

DYNAMIC MATERIALS CORP
Form 10-K
March 14, 2013
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

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

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.05 Par Value	The Nasdaq National Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act from their obligations under those sections. Yes No

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 (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

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 larger accelerated filer, accelerated filer and smaller reporting company in Rule 12-b2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

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

The approximate aggregate market value of the voting stock held by non-affiliates of the registrant was \$221,320,927 as of June 30, 2012.

The number of shares of Common Stock outstanding was 13,683,307 as of March 14, 2013.

Certain information required by Items 10, 11, 12, 13 and 14 of Form 10-K is incorporated by reference into Part III hereof from the registrant's proxy statement for its 2013 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission (SEC) within 120 days of the close of the registrant's fiscal year ended December 31, 2012.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I</u>	
<u>Item 1.</u>	1
<u>Item 1A.</u>	11
<u>Item 1B.</u>	19
<u>Item 2.</u>	19
<u>Item 3.</u>	22
<u>Item 4.</u>	22
 <u>Part II</u>	
<u>Item 5.</u>	23
<u>Item 6.</u>	25
<u>Item 7.</u>	26
<u>Item 7A.</u>	41
<u>Item 8.</u>	43
<u>Item 9.</u>	76
<u>Item 9A.</u>	76
<u>Item 9B.</u>	79
 <u>Part III</u>	
<u>Item 10.</u>	80
<u>Item 11.</u>	80
<u>Item 12.</u>	80
<u>Item 13.</u>	80
<u>Item 14.</u>	80
 <u>Part IV</u>	
<u>Item 15.</u>	80
 <u>Signatures</u>	82

Table of Contents

PART I

ITEM 1. Business

Overview

References made in this Annual Report on Form 10-K to we, our, us, DMC and the Company refer to Dynamic Materials Corporation and its consolidated subsidiaries.

Dynamic Materials Corporation is an industrial manufacturer focusing on niche markets related to the building of equipment and materials to support the infrastructure of the process and energy industries. Built upon specialized technologies, the Company seeks to establish a global presence through an international network of manufacturing facilities and sales offices. Today, the Company operates in three business segments: Explosive Metalworking (57% of 2012 net sales), Oilfield Products (39% of 2012 net sales), and AMK Welding (4% of 2012 net sales).

We are a leading provider of explosion-welded clad metal plates. Explosion-weld cladding uses an explosive charge to bond together plates of different metals that do not bond easily with traditional welding techniques. We refer to this part of our business as Nobelclad or the Explosive Metalworking segment. Nobelclad markets its explosion-welded clad products under the Detaclad® trade name. Nobelclad's products are used in critical applications in a variety of industries, including oil and gas, alternative energy, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation and industrial refrigeration. Nobelclad's market leadership for explosion-welded clad metal plates is a result of its state-of-the-art manufacturing facilities, technological leadership, and production expertise. We believe our customers select us for our high quality product, speed and reliability of delivery, and cost effectiveness. We have a global sales force through which we sell our products in international markets. Our Explosive Metalworking operations are located in the United States, Germany and France.

Through our Oilfield Products segment, which we also refer to as DYNAenergetics, we provide a range of proprietary and nonproprietary products for the global oil and gas industries. These products relate primarily to oil and gas well perforation, which is a process of punching holes in the casing of a well to enable easier and more precise recovery of oil or gas from a targeted formation. Manufactured products include shaped charges, detonators and detonating cords, bidirectional boosters, and perforating guns for the perforation of oil and gas wells. DYNAenergetics also distributes a line of seismic products that support oil and gas exploration activities. DYNAenergetics' primary manufacturing and sales operations are located in Germany, the United States, Canada and Russia and its products are sold in numerous countries.

Our AMK Welding segment (AMK Welding) provides advanced welding services, primarily to the power turbine and aircraft engine manufacturing industries. AMK Welding is a highly specialized welding subcontracting shop for complex shapes used principally in gas turbines and aircraft engines. AMK Welding's operations are conducted at its Connecticut facility.

Clad Metal Industry

Clad metal plates are typically used in the construction of heavy, corrosion resistant pressure vessels and heat exchangers for oil and gas, alternative energy, chemical and petrochemical, hydrometallurgy, power generation, industrial refrigeration, and similar industries. Clad metal plates consist of a thin layer of an expensive, corrosion resistant metal, such as titanium or stainless steel, which is metallurgically combined with a less expensive structural base metal, such as steel. For heavy equipment, clad generally provides a cost savings alternative to building the equipment of solely the corrosion resistant alloy.

There are three major industrial clad plate manufacturing technologies:

- Explosion welding
- Hot Rollbonding
- Weld overlay

Explosion welding, the technology utilized by Nobelclad, is the most versatile of the foregoing clad plate manufacturing technologies. Being a robust cold welding technology, explosion-welded clad products exhibit high bond strength combined with the unaltered corrosion resistance and mechanical properties of the pre-clad components. The explosion-welded clad process is suitable for joining virtually any combination of common engineering metals. Explosion-welded clad metal is produced as flat plates or concentric cylinders which can be further formed and fabricated

Table of Contents

as needed. When fabricated properly, the two metals will not come apart. The dimensional capabilities of the process are broad: cladding metal layers can range from a few thousandths of an inch to several inches and base metal thickness and lateral dimensions are primarily limited by the size capabilities of the world's metal production mills. Explosion welding is used to clad a very broad range of metals to steel including aluminum, titanium, zirconium, nickel alloys, and stainless steels. The alternative technologies are typically limited to the latter two. In addition to being used as clad plates, the explosion welded components can be used as transition pieces, facilitating conventional welding of dissimilar metals. Nobelclad transition joints are used in the aluminum production and shipbuilding industries.

Hot rollbonding is performed by a small group of the world's heavy plate rolling mills. In this process, the clad metal and base metal are bonded together during the hot rolling operation in which the metal slab is converted to plate. Being a high temperature process, hot rollbond is limited to joining similar metals, such as stainless steel and nickel alloys to steel. Rollbond's niche is production of large quantities of light to medium gauge clad plates; it is frequently lower cost than explosion clad when total metal thickness is under 1 to 2 inches (dependent upon alloy and a number of other factors.) Rollbond products are generally suitable for most pressure vessel applications but have lower bond shear strength and may have inferior corrosion resistance.

