

DYNAMIC MATERIALS CORP
Form 10-Q
November 01, 2011
[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 September 30, 2011

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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 13,353,639 as of November 1, 2011.

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: changes in global economic conditions; 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; our ability to successfully integrate acquired businesses; 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>Condensed Consolidated Balance Sheets as of September 30, 2011 (unaudited) and December 31, 2010</u>	4
	<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010 (unaudited)</u>	6
	<u>Condensed Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2011 (unaudited)</u>	7
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 (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>	21
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosure about Market Risk</u>	35
<u>Item 4</u>	<u>Controls and Procedures</u>	35

PART II - OTHER INFORMATION

<u>Item 1</u>	<u>Legal Proceedings</u>	35
<u>Item 1A</u>	<u>Risk Factors</u>	35
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>	36
<u>Item 4</u>	<u>[Removed and Reserved]</u>	36
<u>Item 5</u>	<u>Other Information</u>	36
<u>Item 6</u>	<u>Exhibits</u>	36
	<u>Signatures</u>	37

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

(Dollars in Thousands)

	September 30, 2011 (unaudited)	December 31, 2010
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,116	\$ 4,572
Accounts receivable, net of allowance for doubtful accounts of \$597 and \$378, respectively	34,751	27,567
Inventories	46,917	35,880
Prepaid expenses and other	4,825	3,659
Current deferred tax assets	1,560	1,057
Total current assets	92,169	72,735
PROPERTY, PLANT AND EQUIPMENT	70,468	66,734
Less - accumulated depreciation	(30,256)	(26,928)
Property, plant and equipment, net	40,212	39,806
GOODWILL, net	39,546	39,173
PURCHASED INTANGIBLE ASSETS, net	45,158	48,490
DEFERRED TAX ASSETS	842	248
OTHER ASSETS, net	664	941
TOTAL ASSETS	\$ 218,591	\$ 201,393

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 and Per Share Data)

	September 30, 2011 (unaudited)	December 31, 2010
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 16,425	\$ 16,109
Accrued expenses	4,016	3,529
Dividend payable	534	529
Accrued income taxes	930	477
Accrued employee compensation and benefits	4,497	3,711
Customer advances	2,756	1,531
Lines of credit	6,553	2,621
Current maturities on long-term debt	9,405	9,596
Current portion of capital lease obligations	120	272
Current deferred tax liabilities	3	17
Total current liabilities	45,239	38,392
LONG-TERM DEBT	14,131	14,579
CAPITAL LEASE OBLIGATIONS	84	155
DEFERRED TAX LIABILITIES	10,917	12,083
OTHER LONG-TERM LIABILITIES	1,194	1,100
Total liabilities	71,565	66,309
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.05 par value; 4,000,000 shares authorized; no issued and outstanding shares		
Common stock, \$0.05 par value; 25,000,000 shares authorized; 13,353,639 and 13,224,696 shares issued and outstanding, respectively	667	661
Additional paid-in capital	54,970	52,451
Retained earnings	95,501	88,210
Other cumulative comprehensive loss	(4,212)	(6,398)
Total Dynamic Materials Corporation's stockholders' equity	146,926	134,924
Noncontrolling interest	100	160
Total stockholders' equity	147,026	135,084
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 218,591	\$ 201,393

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 NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010(Dollars in Thousands, Except Share Data)(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
NET SALES	\$ 54,890	\$ 41,298	\$ 154,630	\$ 109,913
COST OF PRODUCTS SOLD	40,058	30,445	114,023	82,819
Gross profit	14,832	10,853	40,607	27,094
COSTS AND EXPENSES:				
General and administrative expenses	4,359	3,487	12,227	9,990
Selling and distribution expenses	3,359	3,047	10,997	7,918
Amortization of purchased intangible assets	1,448	1,376	4,324	3,913
Total costs and expenses	9,166	7,910	27,548	21,821
INCOME FROM OPERATIONS	5,666	2,943	13,059	5,273
OTHER INCOME (EXPENSE):				
Gain on step acquisition of joint ventures				2,117
Other income (expense), net	(9)	(433)	(348)	(402)
Interest expense	(326)	(667)	(1,222)	(2,473)
Interest income	1	6	4	71
Equity in earnings of joint ventures				255
INCOME BEFORE INCOME TAXES	5,332	1,849	11,493	4,841
INCOME TAX PROVISION	1,072	540	2,637	891
NET INCOME	4,260	1,309	8,856	3,950
Less: Net loss attributable to noncontrolling interest	(13)	(17)	(36)	
NET INCOME ATTRIBUTABLE TO DYNAMIC MATERIALS CORPORATION	\$ 4,273	\$ 1,326	\$ 8,892	\$ 3,950
INCOME PER SHARE:				
Basic	\$ 0.32	\$ 0.10	\$ 0.67	\$ 0.30
Diluted	\$ 0.32	\$ 0.10	\$ 0.67	\$ 0.30
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	13,065,397	12,939,274	13,060,009	12,807,826
Diluted	13,072,076	12,951,397	13,069,765	12,820,508

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

DIVIDENDS DECLARED PER COMMON SHARE	\$	0.04	\$	0.04	\$	0.12	\$	0.12
-------------------------------------	----	------	----	------	----	------	----	------

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

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITYFOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011(Amounts in Thousands)

	Dynamic Materials Corporation Stockholders					Other Cumulative Comprehensive Loss	Non- Controlling Interest	Total
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings				
Balances, December 31, 2010	13,225	\$ 661	\$ 52,451	\$ 88,210	\$ (6,398)	\$ 160	\$ 135,084	
Comprehensive income:								
Net income				8,892		(36)	8,856	
Change in cumulative foreign currency translation adjustment					2,186	(66)	2,120	
Comprehensive income						(102)	10,976	
Shares issued in connection with stock compensation plans	129	6	93				99	
Tax impact of stock-based compensation			(109)				(109)	
Stock-based compensation			2,535				2,535	
Dividends declared				(1,601)			(1,601)	
Contribution from noncontrolling stockholder						42	42	
Balances, September 30, 2011	13,354	\$ 667	\$ 54,970	\$ 95,501	\$ (4,212)	\$ 100	\$ 147,026	

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 NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(Dollars in Thousands)

(unaudited)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income including noncontrolling interest	\$ 8,856	\$ 3,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation (including capital lease amortization)	4,183	3,908
Amortization of purchased intangible assets	4,324	3,913
Amortization of capitalized debt issuance costs	261	489
Stock-based compensation	2,535	2,537
Deferred income tax benefit	(1,904)	(953)
Equity in earnings of joint ventures		(255)
Gain on step acquisition of joint ventures		(2,117)
Loss on disposal of property, plant and equipment	69	
Change in:		
Accounts receivable, net	(7,311)	2,465
Inventories	(11,267)	1,198
Prepaid expenses and other	(1,210)	321
Accounts payable	680	(2,075)
Customer advances	1,278	(1,327)
Accrued expenses and other liabilities	1,764	(1,800)
Net cash provided by operating activities	2,258	10,254
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Austin Explosives Company		(3,620)
Step acquisition of joint ventures, net of cash acquired		(2,065)
Acquisition of property, plant and equipment	(4,364)	(2,309)
Change in other non-current assets	20	(59)
Net cash used in investing activities	(4,344)	(8,053)

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 NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010(Dollars in Thousands)(unaudited)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on syndicated term loans		(15,374)
Payment on Nord LB term loans	(633)	(593)
Borrowings on bank lines of credit, net	3,999	4,682
Payment on capital lease obligations	(233)	(215)
Payment of dividends	(1,596)	(1,561)
Contribution from noncontrolling stockholder	42	
Net proceeds from issuance of common stock to employees and directors	99	70
Tax impact of stock-based compensation	(109)	(639)
Net cash provided by (used in) financing activities	1,569	(13,630)
EFFECTS OF EXCHANGE RATES ON CASH	61	115
NET DECREASE IN CASH AND CASH EQUIVALENTS	(456)	(11,314)
CASH AND CASH EQUIVALENTS, beginning of the period	4,572	22,411
CASH AND CASH EQUIVALENTS, end of the period	\$ 4,116	\$ 11,097

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

(Currency Amounts 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 our Annual Report filed on Form 10-K for the year ended December 31, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Dynamic Materials Corporation (DMC) 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 subsidiaries where we do not have a controlling interest. Currently, we have controlling interests in all of our subsidiaries. All significant intercompany accounts, profits, and transactions have been eliminated in consolidation.

