) FAS 107-1 and Accounting Principles Board Opinion ( APB ) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ( FSP FAS 107-1 ). The FSP amends FAS 107, *Disclosures about Fair Value of Financial Instruments*, and APB 28, *Interim Financial Reporting*, to require disclosures about fair value of financial instruments for interim financial statements of publicly traded companies. FSP FAS 107-1 is effective for interim reporting periods ending after June 15, 2009. The adoption of FSP FAS 107-1 in the second quarter of 2009 did not have any impact on the Company's results of operations or financial position.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 is effective for financial statements issued for fiscal years and interim periods beginning after June 15, 2009 and will be applied prospectively. The Company has adopted SFAS 165 in the periods ended June 30, 2009 and has evaluated for subsequent events through July 31, 2009, the issuance date of the Company's consolidated financial statements. No recognized or non-recognized subsequent events were noted.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. SFAS 168 will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles ( GAAP ), superseding existing FASB, American Institute of Certified Public Accountants ( AICPA ), Emerging Issues Task Force ( EITF ), and related accounting literature. SFAS 168 reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange



Table of Contents

Commission guidance organized using the same topical structure in separate sections. SFAS 168 will be effective for financial statements issued for reporting periods that end after September 15, 2009. This will have an impact on the notes to the Company's financial statements since all future references to authoritative accounting literature will be references in accordance with SFAS 168.

**ITEM 3. Quantitative and Qualitative Disclosure about Market Risk**

There have been no events that materially affect our quantitative and qualitative disclosure about market risk from that reported in our Annual Report on Form 10-K for the year ended December 31, 2008.

**ITEM 4. Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is accurately recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of June 30, 2009, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. There have been no changes in the Company's internal controls during the quarter ended June 30, 2009 or in other factors that could materially affect the Company's internal controls over financial reporting.

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls or its internal controls will prevent all errors and all fraud. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. As a result 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 breakdowns can occur because of simple errors or mistakes. As a result of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, the Company's disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the disclosure controls and procedures are met.

Table of Contents

**Part II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

Our 2008 Annual Report on Form 10-K includes a detailed discussion of our risk factors. The information presented below updates and should be read in conjunction with the risk factors and information disclosed in our Form 10-K.

**We have seen a recent slowdown in some of our markets and anticipate sales will decline during 2009.**

During the fourth quarter of 2008 and first half of 2009, we have seen a slowdown in our Explosive Metalworking sales to some of the markets we serve and anticipate our sales to decrease by approximately 28% to 32% for the full year in 2009 from the amount we achieved in 2008. The explosion-weld cladding market is dependent upon sales of products for use by customers in a limited number of heavy industries, including oil and gas, alternative energy, chemicals and petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, and industrial refrigeration. These industries tend to be cyclical in nature and the current worldwide economic downturn has affected many of these markets. Indeed, we have already seen a slowdown in the chemical, petrochemical and hydrometallurgy sectors. An economic slowdown in one or all of these industries - whether due to traditional cyclicality, general economic conditions or other factors - could impact capital expenditures within the industry. If demand from such industries were to decline or to experience reduced growth rates, our sales would be expected to be affected proportionately, which may have a material adverse effect on our business, financial condition, and results of operations.

**Our backlog figures may not accurately predict future sales.**

We define backlog at any given point in time to consist of all firm, unfulfilled purchase orders and commitments at that time. Generally speaking, we expect to fill most items of backlog within the following 12 months. However, since orders may be rescheduled or canceled, and a significant portion of our net sales is derived from a small number of customers, backlog is not necessarily indicative of future sales levels. Moreover, we cannot be sure of when during the future 12-month period we will be able to recognize revenue corresponding to our backlog; nor can we be certain that revenues corresponding to our backlog will not fall into periods beyond the 12-month horizon.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**



None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

The Company's Annual Meeting of Stockholders was held on June 4, 2009. At the Annual Meeting, the stockholders of the Company (i) elected the persons listed below to serve as

Table of Contents

directors of the Company until the 2010 Annual Meeting of Stockholders (ii) approved the Company's Short Term Incentive Plan and (iii) ratified the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009.

The Company had 12,751,127 shares of Common Stock outstanding as of April 13, 2009, the record date for the Annual Meeting. At the Annual Meeting, holders of a total of 11,511,637 shares of Common Stock were present in person or represented by proxy. The following sets forth information regarding the results of the voting at the Annual Meeting:

Proposal 1

<b>Election of Directors</b>	<b>Shares Voted For</b>	<b>Shares Withheld</b>
Dean K. Allen	9,213,676	2,297,961
Yvon Pierre Cariou	11,288,703	222,934
Bernard Hueber	9,132,739	2,378,898
Gerard Munera	9,248,054	2,263,583
Richard P. Graff	11,187,117	324,520
Rolf Rospek	10,719,258	792,379

Proposal 2 To approve the Company's Short Term Incentive Plan

<b>Shares Voted For</b>	<b>Shares Voted Against</b>	<b>Shares Voted Abstain</b>	<b>Non-votes</b>
7,435,676	385,832	12,567	3,677,562

Proposal 3 To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009.

<b>Shares Voted For</b>	<b>Shares Voted Against</b>	<b>Shares Voted Abstain</b>
11,295,229	140,022	76,386

**Item 5. Other Information**

None.

**Item 6.**

**Exhibits**

31.1 Certification of the President and Chief Executive Officer pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Table of Contents

31.2 Certification of the Vice President and Chief Financial Officer pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**DYNAMIC MATERIALS CORPORATION**  
(Registrant)

Date: July 31, 2009

/s/ Richard A. Santa  
Richard A. Santa, Senior Vice President and Chief Financial Officer  
(Duly Authorized Officer and Principal Financial and Accounting  
Officer)

41

---