In weld overlay cladding, the clad metal layer is deposited on the base metal using arc-welding type processes. Weld overlay is a cost-effective technology for complicated shapes, for field service jobs, and for production of heavy-wall pressure vessel reactors. During overlay welding, the cladding metal and base metal are melted together at their interface, the resulting dilution of the cladding metal chemistry may compromise corrosion performance and limit use in certain applications. Weld metal shrinkage during cooling potentially causes distortion when the base layer is thin; consequently, overlay is rarely the technically preferred solution for construction of new equipment when thicknesses are under 3 to 4 inches. As with rollbond, weld overlay is limited to metallurgically similar metals, primarily stainless steels and nickel alloys joined to steel. Weld overlay is typically performed in conventional metal fabrication shops.

Clad Metal End Use Markets

Explosion-welded clad metal is primarily used in construction of large industrial equipment involving high pressures and temperatures and needs to be corrosion resistant. The eight broad industrial sectors discussed below comprise the bulk of demand for Nobelclad's business. The demand for clad metal is driven by the underlying demand for new equipment and facility maintenance in these primary market sectors. Overall, the market for explosion-welded clad metal has continuously grown since its inception, with demand dependent upon the underlying needs of the various market sectors. There has been significant capital investment in many of these markets.

Oil and Gas: Oil and gas end use markets include both oil and gas production and petroleum refining. Oil and gas production covers a broad scope of operations related to recovering oil and/or gas for subsequent processing in refineries. Clad metal is used in separators, glycol contactors, piping, heat exchangers and other related equipment. The increase in oil and gas production from deep, hot, and more corrosive fields has significantly increased the demand for clad equipment. Many non-traditional energy production methods are potentially commercially viable for bringing natural gas to the market. Clad is commonly used in these facilities. The primary clad metals for this market are stainless steel and nickel alloys clad to steel, with some use of reactive metals.

Petroleum refining processes frequently are corrosive, are hot, and operate at high pressures. Clad metal is extensively used in a broad range of equipment including desulfurization hydrotreaters, coke drums, distillation columns, separators and heat exchangers. In the United States, refineries are running near their full capacity; and adding capacity and reducing costly down-time are a high priority. The increasing reliance upon low quality, high sulfur crude further drives additional demand for new corrosion resistant equipment. Worldwide trends in regulatory control of sulfur emissions in gas, diesel and jet fuel are also increasing the need for clad equipment. Like the upstream oil and gas sector, the

clad metals are primarily stainless steel and nickel alloys.

Alternative Energy: Today's oil and gas prices and increasing climate concerns are driving significant upward demand for capital equipment in the alternative energy sector. Frequently, alternative energy technologies involve conditions which necessitate clad metals. Solar panels predominantly incorporate high purity silicon. Processes for manufacture of high purity silicon utilize a broad range of highly corrosion resistant clad alloys. Many geothermal fields are corrosive, requiring high alloy clad separators to clean the hot steam. Cellulosic ethanol technologies may require corrosion resistant metals such as titanium and zirconium.

Chemical and Petrochemical: Many common products, ranging from plastics to drugs to electronic materials, are produced by chemical processes. Because the production of these items often involves corrosive agents and is

Table of Contents

conducted under high pressures or temperatures, corrosion resistant equipment is needed, equipment which is best and most cost-effectively produced using clad construction. One of the larger applications for titanium-clad equipment is in the manufacture of Purified Terephthalic Acid (PTA), a precursor product for polyester, which is used in everything from carpets to plastic bottles. This market requires extensive use of stainless steel and nickel alloys, but also uses titanium and, to a lesser extent, zirconium and tantalum.

Hydrometallurgy: The conversion of raw ore to metal generally involves high energy and/or corrosive processes. Traditionally, most metals have been produced by high temperature smelting. Over the past two decades there has been an increasing trend toward acid leaching processes. These hydrometallurgy processes are more environmentally friendly and more energy efficient. The processes for production of nickel, gold, and copper involve acids, high pressures, and high temperatures. Titanium is the metal of choice. Titanium-clad plates are used extensively for construction of autoclaves and peripheral equipment.

Aluminum Production: Aluminum is reduced from its oxide in large electric smelters called potlines. The electric current is carried via aluminum conductors. The electricity must be transmitted into steel components for the high temperature smelting operations. Aluminum cannot be welded to steel conventionally. Explosion-welded aluminum-steel transition joints provide an energy efficient and highly durable solution for making these connections. Modern potlines use a large number of transition joints. Transition joints are typically replaced after approximately five years in service. Although aluminum production is the major electrochemical application for Nobelclad products, there are a number of other electrochemical applications including production of magnesium, chlorine and chlorate.

Shipbuilding: The combined problems of corrosion and top-side weight drive significant demand for our aluminum-steel transition joints. Top-side weight is often a significant problem with tall ships, including cruise ships, naval vessels, ferries and yachts. Use of aluminum in the upper structure and steel in the lower structure provides stability. Bolted joints between aluminum and steel corrode quickly in seawater. Aluminum cannot be welded directly to steel using traditional welding processes. Welded joints can only be made using transition joints. Nobelclad products can be found on many well-known ships, including the QE II and modern U.S. Navy aircraft carriers.

Power Generation: Fossil fuel and nuclear power generation plants require extensive use of heat exchangers, many of which require corrosion resistant alloys to handle low quality cooling water. Our clad plates are used extensively for heat exchanger tubesheets. The largest clad tubesheets are used in the final low pressure condensers. For most coastal and brackish water cooled plants, titanium is the metal of choice technically, and titanium-clad tubesheets are the low cost solution for power plant condensers.

Industrial Refrigeration: Heat exchangers are a core component of refrigeration systems. When the cooling water is seawater, brackish, or even slightly polluted, corrosion resistant metals are necessary. Metal selection can range from stainless steel to copper alloy to titanium. Explosion-welded clad metal is often the low cost solution for making the tubesheets. Applications range from refrigeration chillers on fishing boats to massive air conditioning units for skyscrapers, airports, and deep underground mines.