Foreign Operations and Foreign Exchange Rate Risk

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

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

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.

In September 2010, our German subsidiary, DYNAenergetics, entered into a currency swap agreement with its bank to economically hedge the currency risk associated with a large U.S. dollar order (\$2,700) that was awarded to it. Under the agreement, DYNAenergetics exchanged \$2,700 for Euros at an exchange rate of 1.269 U.S. dollars per Euros between January 18, 2011 and April 30, 2011. We did not designate this derivative as a cash flow hedge for accounting purposes and as such, gains and losses related to changes in its valuation were recorded in the

Table of Contents

statement of operations. During the nine months ended September 30, 2011, we recorded a gain on this currency swap agreement of \$87. During the three and nine months ended September 30, 2010, we recorded a gain on this currency swap agreement of \$185. The gain is classified as other income (expense), net in our statement of operations.

In September 2011, DYNAenergetics entered into a new currency hedging arrangement with its bank to hedge its risk on a new order of \$2,500 which is similar to the order described above. This hedge agreement, which expires on February 2, 2012, allows DYNAenergetics to sell \$2,500 for Euros at an exchange rate of 1.425 U.S. Dollars per Euros if the market exchange rate is under 1.295 or above 1.425 at the time of settlement. If the market rate upon settlement is between 1.295 and 1.425, the market rate is used. The only exception to this would be if the market exchange rate drops below 1.295 any time prior to settlement, the rate used upon settlement will be 1.425 even if the exchange rate subsequently rises back above 1.295 prior to settlement. We did not designate this derivative as a cash flow hedge for accounting purposes and as such, gains and losses related to changes in its valuation will be recorded in the statement of operations. The fair value of the instrument at September 30, 2011 and the change in fair value of this hedge from its inception to September 30, 2011 were immaterial.

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, we will account for such anticipated loss.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade accounts receivable and payable, and accrued expenses are considered to approximate fair value due to the short-term nature of these instruments. We estimate that a hypothetical 100 basis point decrease in our LIBOR/EURIBOR basis borrowing spread would increase the fair value of our long-term debt at September 30, 2011 by less than 2%. The majority of our debt was incurred in connection with the 2007 acquisition of DYNAenergetics.

Additionally, we had a foreign currency hedge agreement that we entered in September 2010 (see above), which was recorded at fair value. With regard to the currency hedge agreement entered into in September 2011, the fair value of the instrument at September 30, 2011 and the change in fair value from its inception to September 30, 2011 were immaterial. Fair value is defined 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. We are required to use an established 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:

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

- Level 1 Inputs to the valuation based upon quoted prices (unadjusted) for identical assets

Table of Contents

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 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.

The highest priority is assigned to Level 1 inputs and the lowest priority to Level 3 inputs.

Our foreign currency hedge agreement, which expired on April 30, 2011, was not exchange listed and was therefore valued with models that use Level 2 inputs. At December 31, 2010, the fair value of the foreign currency hedge was \$118 and was recorded in prepaid expenses and other on the balance sheet.

Related Party Transactions

Prior to acquiring the remaining outstanding interests in our unconsolidated joint ventures on April 30, 2010 (See Note 3), we had related party transactions with these joint ventures. A summary of related party transactions for the nine months ended September 30, 2010 is summarized below:

	Sales to		Interest income from	
DYNAenergetics RUS	\$	663	\$	
Perfoline		19		13
Total	\$	682	\$	13

Income Taxes

The effective tax rate for each of the periods reported differs from the U.S. statutory rate due primarily to favorable foreign permanent differences and differences between the U.S. and foreign tax rates (which range from 19% to 33%) on earnings that have been permanently reinvested.

Earnings Per Share

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) and require the use of the two class method for calculating EPS. Under this method, 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.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Table of Contents

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

	For the Three Months Ended September 30, 2011			For the Three Months Ended September 30, 2010		
	Income	Shares	EPS	Income	Shares	EPS
Basic earnings per share:						
Net income attributable to DMC	\$ 4,273			\$ 1,326		
Less income allocated to RSAs	(92)			(26)		
Net income allocated to common stock for EPS calculation	\$ 4,181	13,065,397	\$ 0.32	\$ 1,300	12,939,274	\$ 0.10
Adjust shares for dilutives:						
Stock-based compensation plans		6,679			12,123	
Diluted earnings per share:						
Net income attributable to DMC	\$ 4,273			\$ 1,326		
Less income allocated to RSAs	(92)			(26)		
Net income allocated to common stock for EPS calculation	\$ 4,181	13,072,076	\$ 0.32	\$ 1,300	12,951,397	\$ 0.10
For the Nine Months Ended September 30, 2011						
	Income	Shares	EPS	Income	Shares	EPS
Basic earnings per share:						
Net income attributable to DMC	\$ 8,892			\$ 3,950		
Less income allocated to RSAs	(192)			(79)		
Net income allocated to common stock for EPS calculation	\$ 8,700	13,060,009	\$ 0.67	\$ 3,871	12,807,826	\$ 0.30
Adjust shares for dilutives:						
Stock-based compensation plans		9,756			12,682	
Diluted earnings per share:						
Net income attributable to DMC	\$ 8,892			\$ 3,950		
Less income allocated to RSAs	(192)			(79)		
Net income allocated to common stock for EPS calculation	\$ 8,700	13,069,765	\$ 0.67	\$ 3,871	12,820,508	\$ 0.30

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-5, *Presentation of Comprehensive Income*, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendment should be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We do not anticipate a material impact from this update.

Table of Contents

On September 15, 2011 the FASB issued a revised accounting standard intended to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendment will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted.

3. ACQUISITIONSAustin Explosives

On June 4, 2010, we completed our acquisition of Austin Explosives Company (AECO), which is now operating under the name DYNAenergetics US, Inc. This business is part of our Oilfield Products business segment. AECO had been a long-time distributor of DYNAenergetics shaped charges. This acquisition, along with the acquisition of the outstanding interests in our Russian joint ventures (discussed below), further expands our Oilfield Products business, and positions the segment to capitalize on the long-term demand from the oil and gas industry.

The acquisition was structured as an asset purchase valued at \$6,921 which was financed by (i) the payment of \$3,620 in cash and (ii) the issuance of 222,445 shares of DMC common stock (valued at \$3,301).

The purchase price of the acquisition was allocated to tangible and identifiable intangible assets based on their fair values as determined by appraisals performed as of the acquisition date. The allocation of the purchase price to the assets of AECO was as follows:

Current assets	\$	5,792
Property, plant and equipment		368
Intangible assets		4,773
Deferred tax assets		7
Other assets		81
Total assets acquired		11,021
Current liabilities		4,100
Total liabilities assumed		4,100
Net assets acquired	\$	6,921

We acquired identifiable finite-lived intangible assets as a result of the acquisition of AECO. The finite-lived intangible assets acquired were classified as customer relationships, were valued at \$4,773, and are being amortized over 11 years. These amounts are included in Purchased Intangible Assets and are further discussed in Note 7.