Oil and Gas Field Perforating Industry

The oil and gas industry uses perforating products in oil and gas fields to punch holes in the casing or liner of wells to connect them to the reservoir. The operator runs a casing or liner into the well and then inserts the perforating guns, which contain a series of specialized shaped charges. Once fired, the perforating guns provide access to the specified sections of the desired areas of the targeted formations. Completing

wells through the use of perforation guns can provide more control over the well.

DYNAenergetics End Use Markets

DYNAenergetics products are used to perform both perforating services which require shaped charges, detonators, boosters, detonating cords, and perforating guns and seismic prospecting. DYNAenergetics manufactures and distributes a comprehensive array of perforating products. Our DYNAenergetics products are generally purchased by oilfield service companies who use our perforating products for oil and gas recovery and our seismic products for oil and gas exploration activities.

Table of Contents

AMK Welding End Use Markets

Parts for power turbines and aircraft engines must be machined to exacting tolerances and welded according to exacting specifications. Many of those parts have complex shapes, the welding of which requires significant expertise. AMK Welding is a specialized operation that welds complex, shaped parts for machining companies that, in turn, supply the manufacturers of power turbines and aircraft engines. Some machining companies also have their own welding facilities, which compete with AMK Welding for business.

Business Segments

We operate three business segments: Explosive Metalworking (which we also refer to as Nobelclad), Oilfield Products (which we also refer to as DYNAenergetics), and AMK Welding. The Explosive Metalworking segment uses proprietary explosive processes to fuse dissimilar metals and alloys and has more than 40 years of experience. We are the largest explosion-welded clad metal manufacturer in both North America and Europe. DYNAenergetics produces special shaped charges, detonators, detonating cords, bidirectional boosters, and perforating guns for the perforation of oil and gas wells and has more than a decade of experience providing specialized products to the oil and gas industry. AMK Welding utilizes various specialized technologies to weld components for use in power-generation turbines as well as commercial and military jet engines and has 40 years of experience.

Explosive Metalworking

The Explosive Metalworking segment seeks to build on its leadership position in its markets. During the year ended December 31, 2012, the Explosive Metalworking segment represented approximately 57% of our revenue. The three manufacturing plants and their respective shooting sites in Pennsylvania, Germany and France provide the production capacity to address concurrent projects for Nobelclad's current domestic and international customer base.

The primary product of the Explosive Metalworking segment is explosion-welded clad metal plate. Clad metal plates are used in the construction of heavy, corrosion resistant pressure vessels and heat exchangers for oil and gas, alternative energy, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration, and similar industries. The characteristics of Nobelclad's explosive metalworking processes may enable the development of new products in a variety of industries and Nobelclad continues to explore such development opportunities.

The principal product of metal cladding, regardless of the process used, is a metal plate composed of two or more dissimilar metals, usually a corrosion resistant metal and steel, bonded together. Prior to the explosion-welded clad process, the materials are inspected, the mating surfaces are ground, and the metal plates are assembled for cladding. The process involves placing a sheet of the cladder over a parallel plate of backer material and then covering the cladder material with a layer of specifically formulated explosive. A small gap or standoff space is maintained between the alloy cladder and the backer substrate. The explosion is then initiated on one side of the cladder and travels across the surface of the cladder forcing it down onto the backer. The explosion happens in approximately one-thousandth of a second. The collision conditions cause a thin layer of the mating surfaces to be spalled away in a jet. This action removes oxides and surface contaminants immediately ahead of the collision point. The extreme pressures force the two metal components together, creating a metallurgical bond between them. The explosion-welded clad process produces a strong, ductile, continuous metallurgical weld over the clad surface. After the explosion is completed,

the resulting clad plates are flattened and cut, and then undergo testing and inspection to assure conformance with internationally accepted product specifications.

Table of Contents

EXPLOSION-WELDING PROCESS

Explosion-welded cladding technology is a method to weld metals that cannot be welded by conventional processes, such as titanium-steel, aluminum-steel, and aluminum-copper. It can also be used to weld compatible metals, such as stainless steels and nickel alloys to steel. The cladding metals are typically titanium, stainless steel, aluminum, copper alloys, nickel alloys, tantalum, and zirconium. The base metals are typically carbon steel, alloy steel, stainless steel and aluminum. Although the patents for the explosion-welded cladding process have expired, Nobelclad has proprietary knowledge that distinguishes it from its competitors. The entire explosion-welding process involves significant precision in all stages, and any errors can be extremely costly as they result in the discarding of the expensive raw material metals. Nobelclad's technological expertise is a significant advantage in preventing costly waste.

Explosion-welded clad metal is used in critical applications in a variety of industries, including oil and gas, alternative energy, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and other industries where corrosion, temperature and pressure combine to produce demanding environments. Explosion-welded clad metal is also used to produce bimetal

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

transition joints or other components which are used in ship construction, and in a variety of electrochemical industries including aluminum production.

Nobelclad's metal products are primarily produced on a project-by-project basis conforming to requirements set forth in customers' purchase orders. Upon receipt of an order, Nobelclad obtains the component materials from a variety of sources based on quality, availability and cost and then produces the order in one of its four manufacturing plants. Final products are processed to meet contract specific requirements for product configuration and quality/inspection level.

DYNAenergetics

DYNAenergetics manufactures, markets, and sells perforating explosives and associated hardware and seismic explosives, for the international oil and gas industry. While DYNAenergetics has been producing detonating cords and

Table of Contents

detonators and selling these and seismic explosives systems for decades, since 1994 significant emphasis has been placed on enhancing its oilfield product offerings by improving existing products and adding new products. In recent years, various types of detonating cords and detonators have been added as well as bi-directional boosters, a wide range of shaped charges, and corresponding gun systems. Within the last year, DYNAenergetics began manufacturing detonators for seismic exploration systems. DYNAenergetic s four manufacturing facilities are located in Germany, Canada, the United States and Russia and it is currently constructing two additional manufacturing facilities in Texas and Siberia. Additionally, DYNAenergetics now designs and manufactures custom-ordered perforating products for third-party customers according to their designs and specifications.

The kinds of perforating products manufactured by DYNAenergetics are essential to certain types of modern oil and gas recovery. The products are sold to large, mid-sized, and small oilfield service companies in the U.S., Europe, Canada, Africa, the Middle East, and Asia, including direct sales to end users. The market for perforating products is growing. Rising worldwide demand for oil increases the demand for perforating products as oil exploration and recovery expands, leading to increased investment in the oil and gas production industry. Higher levels of exploration (seismic prospecting) and increased production activities in the global oil and gas industry are expected to continue. Increased exploration has led to increasingly complex completion operations, which raise the demand for high quality perforating products.

AMK Welding

AMK Welding employs a variety of sophisticated processes and equipment to provide specialized welding services principally to a power turbine manufacturer and to commercial and military aircraft engine manufacturers. AMK Welding is located in South Windsor, Connecticut.

Welding services are provided on a project-by-project basis based on specifications set forth in customers purchase orders. Upon receipt of an order for welded assemblies, AMK Welding performs welding services using customer specific welding procedures.

Welding processes used by AMK Welding include electron beam and gas tungsten arc welding processes. AMK Welding also has considerable expertise in vacuum chamber welding, which is a critical capability when welding titanium, high temperature nickel alloys and other specialty alloys. These welding techniques are used for the welding of blades and vanes and other turbine parts typically located in the hot gas path of aircraft engines. In addition to its welding capabilities, AMK Welding also uses various heat treatment and non-destructive examination processes, such as radiographic inspection, in support of its welding operations.

Suppliers, Competition, Customer Profile, Marketing and Research and Development

Nobelclad

Suppliers and Raw Materials

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Nobelclad uses a range of alloys, steels and other materials for its operations, such as stainless steel, copper alloys, nickel alloys, titanium, zirconium, tantalum, aluminum and other metals. Nobelclad sources its raw materials from a number of different producers and suppliers. Nobelclad holds a limited metal inventory and purchases its raw materials based on contract specifications. Under most contracts, any raw material price increases are passed on to Nobelclad's customers. Nobelclad closely monitors the quality of its supplies and inspects the type, dimensions, markings, and certification of all incoming metals to ensure that the materials will satisfy applicable construction codes. Nobelclad also manufactures a majority of its own explosives from standard raw materials, thus achieving higher quality and lower cost.

Competition

Metal Cladding. Nobelclad faces competition from alternative technologies such as rollbond and weld overlay. Usually the three processes do not compete directly against each other, each having its own preferential domain of application relating to metal used and thicknesses required. However, due to specific project considerations such as technical specifications, price and delivery time, explosion-welding may have the opportunity to compete successfully against these technologies. Rollbond is only produced by a few steel mills in the world. The weld overlay process, which

Table of Contents

is produced among the many vessel fabricators who are often also Nobelclad customers, is a slow and labor intensive process that requires a large amount of floor space for the equipment.

Explosion-Welded Metal Cladding. Competition in the explosion-welded clad metal business is fragmented. Nobelclad holds a strong market position in the clad metal industry. Nobelclad is the leading producer of explosion-welded clad products in North America, and it has a strong position in Europe against smaller competitors. Nobelclad's main competitor in Asia is a division of Asahi Kasei, which has competitive technology and a recognized local brand name. There are several explosion-welded clad producers in China, most of whom are technically limited and are currently not exporters outside of their domestic market. A number of additional small competitors operate throughout the world. To remain competitive, Nobelclad intends to continue developing and providing technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete favorably on the basis of price.

Customer Profile

Nobelclad's products are used in critical applications in a variety of industries, including upstream oil and gas, oil refinery, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and other similar industries. Nobelclad's customers in these industries require metal products that can withstand exposure to corrosive materials, high temperatures and high pressures. Nobelclad's customers can be divided into three tiers: the product end users (e.g., operators of chemical processing plants), the engineering contractors who design and construct plants for end users, and the metal fabricators who manufacture the products or equipment that utilize Nobelclad's metal products. It is typically the fabricator that places the purchase order with Nobelclad and pays the corresponding invoice. Nobelclad has developed strong relationships over the years with the engineering contractors (relatively large companies) who sometimes act as prescriber to fabricators.

Marketing, Sales, Distribution

Nobelclad conducts its selling efforts by marketing its services to potential customers through senior management, direct sales personnel, program managers, and independent sales representatives. Prospective customers in specific industries are identified through networking in the industry, cooperative relationships with suppliers, public relations, customer references, inquiries from technical articles and seminars and trade shows. Nobelclad markets its clad metal products to three tiers of customers: end-user owner companies, engineering contractors, and metal fabricators. Nobelclad's sales office in the United States covers the Americas and East Asia. Its sales offices in Europe cover the full European continent, Africa, the Middle East, India, and Southeast Asia. These sales teams are further supported by local sales offices in Italy, the Middle East, and India, with contract agents in most other developed countries, including China, Korea, Russia and Brazil. Contract agents typically work under multi-year agreements which are subject to sales performance as well as compliance with Nobelclad quality and customer service expectations. Members of the global sales team may be called to work on projects located outside their usual territory. By maintaining relationships with its existing customers, developing new relationship with prospective customers, and educating all its customers as to the technical benefits of Nobelclad's products, Nobelclad endeavors to have its products specified as early as possible in the design process.

Nobelclad's sales are generally shipped from the manufacturing locations in the United States, Germany and France. Generally, any shipping costs or duties for which Nobelclad is responsible will be included in the price paid by the customer. Regardless of where the sale is booked (in Europe or the U.S.), Nobelclad will produce it, capacity permitting, at the location closest to the delivery place. In the event that there is a short term capacity issue, Nobelclad produces the order at any of its production sites, prioritizing timing. The various production sites allow Nobelclad to meet customer production needs in a timely manner.

Research and Development

We prepare a formal research and development plan annually. It is implemented at the French, German, and U.S. cladding sites and is supervised by a Technical Committee, chaired by our Senior Vice President Customers and Technology, that reviews progress quarterly and meets once a year to establish the plan for the following 12 months. The research and development projects concern process support, new products, and special customer-paid projects.

Table of Contents

DYNAenergetics

Suppliers and Raw Materials

DYNAenergetics utilizes a variety of raw materials for the production of oilfield perforating and seismic products, including high quality steel tubes, steel and copper, explosives (RDX, HMX, HNS), granulates, plastics and ancillary plastic product components. DYNAenergetics product line consists of complex products which require numerous high quality components. DYNAenergetics obtains its raw materials primarily from a number of different producers in Germany and other European countries, but also purchases materials from North American, Chinese, and other international suppliers.