Russian Joint Ventures

On April 30, 2010, we purchased the outstanding non-controlling interests in our two Russian joint ventures that were previously majority-owned by our Oilfield Products business segment. These joint ventures include DYNAenergetics RUS, which is a Russian trading company that sells our oilfield products, and Perfoline, which is a Russian manufacturer of perforating gun systems. We paid a combined \$2,065 for the respective 45% and 34.81% outstanding stakes in

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Table of Contents

DYNAenergetics RUS and Perfoline. Prior to the acquisition date, we accounted for our 55% and 65.19% interest in DYNAenergetics RUS and Perfoline, respectively, as equity-method investments (see Note 4).

Appraisals performed as of the acquisition date resulted in a new fair value of the combined entities of \$5,598 which was allocated to our tangible and identifiable intangible assets as follows:

Current assets	\$	5,243
Property, plant and equipment		411
Intangible assets		3,669
Deferred tax assets		12
Other assets		56
Total assets acquired		9,391
Line of credit		36
Other current liabilities		2,547
Deferred tax liabilities		813
Other long term liabilities		397
Total liabilities assumed		3,793
Net assets acquired	\$	5,598

We acquired identifiable finite-lived intangible assets as a result of acquiring the remaining interests of DYNAenergetics RUS and Perfoline. The finite-lived intangible assets acquired were classified as customer relationships, were valued at \$3,669, and are being amortized over 11 years. These amounts are included in Purchased Intangible Assets and are further discussed in Note 7.

Pro Forma Statement of Operations

The following table presents the pro-forma combined results of operations for the nine months ended September 30, 2010 assuming (i) the acquisitions of AECO and the Russian joint ventures had occurred on January 1, 2010; (ii) pro-forma amortization expense of the purchased intangible assets; (iii) pro-forma depreciation expense of the fair value of purchased property, plant and equipment; (iv) elimination of intercompany sales; and (v) increase in interest expense for borrowing 1,500 Euros (\$2,155 based on the January 1, 2010 exchange rate) to fund the acquisition of the Russian joint ventures:

	2010	
Net sales	\$	117,202
Income from operations	\$	5,620
Net income attributable to DMC	\$	3,852
Net income per share:		
Basic	\$	0.29
Diluted	\$	0.29

The pro-forma results above are not necessarily indicative of the operating results that would have actually occurred if the acquisitions had been in effect on the dates indicated, nor are they necessarily indicative of future results of the combined companies.

Table of Contents**4. INVESTMENT IN JOINT VENTURES**

As discussed in Note 3, on April 30, 2010 we acquired the remaining non-controlling interests in two joint ventures that were previously majority-owned by our Oilfield Products business segment. Prior to the April 30, 2010 step acquisition, these investments, which include DYNAenergetics RUS and Perfoline, were accounted for under the equity method due to certain non-controlling interest veto rights that allowed the non-controlling interest shareholders to participate in the ordinary course of business decisions. Operating results from January 1, 2010 through April 30, 2010 include our proportionate share of income from these unconsolidated joint ventures and for the nine months ended September 30, 2010 our results include equity in earnings of joint ventures of \$255. As a result of the step acquisition, we now consolidate the financial statements of these entities.

Summarized unaudited financial information for the joint ventures accounted for under the equity method for the nine months ended September 30, 2010 is as follows:

	Nine Months Ended September 30, 2010 (a)	
Net sales	\$	2,575
Gross Profit	\$	656
Operating income	\$	302
Net income	\$	468

(a) Represents operating results through April 30, 2010

5. INVENTORY

The components of inventory are as follows at September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
Raw materials	\$	15,181	\$	12,001
Work-in-process		13,801		11,387
Finished goods		16,937		11,870
Supplies		998		622
	\$	46,917	\$	35,880

Table of Contents**6. GOODWILL**

The changes to the carrying amount of goodwill during the period are summarized below:

	Explosive Metalworking Group	Oilfield Products	Total
Goodwill balance at December 31, 2010	\$ 22,458	\$ 16,715	\$ 39,173
Adjustment due to recognition of tax benefit of tax amortization of certain goodwill	(265)	(378)	(643)
Adjustment due to exchange rate differences	570	446	1,016
Goodwill balance at September 30, 2011	\$ 22,763	\$ 16,783	\$ 39,546

7. PURCHASED INTANGIBLE ASSETS

The following table presents details of our purchased intangible assets, other than goodwill, as of September 30, 2011:

	Gross	Accumulated Amortization	Net
Core technology	\$ 23,121	\$ (4,458)	\$ 18,663
Customer relationships	39,641	(14,342)	25,299
Trademarks / Trade names	2,479	(1,283)	1,196
Total intangible assets	\$ 65,241	\$ (20,083)	\$ 45,158

The following table presents details of our purchased intangible assets, other than goodwill, as of December 31, 2010:

	Gross	Accumulated Amortization	Net
Core technology	\$ 22,557	\$ (3,497)	\$ 19,060
Customer relationships	39,052	(10,930)	28,122
Trademarks / Trade names	2,416	(1,108)	1,308
Total intangible assets	\$ 64,025	\$ (15,535)	\$ 48,490

The change in the gross value of our purchased intangible assets from December 31, 2010 to September 30, 2011 is due solely to the impact of foreign currency translation adjustments.

8. CUSTOMER ADVANCES

On occasion, we require customers to make advance payments prior to the shipment of their orders in order to help finance our inventory investment on large orders or to keep customers' credit limits at acceptable levels. As of September 30, 2011 and December 31, 2010, customer advances totaled \$2,756 and \$1,531 respectively, and originated from several customers.

Table of Contents**9. DEBT**

Lines of credit consisted of the following at September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010
Syndicated credit agreement revolving loan	\$ 3,807	\$	1,060
Commerzbank line of credit	1,355		
Nord LB line of credit	1,391		1,561
	\$ 6,553	\$	2,621

Long-term debt consisted of the following at September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010
Syndicated credit agreement term loan	\$ 22,247	\$	22,247
Nord LB 3,000 Euro term loan			596
Loans with former owners of LRI	1,289		1,332
	23,536		24,175
Less current maturities	(9,405)		(9,596)
Long-term debt	\$ 14,131	\$	14,579

Loan Covenants and Restrictions

Our 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. On February 2, 2011, our credit facility was amended, retroactive to December 31, 2010, to revise the leverage ratios and fixed charge coverage ratios that we are required to satisfy on a quarterly basis throughout the remaining term of the credit facility. These revised ratios will ease our ability to comply with certain covenants of the credit agreement. As of September 30, 2011, we were in compliance with all financial covenants and other provisions of our debt agreements.

10. BUSINESS SEGMENTS

Our business 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 product of this group is clad metal which is used in the fabrication of pressure vessels, heat exchangers, and transition joints for various industries, including upstream oil and gas, oil refinery, petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

refrigeration, and similar 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 included herein and in our Annual Report on Form 10-K for the year ended December 31, 2010. Our reportable segments are separately managed strategic

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Table of Contents

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.

Beginning in 2011, we changed our methodology of allocating corporate overhead to our business segments. In connection with this change we no longer allocate certain corporate expenses that do not directly benefit our business segments. The business segment disclosure for the three and nine months ended September 30, 2010 presented below reflects our new allocation methodology.