Competition

DYNAenergetics faces competition from independent producers of perforating products who are not committed to the large service companies and from large oil and gas service companies, such as Halliburton and Schlumberger, who produce most of their own needs for shaped charges but buy other components from suppliers. DYNAenergetics competes for sales primarily on price and customer service as well as the quality and performance of its products.

Customer Profile

Onshore and offshore oilfield service companies use our DYNAenergetics products. Our customers desire perforating products that satisfy both their specific needs and expectations and difficult geological realities, such as high pressures and temperatures in the bore hole, which exist in areas where perforating products and services are used. We believe that our customers must balance costs and risks for every job and that our typical DYNAenergetics customer possesses a conservative risk tolerance. Consequently, we believe that our customers will be more likely to trust products with proven reliability in the field and will be cautious regarding new product innovation.

The customers for oilfield products can be divided into four broad categories: buying centers of large service companies, service companies worldwide, oil companies with and without their own service companies, and local resellers. DYNAenergetics customer base includes clients from each of these categories.

Marketing, Sales, Distribution

DYNAenergetics worldwide marketing and sales efforts for its oilfield and seismic products are based in Laatzen, Germany. DYNAenergetics sales strategy focuses on direct selling, distribution through licensed distributors and independent sales representatives, the establishment of international distribution centers to better manage high international transport costs, and educating current and potential customers about its

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

products and technologies. Currently, DYNAenergetics sells its oilfield and seismic products through wholly owned affiliates in the U.S., Canada and Russia; through a majority owned subsidiary in Kazakhstan; and through independent sales agents in other parts of the world. DYNAenergetics has fourteen sales and distributions centers in the United States and Canada to better serve its oilfield customers in these regions.

Research and Development

DYNAenergetics attaches great importance to its research and development capabilities and has devoted substantial resources to its R&D programs. The R&D staff works closely with sales and operations management teams to establish priorities and effectively manage individual projects. Through its ongoing involvement in oil and gas industry trade shows and conferences, DYNAenergetics has increased its profile in the oil and gas industry. An R&D Project Plan, which focuses on new products, process support and customer paid projects, is prepared and reviewed at least annually in cooperation with the Sales, Operations and Quality departments.

AMK Welding

At AMK Welding, the materials welded are a function of the type of parts supplied by the customers and include many steel varieties, various nickel alloys and customer-created proprietary alloys typically used in the aerospace and

Table of Contents

ground turbine industries. Other than metal wire used in the welding process, AMK Welding does not purchase metals, and it receives the parts to be welded from the customer.

AMK Welding relies on a few key customers for the majority of its business, including GE Energy, General Electric Aircraft Engines and their first tier subcontractors, such as Barnes Aerospace, and divisions of United Technology, such as Hamilton Standard, Sikorsky Aircraft and Pratt and Whitney. AMK Welding generally competes against a small number of welding companies that are typically privately owned. AMK Welding competes successfully based on a reputation for uncompromising quality and rapid responsiveness to customer needs.

Corporate History and Recent Developments

The genesis of the Company was an unincorporated business called Explosive Fabricators, which was formed in Colorado in 1965. The business was incorporated in Colorado in 1971 under the name E. F. Industries, Inc., which was later changed to Explosive Fabricators, Inc. The Company became a public company in 1977. In 1994, the Company changed its name to Dynamic Materials Corporation. The Company reincorporated in Delaware in 1997.

In 1976, the Company became a licensee of Detaclad®, the explosion-weld clad process developed by DuPont in 1959. In 1996, the Company purchased the Detaclad® operating business from Dupont.

Through a series of transactions culminating in June 2000, SNPE, Inc. (SNPE), a U.S. corporation indirectly wholly owned by the French Government, acquired approximately 56% of the Company's outstanding common stock through open market purchases as well as direct investment in the Company. SNPE also loaned the Company approximately \$1.2 million using a convertible subordinated note. On May 15, 2006, SNPE sold all of the shares it had previously purchased, as well as those received through the conversion of the note, in an underwritten public offering.

During its history, the Company has acquired a number of businesses. In 1998, the Company acquired AMK Welding, currently an operating division of the Company. Also in 1998, the Company acquired two other businesses which were subsequently sold in 2003 and 2004, respectively.

In 2001, the Company acquired substantially all of the stock of Nobelclad Europe SA (a French company) (Nobelclad); Nobelclad had previously acquired the stock of Nitro Metall AB (a Swedish company) (Nitro Metall). The stock of Nobelclad was acquired from an affiliate of our parent company at the time, SNPE. Early in its history, Nobelclad was a licensee of the Detaclad® technology. The acquisition of Nobelclad expanded the Company's explosive metalworking operations to Europe.

In 2007, the Company acquired the German company DYNAenergetics GmbH and Co. KG (DYNAenergetics) and certain affiliates. DYNAenergetics was comprised of two primary businesses: explosive metalworking and oilfield products. This acquisition expanded the Company's explosive metalworking operations in Europe and added a complimentary business segment, oilfield products.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

In 2009, the Company acquired all of the stock of Alberta Canada based LRI Oil Tools Inc. (LRI) which is now operating under the name of DYNAenergetics Canada. DYNAenergetics Canada produces and distributes perforating equipment for use by the oil and gas exploration and production industry. The business had a long-term strategic relationship with the Company's Oilfield Products segment, and had served for several years as its sole Canadian distributor.

On April 30, 2010, the Company purchased the outstanding minority-owned interests in its two Russian joint ventures that were previously majority-owned by the Company's Oilfield Products business segment. These joint ventures include DYNAenergetics RUS, which is a Russian trading company that sells the Company's oilfield products, and Perfoline, which is a Russian manufacturer of perforating gun systems.

On June 4, 2010, the Company completed its acquisition of Texas-based Austin Explosives Company (AECO), which is now operating under the name DYNAenergetics US, Inc. This business is now part of the Company's Oilfield Products business segment. AECO had been a long-time distributor of DYNAenergetics shaped charges.

On January 3, 2012, the Company acquired the assets and operating business of Texas-based TRX Industries, Inc., (TRX), a manufacturer of perforating guns and one of DYNAenergetic's suppliers. This business is now part of the Company's Oilfield Products business segment.

Our current explosive metalworking segment is comprised of the Company's U.S. Clad operations as well as the assets and operations purchased in the Nobelclad and Dynaplat acquisitions. We recently branded our explosive

Table of Contents

metalworking operations under the single name Nobelclad. The Oilfield Products segment is comprised entirely of DYNAenergetics and its subsidiaries. Our third segment is AMK Welding. Property locations for these operations are listed in detail in Item 2.

Employees

As of December 31, 2012, we employed 511 employees, the majority of whom are engaged in manufacturing operations, with the remainder being engaged in sales and marketing or corporate functions.

The majority of our manufacturing employees are not unionized. Of the 511 employees, 231 are U.S. based, 134 are based in Germany at the Dynaplat and DYNAenergetics facilities, 65 are based in France at the Nobelclad facility, 40 are based in Canada at the DYNAenergetics Canada facilities, 34 are based in Russia at our DYNAenergetics RUS and Perfoline facilities, 6 are based in Kazakhstan at our KAZ DYNAenergetics facility and 1 is based in Sweden. Approximately 60% of our German-based employees are members of trade unions. About 45% of Nobelclad's employees and all Nitro Metall employees are members of trade unions. In addition, we also use a number of temporary workers at any given time, depending on the workload.

In the last three years, the Company has not experienced any strikes or work stoppages. We believe that employee relations are good.

Insurance

Our operations expose us to potential liabilities for personal injury or death as a result of the failure of a component that has been designed, manufactured, or serviced by us, or the irregularity or failure of products we have processed or distributed. We maintain liability insurance that we believe adequately protects us from future product liability claims.

Proprietary Knowledge, Permits and Patents

Protection of Proprietary Information. We hold patents related to the business of explosive metalworking and metallic processes and also own certain registered trademarks, including Detaclad®, Detacouple®, Dynalock®, EFTEK®, ETJ 2000® and NOBELCLAD®. Although the patents for the explosion-welded cladding process have expired, our current product application patents expire on various dates through 2020. Since individual patents relate to specific product applications and not to core technology, we do not believe that such patents are material to our business, and the expiration of any single patent is not expected to have a material adverse effect on our operations. Much of the manufacturing expertise lies in the knowledge of the factors that affect the quality of the finished clad product, including the types of metals to be explosion-welded, the setting of the explosion, the composition of the explosive, and the preparation of the plates to be bonded. We have developed this specialized knowledge over our 40 years of experience in the explosive metalworking business. We are very careful in protecting our proprietary know-how and manufacturing expertise, and we have implemented measures and procedures to ensure that the information remains confidential. We hold various patents and licenses through our DYNAenergetics perforating business, but some of the patents are not yet registered. As with the explosive metalworking business segment, since individual patents relate to specific product applications and not to core technology, we do not believe that such patents are material to our business, and the expiration of any single patent is not expected to have a

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

material adverse effect on our current operations. The Dynaplat division of Nobelclad is protected through business secrets not through patents.

Permits. Explosive metalworking and the production of perforation products involve the use of explosives, making safety a critical factor in our operations. In addition, explosive metalworking and the production of oilfield products are highly regulated industries for which detailed permits are required. These permits require renewal every three or four years, depending on the permit. See Item 1A Risk Factors *Risk Factors Related to the Dynamic Materials Corporation* We are subject to extensive government regulation and failure to comply could subject us to future liabilities and could adversely affect our ability to conduct or to expand our business for a more detailed discussion of these permits.

Table of Contents**Foreign and Domestic Operations and Export Sales**

All of our sales are shipped from our manufacturing facilities located in the United States, Germany, France, Canada, Sweden and Russia. During 2011, we closed our manufacturing facility in Sweden. The following chart represents our net sales based on the geographic location of the customer. The sales recorded for each country are based on the country to which we shipped the product, regardless of the country of the actual end user. Explosion Metalworking products are usually shipped to the fabricator before being passed on to the end user.

	(Dollars in Thousands)		
	For the years ended December 31,		
	2012	2011	2010
United States	\$ 78,676	\$ 81,410	\$ 44,587
Canada	21,083	24,151	29,907
Germany	13,992	12,960	25,109
South Korea	9,469	29,951	10,309
China	7,986	1,468	1,797
France	6,838	3,828	5,425
Russia	6,472	8,658	7,067
Rest of the world	57,051	46,465	30,538
Total	\$ 201,567	\$ 208,891	\$ 154,739

Company Information

We are subject to the informational requirements of the Securities Exchange Act of 1934. We therefore file periodic reports, proxy statements and other information with the Securities Exchange Commission (the SEC). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549, or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically.

Our Internet address is www.dynamicmaterials.com. Information contained on our website does not constitute part of this Annual Report on Form 10-K. Our annual report on SEC Form 10-K, quarterly reports on Forms 10-Q, current reports on Forms 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge on our website as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC. We also regularly post information about our Company on our website under the Investors tab.

ITEM 1A. Risk Factors***Risk Factors Related to our Explosive Metalworking Segment***

Business has slowed down in some of our markets and we experienced a significant decline in 2009 and 2010 sales that is increasing only slowly.

During the fourth quarter of 2008, we began to see a slowdown in Nobelclad sales to some of the markets we serve which continued into 2009 and 2010 and contributed to declines of 31.2% and 26.5% in year-to-year 2009 and 2010 sales, respectively. Nobelclad experienced a sales recovery in 2011 which led to a 28.0% increase in year-to-year 2011 sales. Sales for 2012 were down 8.6% compared to 2011. Our order backlog, which decreased to \$49.6 million at December 31, 2009 from \$97.2 million at December 31, 2008, rebounded only modestly to \$56.5 million at December 31, 2010 before decreasing to \$44.6 million at December 31, 2011 and increasing only slightly to \$46.4 million at December 31, 2012. The explosion-weld cladding market is dependent upon sales of products for use by customers in a limited number of heavy industries, including oil and gas, alternative energy, chemicals and petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, and industrial refrigeration. These industries tend to be cyclical in

Table of Contents

nature and an economic slowdown in one or all of these industries whether due to traditional cyclicity, general economic conditions or other factors could impact capital expenditures within that industry. If demand from such industries were to decline or to experience reduced growth rates, our sales would be expected to be affected proportionately, which may have a material adverse effect on our business, financial condition, and results of operations.

Our backlog figures may not accurately predict future sales.