Segment information is presented for the three and nine months ended September 30, 2011 and 2010 as follows:

	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the three months ended September 30, 2011:				
Net sales	\$ 33,396	\$ 18,790	\$ 2,704	\$ 54,890
Depreciation and amortization	\$ 1,466	\$ 1,399	\$ 138	\$ 3,003
Income from operations	\$ 4,599	\$ 1,881	\$ 572	\$ 7,052
Unallocated amounts:				
Corporate expenses				(514)
Stock-based compensation				(872)
Other expense				(9)
Interest expense				(326)
Interest income				1
Consolidated income before income taxes				\$ 5,332

	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the three months ended September 30, 2010:				
Net sales	\$ 24,925	\$ 13,208	\$ 3,165	\$ 41,298
Depreciation and amortization	\$ 1,608	\$ 1,152	\$ 120	\$ 2,880
Income from operations	\$ 1,905	\$ 1,604	\$ 881	\$ 4,390
Unallocated amounts:				
Corporate expenses				(613)
Stock-based compensation				(834)
Other expense				(433)
Interest expense				(667)
Interest income				6
Consolidated income before income taxes				\$ 1,849

	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the nine months ended September 30, 2011:				
Net sales	\$ 95,221	\$ 51,563	\$ 7,846	\$ 154,630
Depreciation and amortization	\$ 4,419	\$ 3,709	\$ 379	\$ 8,507

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Income from operations	\$	11,758	\$	3,964	\$	1,742	\$	17,464
Unallocated amounts:								
Corporate expenses								(1,870)
Stock-based compensation								(2,535)
Other expense								(348)
Interest expense								(1,222)
Interest income								4
Consolidated income before income taxes								
							\$	11,493

Table of Contents

	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the nine months ended September 30, 2010:				
Net sales	\$ 72,921	\$ 28,868	\$ 8,124	\$ 109,913
Depreciation and amortization	\$ 4,340	\$ 3,131	\$ 350	\$ 7,821
Income from operations	\$ 6,228	\$ 1,279	\$ 2,006	\$ 9,513
Equity in earnings of joint ventures	\$	\$ 255	\$	255
Unallocated amounts:				
Corporate expenses				(1,703)
Stock-based compensation				(2,537)
Other income				1,715
Interest expense				(2,473)
Interest income				71
Consolidated income before income taxes				\$ 4,841

During the three months and nine months ended September 30, 2011, no one customer accounted for more than 10% of total net sales. During the three months ended September 30, 2010, no sales to any one customer accounted for more than 10% of total net sales. During the nine months ended September 30, 2010, sales to one customer represented \$11,882 (10.8%) of total net sales.

11. COMPREHENSIVE INCOME (LOSS)

Our comprehensive income (loss) for the three and nine months ended September 30, 2011 and 2010 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income including noncontrolling interest	\$ 4,260	\$ 1,309	\$ 8,856	\$ 3,950
Derivative valuation, net of tax		123		365
Change in cumulative foreign currency translation adjustment	(7,241)	11,259	2,120	(4,342)
Total comprehensive income (loss)	(2,981)	12,691	10,976	(27)
Comprehensive loss attributable to noncontrolling interest	(10)	2	(102)	(10)
Comprehensive income (loss) attributable to DMC	\$ (2,971)	\$ 12,689	\$ 11,078	\$ (17)

Other cumulative comprehensive loss as of September 30, 2011 and December 31, 2010 consisted entirely of currency translation adjustment.

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 our Annual Report filed on Form 10-K for the year ended December 31, 2010.

Unless stated otherwise, all currency amounts in this discussion are presented in thousands (000 \$).

Executive Overview

Our business is organized into three segments: Explosive Metalworking (which we also refer to as DMC Clad), Oilfield Products and AMK Welding. For the nine months ended September 30, 2011, Explosive Metalworking accounted for 62% of our net sales and 67% of our income from operations before consideration of unallocated corporate expenses and stock-based compensation expense, which is not allocated to our business segments. Our Oilfield Products and AMK Welding segments accounted for 33% and 5%, respectively, of our year-to-date 2011 net sales, and 23% and 10%, respectively, of our income from operations before unallocated corporate expenses and stock-based compensation expense.

Our net sales for the nine months ended September 30, 2011 increased by \$44,717, or 40.7%, compared to the same period of 2010. The year-to-year consolidated net sales increase reflects sales increases of \$22,300 (30.6%) for our Explosive Metalworking segment and \$22,695 (78.6%) for our Oilfield Products segment and a sales decrease of \$278 (3.4%) for AMK Welding. Excluding incremental sales of \$5,743 from the acquisition of Austin Explosives on June 4, 2010 and the step acquisition of two Russian joint ventures that was completed on April 30, 2010, our Oilfield Products segment reported an increase of \$16,952 or 58.7% from its year-to-date 2010 net sales. Our consolidated income from operations increased to \$13,059 for the nine months ended September 30, 2011 from \$5,273 in the same period of 2010. This \$7,786 increase reflects increases of \$5,530 and \$2,685 in the operating income reported by our Explosive Metalworking and Oilfield Products segments, respectively, which were partially offset by a decrease in AMK Welding's operating income of \$264 and a net increase in aggregate unallocated corporate expenses and stock-based compensation expense of \$165. Reported consolidated operating income for the nine month periods ended September 30, 2011 and 2010 includes amortization expense of \$4,324 and \$3,913, respectively, relating to purchased intangible assets associated with our acquisitions of DYNAenergetics, DYNAenergetics Canada, DYNAenergetics US, and the Russian joint ventures. We reported net income of \$8,892 for the nine months ended September 30, 2011 compared to \$3,950 for the same period of 2010.

Impact of Current Economic Situation on the Company

We were only minimally impacted in 2008 by the global economic slowdown. However, during 2009 and 2010, we experienced a significant slowdown in Explosive Metalworking sales to some of the markets we serve. The explosion-welded clad plate market is dependent upon sales of products for use by customers in a 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 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 projects. While timing of new order inflow remains difficult to predict,

Table of Contents

our Explosive Metalworking segment has benefited from the modest improvement in 2011 of some of the industries it supplies and we believe that it is well-positioned to further benefit as global economic conditions improve.

Our Explosive Metalworking backlog, which totaled \$97,247 at the end of 2008 before this business segment began to see a significant decline in booking activity, decreased to \$41,154 at September 30, 2010 before rebounding to \$56,539 at December 31, 2010 on strong fourth quarter 2010 booking activity and then decreasing to \$47,123 at September 30, 2011. Based upon our consolidated sales for the nine months ended September 30, 2011, expected fourth quarter shipments from our September 30, 2011 Explosive Metalworking backlog and strong sales trends in our Oilfield Products business segment, we believe that our 2011 consolidated net sales could increase by 31% to 33% from the \$154,739 in consolidated net sales that we reported in 2010.

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, and bidirectional 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.

A significant portion of our revenue is derived from a relatively small number of customers; therefore, the failure to complete existing contracts on a timely basis, to receive payment for such services in a timely manner, or to enter into future contracts at projected volumes and profitability levels could adversely affect our ability to meet cash requirements exclusively through operating activities. We attempt to minimize the risk of losing customers or specific contracts by continually improving product quality, delivering product on time and competing aggressively on the basis of price.

Gross profit and cost of products sold

Cost of products sold for Explosive Metalworking includes 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 includes 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.

Table of Contents*Income taxes*

Our effective income tax rate increased to 22.9% for the nine months ended September 30, 2011 from 18.4% for same period of 2010 and 17.7% for the full year 2010. Income tax provisions on the earnings of Nobelclad, Nitro Metall, Dynaplat, DYNAenergetics, DYNAenergetics Canada, DYNAenergetics RUS, Perfoline, and our German and Luxembourg holding companies have been provided based upon the respective French, Swedish, German, Canadian, Russian and Luxembourg statutory tax rates for the applicable years. Going forward, based upon existing tax regulations and current federal, state and foreign statutory tax rates, we expect our blended effective tax rate on our projected consolidated pre-tax income to range between 25% and 26% in 2011 before returning to normalized level of 28% to 30% in subsequent years.

Backlog

We use backlog as a primary means of measuring the immediate outlook for our Explosive Metalworking 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 \$47,123 at September 30, 2011 from \$56,539 at December 31, 2010 and \$54,026 at June 30, 2011.