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

There is a limited availability of sites suitable for cladding operations.

Our cladding process involves the detonation of large amounts of explosives. As a result, the sites where we perform cladding must meet certain criteria, including lack of proximity to a densely populated area, the specific geological characteristics of the site, and the ability to comply with local noise and vibration abatement regulations in conducting the process. In addition, our primary U.S. shooting site is subleased under an arrangement pursuant to which we provide certain contractual services to the sub-landlord. The efforts to identify suitable sites and obtain permits for using the sites from local government agencies can be time-consuming and may not be successful. In addition, we could experience difficulty in obtaining or renewing permits because of resistance from residents in the vicinity of proposed sites. The failure to obtain required governmental approvals or permits could limit our ability to expand our cladding business in the future, and the failure to maintain such permits or satisfy other conditions to use the sites would have a material adverse effect on our business, financial condition and results of operations.

The use of explosives subjects us to additional regulation, and any accidents or injuries could subject us to significant liabilities.

Our operations involve the detonation of large amounts of explosives. As a result, we are required to use specific safety precautions under U.S. Occupational Safety and Health Administration guidelines and guidelines of similar entities in Germany and France. These include precautions which must be taken to protect employees from exposure to sound and ground vibration or falling debris associated with the detonation of explosives. There is a risk that an accident or death could occur in one of our facilities. Any accident could result in significant manufacturing delays, disruption of operations or claims for damages resulting from death or injuries, which could result in decreased sales and increased expenses. To date, we have not incurred any significant delays, disruptions or claims resulting from accidents at our facilities. The potential liability resulting from any accident or death, to the extent not covered by insurance, may require us to use other funds to satisfy our obligations and could cause our business to suffer. See Our use of explosives is an inherently dangerous activity that could lead to temporary or permanent closure of our shooting sites below.

Our use of explosives is an inherently dangerous activity that could lead to temporary or permanent closure of our shooting sites.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

We use a large amount of explosives in connection with the creation of clad metals. The use of explosives is an inherently dangerous activity. Explosions, even if occurring as intended, can lead to damage to the shooting facility or to equipment used at the facility or injury to persons at the facility. If a person were injured or killed in connection with such explosives, or if equipment at the mine or either of the outdoor locations were damaged or destroyed, we might be required to suspend our operations for a period of time while an investigation is undertaken or repairs are made. Such a delay might impact our ability to meet the demand for our products. In addition, if the mine were seriously damaged, we might not be able to locate a suitable replacement site to continue our operations.

Table of Contents

Certain raw materials we use are subject to supply shortages due to general economic conditions.

Although we generally use standard metals and other materials in manufacturing our products, certain materials such as specific grades of carbon steel, titanium, zirconium and nickel can be subject to supply shortages due to general economic conditions or problems with individual suppliers. While we seek to maintain sufficient alternative supply sources for these materials, we may not always be able to obtain sufficient supplies or obtain supplies at acceptable prices without production delays, additional costs, or a loss of product quality. If we were to fail to obtain sufficient supplies on a timely basis or at acceptable prices, such loss or failure could have a material adverse effect on our business, financial condition, and results of operations.

Certain raw materials Nobelclad uses are subject to price increases due to general economic conditions.

The markets for certain metals and other raw materials used by Nobelclad are highly variable and are characterized by periods of increasing prices. While prices for much of the raw materials we use have recently decreased, we may again experience increasing prices. We generally do not hedge commodity prices or enter into forward supply contracts; instead we endeavor to pass along price variations to our customers. We may see a general downturn in business if the price of raw materials increases enough for our customers to delay planned projects or use alternative materials to complete their projects.

Risk Factors Related to DYNAenergetics

Potential downturns in the oil and gas industry and related services industry could have a negative impact on DYNAenergetics' economic success.

The oil and gas industry is unpredictable and has historically been subject to occasional downturns. Demand for DYNAenergetics' products is linked to the financial success of the oil and gas industry as a whole, and downturns in the oil and gas industry, especially in the rate of well drilling, could negatively impact DYNAenergetics' economic success. A variety of factors affect the demand for DYNAenergetics products, including governmental regulation of oil and gas industry and markets, international and domestic prices for oil and gas, weather conditions, the financial condition of DYNAenergetics' clients, and consumption patterns of oil and gas.

The manufacturing of explosives subjects DYNAenergetics to various environmental, health and safety laws.

DYNAenergetics is subject to a number of environmental, health, and safety laws and regulations, the violation of which could result in significant penalties. DYNAenergetics' continued success depends on continued compliance with applicable laws and regulations. In addition, new environmental, health and safety laws and regulations could be passed which could create costly compliance issues. While DYNAenergetics endeavors to comply with all applicable laws and regulations, compliance with future laws and regulations may not be economically feasible or even possible. DYNAenergetics is also subject to potential plant stoppages resulting from explosive-related accidents.

DYNAenergetics continued economic success depends on remaining at the forefront of innovation in the perforating industry.

DYNAenergetics position in the perforation market depends in part on its ability to remain an innovative leader in the field. The ability to remain competitive depends in part on the retention of talented personnel. DYNAenergetics may be unable to remain an innovative leader in the perforation market segment or may be unable to retain top talent in the field.

Table of Contents

Risk Factors Related to Dynamic Materials Corporation

Weakness in the general global economy may adversely affect certain segments of our end market customers and reduce our sales and results of operations.

We supply products to customers that fabricate industrial equipment for various capital-intensive industries. Weakness in the general global economy may adversely affect our end market customers, causing them to cancel or postpone new plant or infrastructure construction, expansion, maintenance, or retrofitting projects that use our Nobelclad products. Similarly, any decrease in oil and gas well drilling activities will reduce the sales of our DYNAenergetics products. Any decrease in the demand for gas turbines and airplane engines will reduce the demand for the work performed by our AMK division. The global general economic climate may lessen demand for our products and reduce our sales and results of operations.

Our operating results fluctuate from quarter to quarter.