Three and Nine Months Ended September 30, 2011 Compared to the Three and Nine Months Ended September 30, 2010*Net sales*

	Three Months Ended September 30,			Change	Percentage Change
	2011	2010			
Net sales	\$ 54,890	\$ 41,298	\$ 13,592	32.9%	

	Nine Months Ended September 30,			Change	Percentage Change
	2011	2010			
Net sales	\$ 154,630	\$ 109,913	\$ 44,717	40.7%	

Net sales for the third quarter of 2011 increased 32.9% to \$54,890 from \$41,298 for the third quarter of 2010. Explosive Metalworking sales increased 34.0% to \$33,396 for the three months ended September 30, 2011 (61% of total sales) from \$24,925 for the same period of 2010 (60% of total sales). This \$8,471 sales increase follows an increase in the Explosive Metalworking backlog from \$39,913 at June 30, 2010 to \$54,026 at June 30, 2011 which reflects a general strengthening of demand in our Explosive Metalworking business.

Oilfield Products contributed \$18,790 to third quarter 2011 sales (34% of total sales), which represents a 42.3% increase from sales of \$13,208 for the third quarter of 2010 (32% of total sales). This significant increase in sales reflects a substantial increase in global oil and gas drilling activities, particularly in North America.

AMK Welding contributed \$2,704 to third quarter 2011 sales (5% of total sales), compared to sales of \$3,165 for the third quarter of 2010 (8% of total sales), a decrease of \$461 or 14.6%. This decrease reflects a \$904, or 32.3%, decline in sales from ground power work that was partially offset by a \$357, or 90.2%, increase in sales from aircraft engine work and increased sales of \$86 to other market sectors. Our consolidated net sales for the nine months ended September

Table of Contents

30, 2011 increased 40.7% to \$154,630 from \$109,913 in the same period of 2010. Explosive Metalworking sales increased 30.6% to \$95,221 for the nine months ended September 30, 2011 (62% of total sales) from \$72,921 for the same period of 2010 (66% of total sales). This sales increase reflects a modest strengthening of demand in our Explosive Metalworking business and more than \$11 million in second quarter export shipments from our U.S. manufacturing facility on two large orders that were booked in December of 2010.

Oilfield Products contributed \$51,563 to sales for the nine months ended September 30, 2011 sales (33% of total sales), which represents a 78.6% increase from sales of \$28,868 for the same period of 2010 (26% of total sales). Excluding incremental sales of \$5,743 from our acquisition of Austin Explosives and step acquisition of two Russian joint ventures, the 2011 sales increase for Oilfield Products was \$16,952 or 58.7%. As discussed above, this significant sales increase reflects a substantial increase in global oil and gas drilling activities, particularly in North America.

AMK Welding contributed \$7,846 to year-to-date 2011 sales through September 30 (5% of total sales), which represents a decrease of \$278, or 3.4%, from sales of \$8,124 in the same period of 2010 (8% of total sales).

Gross profit

	Three Months Ended September 30,			Change	Percentage Change
	2011	2010	2010		
Gross profit	\$ 14,832	\$ 10,853	\$ 3,979	36.7%	
Consolidated gross profit margin rate	27.0%	26.3%			

	Nine Months Ended September 30,			Change	Percentage Change
	2011	2010	2010		
Gross profit	\$ 40,607	\$ 27,094	\$ 13,513	49.9%	
Consolidated gross profit margin rate	26.3%	24.7%			

Gross profit increased by 36.7% to \$14,832 for the three months ended September 30, 2011 from \$10,853 for the three months ended September 30, 2010. Our third quarter 2011 consolidated gross profit margin rate increased to 27.0% from the 26.3% gross margin that we reported for the third quarter of 2010. For the nine months ended September 30, 2011, gross profit increased by 49.9% to \$40,607 from \$27,094 for the same period of 2010. Our year-to-date consolidated gross profit margin rate increased to 26.3% from 24.7% for the same period of 2010.

The gross profit margin for Explosive Metalworking increased from 18.7% in the third quarter of 2010 to 22.6% in the third quarter of 2011. The increase in the third quarter 2011 gross profit margin rate for our Explosive Metalworking segment relates principally to favorable changes in product mix as compared to the third quarter of 2010 and a somewhat improved pricing environment compared to the extremely competitive pricing environment that existed throughout 2010. Our gross profit margin for the Explosive Metalworking segment increased to 22.1% for the nine months ended September 30, 2011 from 20.0% for the same period in 2010. As has been the case historically, we expect to see continued fluctuations in Explosive Metalworking's quarterly gross margin rates in the future that result from fluctuations in quarterly sales volume and changes in product mix.

Oilfield Products reported a gross profit margin of 34.5% in the third quarter of 2011 compared to a gross profit margin of 39.2% in the third quarter of 2010. Oilfield Products reported a gross profit margin of 33.4% for the nine months ended September 30, 2011 compared to a gross profit margin of 35.0% for the same period of 2010. The decrease in Oilfield Products

Table of Contents

gross margin for the third quarter and nine months ended September 30, 2011 relates principally to unfavorable changes in product/customer mix.

The gross profit margin for AMK Welding decreased to 31.5% in the third quarter of 2011 from 34.9% in the third quarter of 2010. The gross profit margin for AMK Welding decreased to 31.9% for the nine months ended September 30, 2011 from 32.7% for same period of 2010. The third quarter and year-to-date decreases in AMK Welding's reported gross margins relate principally to differences in the rate at which AMK Welding absorbed its fixed manufacturing overhead costs based on the sales decreases discussed above.

Based upon the expected contribution to 2011 consolidated net sales by each of our three business segments, we expect our consolidated full year 2011 gross margin to be in a range of 26% to 27%.

General and administrative expenses

	Three Months Ended September 30,				Change	Percentage Change	
	2011		2010				
General and administrative expenses	\$	4,359	\$	3,487	\$	872	25.0%
Percentage of net sales		7.9%		8.4%			

	Nine Months Ended September 30,				Change	Percentage Change	
	2011		2010				
General and administrative expenses	\$	12,227	\$	9,990	\$	2,237	22.4%
Percentage of net sales		7.9%		9.1%			

General and administrative expenses increased by \$872, or 25.0%, to \$4,359 for the three months ended September 30, 2011 from \$3,487 for the same period of 2010. This increase includes increases of \$324 and \$176 in salaries and accrued incentive compensation, respectively, an increase in consulting fees of \$252 associated with major information technology system initiatives, an increase of \$170 in other outside professional service fees, an increase of \$59 in stock-based compensation and a net decrease of \$109 in all other expense categories. As a percentage of net sales, general and administrative expenses decreased to 7.9% in the third quarter of 2011 from 8.4% in the third quarter of 2010.

General and administrative expenses increased by \$2,237, or 22.4%, to \$12,227 for the nine months ended September 30, 2011 from \$9,990 for the same period of 2010. Excluding incremental general and administrative expenses of \$547 that resulted from the acquisition of Austin Explosives and the Russian joint ventures, our general and administrative expenses increased by \$1,690 or 16.9%. This increase includes increases of \$639 and \$333 in salaries and accrued incentive compensation, respectively, an increase in consulting fees of \$350 relating to information technology projects, an increase of \$306 in other outside professional service fees, an increase of \$107 in certain corporate governance and public-company expenses (board of director fees, directors and officers insurance, costs associated with proxy statement/annual report preparation and other investor relations expenses), an increase of \$88 in stock-based compensation and a net decrease of \$133 in all other expense categories. As a percentage of net sales, general and administrative expenses decreased to 7.9% for the nine months ended September 30, 2011 from 9.1% for the same period of 2010.

Table of Contents*Selling and distribution expenses*

	Three Months Ended September 30,				Change	Percentage Change	
	2011	2010	2011	2010			
Selling and distribution expenses	\$	3,359	\$	3,047	\$	312	10.2%
Percentage of net sales		6.1%		7.4%			

	Nine Months Ended September 30,				Change	Percentage Change	
	2011	2010	2011	2010			
Selling and distribution expenses	\$	10,997	\$	7,918	\$	3,079	38.9%
Percentage of net sales		7.1%		7.2%			

Selling and distribution expenses, which include sales commissions of \$222 in the third quarter of 2011 and \$75 in the third quarter of 2010, increased by 10.2% to \$3,359 in the third quarter of 2011 from \$3,047 in the third quarter of 2010. This increase in our selling and distribution expenses includes increased selling and distribution expenses of \$107 at our U.S. divisions and \$205 at our foreign divisions.

The \$107 increase in our U.S. selling and distribution expenses reflects increases of \$119 and \$64 for salaries and accrued incentive compensation, respectively, and a net decrease of \$76 in other spending categories. The \$205 increase in our foreign divisions selling and distribution expenses reflects increases of \$95 and \$162 for salary expense and sales commissions, respectively, and a net decrease of \$52 in other spending categories. As a percentage of net sales, selling and distribution expenses decreased to 6.1% in the third quarter of 2011 from 7.4% in the third quarter of 2010.

Selling and distribution expenses, which include sales commissions of \$1,343 and \$687 for the nine months ended September 30, 2011 and 2010, respectively, increased by 38.9% to \$10,997 in 2011 from \$7,918 in 2010. Excluding incremental selling and distribution expenses of \$1,517 that resulted from the acquisitions of Austin Explosives and the Russian joint ventures, our selling and distribution expenses increased by \$1,562 or 19.7%. This increase in our selling and distribution expenses includes increased selling and distribution expenses of \$600 at our U.S. divisions and \$962 at our foreign divisions.

The \$600 increase in our U.S. selling and distribution expenses reflects increases of \$354 and \$213 for accrued incentive compensation and commissions, respectively, and a net increase of \$33 in other spending categories. The \$962 increase in our foreign divisions selling and distribution expenses reflects increases of \$354 and \$443 for salary expense and sales commissions, respectively, and a net increase of \$165 in other spending categories. As a percentage of net sales, selling and distribution expenses decreased to 7.1% for the nine months ended September 30, 2011 from 7.2% for the first nine months of 2010.

Our consolidated selling and distribution expenses for the nine months ended September 30, 2011 include \$5,161 and \$5,836 for our Explosive Metalworking and Oilfield Products business segments, respectively. The higher level of selling and distribution expenses for our Oilfield Products segment relative to its contribution to our consolidated net sales reflects the need, particularly in North America, to maintain a number of strategically located distribution centers that are in close proximity to areas which contain a large concentration of oilfields and enjoy a high volume of related oil and gas drilling activities.

Table of Contents*Amortization expenses*

	Three Months Ended September 30,					Percentage Change
	2011	2010	Change			
Amortization of purchased intangible assets	\$ 1,448	\$ 1,376	\$ 72		5.2%	
Percentage of net sales	2.6%	3.3%				

	Nine Months Ended September 30,					Percentage Change
	2011	2010	Change			
Amortization of purchased intangible assets	\$ 4,324	\$ 3,913	\$ 411		10.5%	
Percentage of net sales	2.8%	3.6%				

Amortization expense relates to the amortization of values assigned to intangible assets in connection with our November 15, 2007 acquisition of DYNAenergetics, our October 1, 2009 acquisition of LRI, our April 30, 2010 acquisition of the two Russian joint ventures and our June 4, 2010 acquisition of Austin Explosives. Amortization expense for the three months ended September 30, 2011 includes \$1,094, \$303, and \$51 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively. Amortization expense for the three months ended September 30, 2010 includes \$1,012, \$276 and \$88 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively.

Amortization expense for the nine months ended September 30, 2011 includes \$3,270, \$902, and \$152 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively. Amortization expense for the nine months ended September 30, 2010 includes \$2,799, \$845 and \$269 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively. Amortization expense (as measured in Euros) associated with the DYNAenergetics acquisition is expected to approximate 3,490 in 2011, and 2011 amortization expense (as measured in Canadian dollars) associated with the LRI acquisition is expected to approximate 80 CAD. Amortization expense (as measured in Euros) associated with the acquisition of the two Russian joint ventures is expected to approximate 235 in 2011, and 2011 amortization expense associated with the Austin Explosives acquisition is expected to approximate \$435.

Operating income

	Three Months Ended September 30,					Percentage Change
	2011	2010	Change			
Operating income	\$ 5,666	\$ 2,943	\$ 2,723		92.5%	

	Nine Months Ended September 30,					Percentage Change
	2011	2010	Change			
Operating income	\$ 13,059	\$ 5,273	\$ 7,786		147.7%	

Income from operations (operating income) increased by 92.5% to \$5,666 in the third quarter of 2011 from \$2,943 in the third quarter of 2010. For the nine months ended September

Table of Contents

30, 2011, operating income increased by 147.7% to \$13,059 from \$5,273 for the same period of 2010.

Explosive Metalworking reported operating income of \$4,599 in the third quarter of 2011 compared to \$1,905 in the third quarter of 2010. This 141.4% increase is largely attributable to the 34.0% sales increase and 21.2% increase in the gross margin rate as discussed above. Operating results of Explosive Metalworking for the three months ended September 30, 2011 and 2010 include \$565 and \$557, respectively, of amortization expense of purchased intangible assets. Explosive Metalworking reported operating income of \$11,758 for nine months ended September 30, 2011 compared to \$6,228 for the same period of 2010. This 88.8% increase is largely attributable to the 30.6% sales increase and 10.7% increase in the gross margin rate as discussed above. Operating results of Explosive Metalworking for the nine months ended September 30, 2011 and 2010 include \$1,685 and \$1,706, respectively, of amortization expense of purchased intangible assets.

Oilfield Products reported operating income of \$1,881 in the third quarter of 2011 compared to \$1,604 in the third quarter of 2010. The modest increase in third quarter operating income for our Oilfield Products segment reflects a sales increase of \$5,582 that was partially offset by a decline in its gross profit margin rate to 34.5% in the third quarter of 2011 from 39.2% in the third quarter of 2010 and a \$1,043 increase in operating expenses. For nine-month period of 2011, Oilfield Products reported operating income of \$3,964 compared to \$1,279 for the same period of 2010. The significant improvement in operating results for our Oilfield Products segment for the nine months ended September 30, 2011 is attributable to the significant increases in sales and gross profit discussed above that reflect the incremental sales and gross profit from the acquisitions of Austin Explosives and the Russian joint ventures as well as an increase in global oil and gas drilling activities, particularly in North America. Operating results of Oilfield Products for the three months ended September 30, 2011 and 2010 include \$883 and \$819, respectively, of amortization expense of purchased intangible assets. Operating results of Oilfield Products for the nine months ended September 30, 2011 and 2010 include \$2,639 and \$2,207, respectively, of amortization expense of purchased intangible assets.

AMK Welding reported operating income of \$572 in the third quarter of 2011, a decrease of \$309 from the \$881 that it reported in the third quarter of 2010. AMK Welding reported operating income of \$1,742 for the nine months ended September 30, 2011 compared to \$2,006 for the nine months ended September 30, 2010. The decline in AMK's operating income for the three and nine months ended September 30, 2011 are largely attributable to the declines in sales and gross margin rates discussed above.

Our consolidated operating income for the three months ended September 30, 2011 and 2010 includes \$514 and \$613, respectively, of unallocated corporate expenses and \$872 and \$834, respectively, of stock-based compensation expense. For the nine months ended September 30, 2011 and 2010, consolidated operating income includes \$1,870 and \$1,703, respectively, of unallocated corporate expenses and \$2,535 and \$2,537, respectively, of stock-based compensation expense. These expenses are not allocated to our business segments and thus are not included in the above third quarter and year-to-date operating income totals for our Explosive Metalworking, Oilfield Products, and AMK Welding business segments.

Table of Contents*Gain on step acquisition of joint ventures*

	Nine Months Ended September 30,		Change	Percentage Change
	2011	2010		
Gain on step acquisition of joint ventures	\$	\$ 2,117	\$ (2,117)	N/A

During the second quarter of 2010, we acquired the remaining non-controlling interests in two Russian joint ventures that were previously majority-owned. Prior to the acquisition date, we accounted for the joint ventures as equity investments. As a result of the acquisition of the remaining non-controlling interests, we now consolidate these entities. In accordance with accounting standards applicable to transactions of this nature, we determined the fair value of our interests in these joint ventures immediately prior to the purchase and recognized a resultant gain of \$2,117.

Other income (expense), net

	Three Months Ended September 30,		Change	Percentage Change
	2011	2010		
Other income (expense), net	\$	\$ (9)	\$ (433)	424 (97.9)%

	Nine Months Ended September 30,		Change	Percentage Change
	2011	2010		
Other income (expense), net	\$	\$ (348)	\$ (402)	54 (13.4)%

We reported net other expense of \$9 in the third quarter of 2011 compared to net other expense of \$433 in the third quarter of 2010. Our third quarter 2011 net other expense of \$9 includes net realized and unrealized foreign exchange losses of \$55 and net other income items aggregating \$46. Our third quarter 2010 net other expense of \$433 relates principally to net realized and unrealized foreign exchange losses recorded by our Swedish, German and Canadian subsidiaries which were partially offset by a gain of \$185 on our currency swap agreement.

We reported net other expense of \$348 for the nine months ended September 30, 2011 compared to net other expense of \$402 for the same period of 2010. Our year-to-date 2011 net other expense of \$348 includes net realized and unrealized foreign exchange losses of \$520, offset by a gain of \$87 on our currency swap agreement and net other income items aggregating \$85. Our year-to-date 2010 net other expense of \$402 relates principally to net realized and unrealized foreign exchange gains recorded by our Swedish, German and Canadian subsidiaries which were partially offset by a gain of \$185 on our currency swap agreement.

*Interest income (expense), net***Three Months Ended**

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

	September 30,				Change	Percentage Change
	2011		2010			
Interest income (expense), net	\$	(325)	\$	(661)	\$ 336	(50.8)%

Table of Contents

	Nine Months Ended September 30,			Change	Percentage Change
	2011	2010			
Interest income (expense), net	\$ (1,218)	\$ (2,402)	\$ 1,184	(49.3)%	

We recorded net interest expense of \$325 in the third quarter of 2011 compared to net interest expense of \$661 in the third quarter of 2010. We recorded net interest expense of \$1,218 for the nine month period of 2011 compared to net interest expense of \$2,402 for the same period of 2010. Interest expense for the nine months ended September 30, 2010 included a non-recurring, non-cash charge of \$251 related to the write-off of unamortized debt issuance costs associated with the March prepayment, in the amount of \$12,498 (9,020 Euros), of the remaining balance of the Euro term loan that was outstanding under our bank syndicate credit facility. This Euro term loan was scheduled to mature on November 16, 2012. The decrease in our third quarter and year-to-date 2011 interest expense is principally attributable to a significant reduction in average outstanding borrowings that resulted from scheduled annual term loan payments made in November of 2010 and the March 2010 prepayment of the Euro term loan.

Income tax provision

	Three Months Ended September 30,			Change	Percentage Change
	2011	2010			
Income tax provision	\$ 1,072	\$ 540	\$ 532	98.5%	
Effective tax rate	20.1%	29.2%			

	Nine Months Ended September 30,			Change	Percentage Change
	2011	2010			
Income tax provision	\$ 2,637	\$ 891	\$ 1,746	196.0%	
Effective tax rate	22.9%	18.4%			

We recorded an income tax provision of \$1,072 in the third quarter of 2011 compared to \$540 in the third quarter of 2010. The effective tax rate decreased to 20.1% in the third quarter of 2011 from 29.2% in the third quarter of 2010 and 17.7% for the full year 2010. Our consolidated income tax provision for the three months ended September 30, 2011 and 2010 included \$1,142 and \$510, respectively, related to U.S. taxes, with the remainder relating to a net foreign tax benefit of \$70 in 2011 and a net foreign tax provision of \$30 in 2010 associated with our foreign operations and holding companies.

For the nine months ended September 30, 2011, we recorded an income tax provision of \$2,637 compared to \$891 in the same period of 2010. The effective tax rate increased to 22.9% in 2011 from 18.4% in 2010. Our consolidated income tax provision for the nine months ended September 30, 2011 and 2010 included \$3,433 and \$1,359, respectively, related to U.S. taxes, with the remainder relating to net foreign tax benefits of \$796 and \$468 in 2011 and 2010, respectively, associated with our foreign operations and holding companies.

Our statutory income tax rates range from 19% to 33% for our various U.S. and foreign operating subsidiaries and holding companies. The fluctuations in our consolidated effective tax rate for the three and nine month periods ended September 30, 2011 and 2010 relate principally to the different tax rates in our U.S. and foreign tax jurisdictions and the variation in contribution to consolidated pre-tax income from each jurisdiction for the respective periods and also reflect the impact of favorable permanent differences in our foreign taxes. We currently expect our blended

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Table of Contents

effective tax rate for 2011 to range from 25% to 26% based on projected full year 2011 pre-tax income.

Adjusted EBITDA

	Three Months Ended September 30,				Change	Percentage Change	
	2011	2010	2011	2010			
Adjusted EBITDA	\$	9,554	\$	6,674	\$	2,880	43.2%

	Nine Months Ended September 30,				Change	Percentage Change	
	2011	2010	2011	2010			
Adjusted EBITDA	\$	24,137	\$	15,631	\$	8,506	54.4%

Adjusted EBITDA is a non-GAAP measure that we believe provides an important indicator of our ongoing operating performance. Our aggregate non-cash depreciation, amortization of purchased intangible assets and stock-based compensation expense for the three months ended September 30, 2011 and 2010 was \$3,875 and \$3,714, respectively, and for the nine months ended September 30, 2011 and 2010 was \$11,042 and \$10,358, respectively. These aggregate non-cash charges represent a significant percentage of the consolidated operating income that we reported for these periods. We use non-GAAP EBITDA and Adjusted EBITDA in our operational and financial decision-making and believe that these non-GAAP measures are a reliable indicator of our ability to generate cash flow from operations and facilitate a more meaningful comparison of the operating performance of our three business segments than do certain GAAP measures. Research analysts, investment bankers and lenders also use EBITDA and Adjusted EBITDA to assess operating performance. The following is a reconciliation of the most directly comparable GAAP measure to Adjusted EBITDA.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011	2010	2011	2010	2011	2010		
Net income attributable to DMC	\$	4,273	\$	1,326	\$	8,892	\$	3,950
Interest expense		326		667		1,222		2,473
Interest income		(1)		(6)		(4)		(71)
Provision for income taxes		1,072		540		2,637		891
Depreciation		1,555		1,504		4,183		3,908
Amortization of purchased intangible assets		1,448		1,376		4,324		3,913
EBITDA		8,673		5,407		21,254		15,064
Stock-based compensation		872		834		2,535		2,537
Other (income) expense, net		9		433		348		(1,715)
Equity in earnings of joint ventures								(255)
Adjusted EBITDA	\$	9,554	\$	6,674	\$	24,137	\$	15,631

Adjusted EBITDA increased 43.2% to \$9,554 in the third quarter of 2011 from \$6,674 in the third quarter of 2010 primarily due principally to the \$2,723 increase in third quarter 2011 operating income. Adjusted EBITDA increased 54.4% to \$24,137 for year-to-date 2011 from \$15,631 for year-to-date 2010 due principally to the \$7,786 increase in year-to-date 2011 operating income.

Table of Contents

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. 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 facilities

In connection with the acquisition of DYNAenergetics in 2007, 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.

There are two significant financial covenants under our credit facility, the leverage ratio and the fixed charge coverage ratio requirements. As a result of the slowdown in our business during 2009 which continued into the early part of 2010, we were concerned about our ability to comply with these financial covenants as of March 31, 2010 and subsequent quarters of 2010. In an effort to alleviate this concern and remain in compliance with financial covenants as of March 31, 2010 and in future periods, we made a March prepayment of the remaining principal balance due under our bank syndicated Euro term loan in the amount of \$12,498 (9,020 Euros) and, on April 19, 2010, amended the credit agreement to exclude scheduled principal payments under the Euro term loan from fixed charge coverage ratio computations for March 31, 2010 and forward. As we reached the end of 2010 and completed our 2011 budget, we were once again concerned about our ability to remain in compliance with financial covenants as of December 31, 2010 and in future quarterly periods of 2011. To address this concern, on February 2, 2011, we amended the credit agreement to reduce the minimum fixed charge coverage ratio requirement to 0.9 to 1.0 for the trailing four quarter period ended December 31, 2010 and 1.0 to 1.0 for any trailing four quarter period thereafter. The February 2, 2011 amendment also increased the maximum leverage ratio for any trailing four quarter period ending after September 30, 2011 to 1.25 to 1.0 from 1.0 to 1.0, and increased maximum annual capital expenditure limits for 2011 and 2012 from \$8 million for both years to \$10 million for 2011 and \$14 million for 2012.

The leverage ratio is defined in the credit facility as Consolidated Funded Indebtedness at the balance sheet date as compared to Consolidated EBITDA, which is defined as earnings before provisions for income taxes, interest expense, depreciation and amortization, extraordinary, non-recurring charges and other non-cash charges, for the previous twelve months. For the nine months ended September 30, 2011 and the year ended December 31, 2010, Consolidated EBITDA approximated the Adjusted EBITDA that we reported for the respective periods. As of September 30, 2011, the maximum leverage ratio permitted by our credit facility was 1.5 to 1.0. The actual leverage ratio as of September 30, 2011 was 1.02 to 1.0. The maximum leverage ratio permitted as of December 31, 2011 is 1.25 to 1.0.

The fixed charge ratio, as defined in the credit facility, means, for any period, the ratio of Earnings Available for Fixed Charges to Fixed Charges. Earnings Available for Fixed Charges equals Consolidated EBITDA plus lease expenses minus cash income taxes and maintenance capital expenditures. Fixed Charges equals the sum of cash interest expense, lease expense,

Table of Contents

scheduled principal payments and cash dividends. As of September 30, 2011, the minimum fixed charge ratio permitted by our credit facility was 1.0 to 1.0. The actual fixed charge ratio as of September 30, 2011 was 1.65 to 1.0. The minimum fixed charge coverage ratio permitted for the twelve month period ending December 31, 2011 is 1.0 to 1.0.

As of September 30, 2011, a U.S. dollar term loan of \$22,247 was outstanding under our credit facility and \$1,289 was outstanding under term loan agreements with the former owners of LRI. We had \$3,807 in outstanding revolving credit borrowings under our syndicated credit agreement as of September 30, 2011 and \$2,746 was outstanding as of that date under our separate DYNAenergetics line of credit agreements. While we had approximately \$36,124 of unutilized revolving credit loan capacity as of September 30, 2011 under our various credit facilities, future borrowings are subject to compliance with financial covenants that could significantly limit availability.

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, and maintenance of specified financial ratios. As of September 30, 2011, we were in compliance with all financial covenants and other provisions of our debt agreements.

Our principal cash flows related to debt obligations and other contractual obligations and commitments have not materially changed since December 31, 2010.

Cash flows from operating activities

Net cash flows provided by operating activities for the nine months ended September 30, 2011 totaled \$2,258. Significant sources of operating cash flow included net income of \$8,856 and the benefit of certain non-cash charges, including depreciation and amortization expense of \$8,768 and stock-based compensation of \$2,535. Operating cash flow for year-to-date 2011 was reduced by a deferred income tax benefit of \$1,904 and net negative changes in working capital of \$16,066. Negative cash flows from changes in working capital included increases in accounts receivable, inventories and prepaid expenses of \$7,311, \$11,267, and \$1,210, respectively. These were partly offset by increases in accounts payable, customer advances and accrued expenses and other liabilities of \$680, \$1,278 and \$1,764, respectively. The sizeable increase in accounts receivables relates principally to a large increase in third quarter Explosive Metalworking shipments compared to the fourth quarter of 2010. The significant increase in inventories is split somewhat evenly between our Explosive Metalworking and Oilfield Products segments, with the Explosive Metalworking increase relating to an increase in work-in-process inventories to meet fourth quarter shipment requirements on orders included in our September 30, 2011 backlog and the Oilfield Products increase relating to an increase in finished goods inventories in our Oilfield Products segment required by the increase in business activity this segment has experienced in recent months.

Net cash flows provided by operating activities for the nine months ended September 30, 2010 totaled \$10,254. Significant sources of operating cash flow included net income of \$3,950, non-cash depreciation and amortization expense of \$8,310, and stock-based compensation of \$2,537. These sources of operating cash flow were partially offset by a \$2,117 gain on step acquisition of joint ventures, a deferred income tax benefit of \$953, and net negative changes in working capital of \$1,218. Net negative changes in working capital included decreases in accounts payable, accrued expenses and customer advances of \$2,075, \$1,800 and \$1,327, respectively. These negative changes in working capital were partially

offset by decreases in accounts receivable and inventory of \$2,465 and \$1,198, respectively.

Table of Contents

Cash flows from investing activities

Net cash flows used in investing activities for the nine months ended September 30, 2011 totaled \$4,344 and consisted almost entirely of capital expenditures.

Net cash flows used in investing activities for the nine months ended September 30, 2010 totaled \$8,053 which included investments in acquisitions of \$5,685 and capital expenditures of \$2,309.

Cash flows from financing activities

Net cash flows provided by financing activities for the nine months ended September 30, 2011 totaled \$1,569, which included net borrowings on bank lines of credit of \$3,999, a contribution of \$42 from our non-controlling stockholder and \$99 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 uses of cash flows in financing activities which included payment of quarterly dividends of \$1,596, \$633 in principal payments on our Nord LB term loan, \$109 for the negative tax impact of stock-based compensation and payment on capital lease obligations of \$233.

Net cash flows used in financing activities for the nine months ended September 30, 2010 were \$13,630, which included \$2,876 in required prepayments of term loans under our syndicated credit agreement from excess cash flow that we generated in fiscal year 2009, \$12,498 to prepay the remaining principal balance of our Euro term loan under our syndicated credit agreement, \$593 in principal payments on Nord LB term loans, payment of quarterly dividends of \$1,561, \$639 for the negative tax impact of stock-based compensation and payment on capital lease obligations of \$215. These uses of cash flows were partially offset by net borrowings on bank lines of credit of \$4,682 and \$70 in net proceeds from the issuance of common stock relating to the exercise of stock options.

Payment of Dividends

On August 29, 2011, our board of directors declared a quarterly cash dividend of \$.04 per share which was paid on October 17, 2011. The dividend totaled \$534 and was payable to shareholders of record as of September 30, 2011. We also paid a quarterly cash dividend of \$.04 per share in the first and second quarters of 2011 totaling \$533 and \$534, respectively. We paid a quarterly cash dividend of \$.04 per share in the first, second and third quarters of 2010.

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 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 critical accounting policies have not changed from those reported in our Annual Report filed on Form 10-K for the year ended December 31, 2010.

Table of Contents

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, 2010.

ITEM 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our 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 our management, including our 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 September 30, 2011, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level. There have been no changes in our internal controls during the quarter ended September 30, 2011 or in other factors that could materially affect our internal controls over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our 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 our 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, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the disclosure controls and procedures are met.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no significant changes in the risk factors identified as being attendant to our business in our Annual Report on Form 10-K for the year ended December 31, 2010.

Table of Contents

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. [Removed and Reserved]

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.
 - 31.2 Certification of the Senior 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 Senior 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.
 - 101 The following materials from the Quarterly Report on Form 10-Q of Dynamic Materials Corporation, for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statement of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.*]
-

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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: November 1, 2011

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