We have experienced, and expect to continue to experience, fluctuations in annual and quarterly operating results caused by various factors, including the timing and size of orders by major customers, customer inventory levels, shifts in product mix, acquisitions and divestitures, and general economic conditions. The upstream oil and gas, oil refinery, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and other diversified industries to which we sell our products are, to varying degrees, cyclical and tend to decline in response to overall declines in industrial production. As a result, our business is also cyclical, and the demand for our products by these customers depends, in part, on overall levels of industrial production. Any future material weakness in demand in any of these industries could materially reduce our revenues and profitability. In addition, the threat of terrorism and other geopolitical uncertainty could have a negative impact on the global economy, the industries we serve and our operating results.

We typically do not obtain long-term volume purchase contracts from our customers. Quarterly sales and operating results, therefore, depend on the volume and timing of the orders in our backlog as well as bookings received during the quarter. Significant portions of our operating expenses are fixed, and planned expenditures are based primarily on sales forecasts and product development programs. If sales do not meet our expectations in any given period, the adverse impact on operating results may be magnified by our inability to adjust operating expenses sufficiently or quickly enough to compensate for such a shortfall. Results of operations in any period should not be considered indicative of the results for any future period. Fluctuations in operating results may also result in fluctuations in the price of our common stock. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

We are exposed to potentially volatile fluctuations of the U.S. dollar (our reporting currency) against the currencies of many of our operating subsidiaries.

Many of our operating subsidiaries conduct business in Euros or other foreign currency. Any increase (decrease) in the value of the U.S. dollar against any foreign currency that is the functional currency of any of our operating subsidiaries will cause us to experience foreign currency translation losses (gains) with respect to amounts already invested in such foreign currencies. In addition, our company and our operating subsidiaries are exposed to foreign currency risk to the extent that we or they enter into transactions denominated in currencies other than our or their respective functional currencies. For example DYNAenergetics KG's functional currency is Euros, but its sales often occur in U.S. dollars.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Changes in exchange rates with respect to these items will result in unrealized (based upon period-end exchange rates) or realized foreign currency transaction gains and losses upon settlement of the transactions. In addition, we are exposed to foreign exchange rate fluctuations related to our operating subsidiaries' assets and liabilities and to the financial results of foreign subsidiaries and affiliates when their respective financial statements are translated into U.S. dollars for inclusion in our consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive income (loss) as a separate component of equity. As a result of foreign currency risk, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations. The primary exposure to foreign currency risk for us is to the Euro due to the percentage of our U.S. dollar revenue that is derived from countries where the Euro is the functional currency.

Table of Contents

The terms of our indebtedness contain a number of restrictive covenants, the breach of any of which could result in acceleration of payment of our credit facilities.

We are parties to a syndicated credit agreement that, as of December 31, 2012, had an outstanding balance of approximately \$37.8 million. Our credit agreement includes various covenants and restrictions, certain of which relate to the incurrence of additional indebtedness; mortgaging, pledging or disposition of major assets; and limits on capital expenditures and other investments. We are also required to maintain certain financial ratios on a quarterly basis. A breach of any of these covenants could result in acceleration of our obligations to repay our debt. As of December 31, 2012, we were in compliance with all financial covenants and other provisions of the credit agreement and our other loan agreements. However, our ability to comply with these covenants and ratios may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Any failure to remain in compliance with any material provision or covenant of our credit agreement could result in a default which would, absent a waiver or amendment, require immediate repayment of outstanding indebtedness under our credit facilities. It may be difficult to liquidate assets sufficient to immediately repay our outstanding indebtedness under our credit facility.

Customers have the right to change orders until products are completed.

Customers have the right to change orders after they have been placed. If orders are changed, the extra expenses associated with the change will be passed on to the customer. However, because a change in an order may delay completion of the project, recognition of income for the project may also be delayed.

There is no assurance that we will continue to compete successfully against other clad, perforating, and welding companies.

Our explosion-welded clad products compete with explosion-welded clad products made by other manufacturers in the clad metal business located throughout the world and with clad products manufactured using other technologies. Our combined North American and European operations typically supply explosion-welded clad to the worldwide market. There is one other well-known explosion-welded clad supplier worldwide, a division of Asahi-Kasei Corporation of Japan. There are also a number of smaller companies worldwide with explosion-welded clad manufacturing capability, including several companies in China. There are currently no other significant North American based explosion-welded clad suppliers. We focus strongly on reliability, product quality, on-time delivery performance, and low cost manufacturing to minimize the potential of future competitive threats. However, there is no guarantee we will be able to maintain our competitive position.

Explosion-welded clad products also compete with those manufactured by rollbond and weld overlay cladding processes. In rollbond technology, the clad and base metal are bonded together during a hot rolling process in which slab is converted to plate. In weld overlay, which is typically performed by our fabricator customers, the cladding layer is deposited on the base metal through a fusion welding process. The technical and commercial niches of each cladding process are well understood within the industry and vary from one world market location to another. Our products compete with weld overlay clad products manufactured by a significant number of our fabricator customers.

DYNAenergetics competes principally with perforating companies based in North America, South America, and Russia who produce and market perforating services and products. DYNAenergetics also competes with oil and gas service companies who are able to satisfy a portion of their perforating needs through in-house production. To remain competitive, DYNAenergetics must continue to provide innovative products

and maintain an excellent reputation for quality, safety, and value. There can be no assurances that we will continue to compete successfully against these companies.

AMK Welding competes principally with other domestic companies that provide welding services to the aircraft engine and power generation industries. Some of these competitors have established positions in the market and long standing relationships with customers. To remain competitive, we must continue to develop and provide technologically advanced welding, heat-treat and inspection services, maintain quality levels, offer flexible delivery schedules, and compete favorably on the basis of price. We compete against other welding companies on the basis of quality, performance and cost. There can be no assurance that we will continue to compete successfully against these companies.

Table of Contents

We are dependent on a relatively small number of customers for a significant portion of our net sales.

A significant portion of our net sales 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. We expect to continue to depend upon our principal customers for a significant portion of our sales, although our principal customers may not continue to purchase products and services from us at current levels, if at all. The loss of one or more major customers or a change in their buying patterns could have a material adverse effect on our business, financial condition, and results of operations.

In past years, the majority of Nobelclad's revenues have been derived from customers in the oil and gas, alternative energy, chemicals and petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation and industrial refrigeration industries and the majority of AMK Welding's revenues have been derived from customers in the aircraft engine and power generation industries. Economic downturns in these industries could have a material adverse effect on our business, financial condition, and results of operations.

DYNAenergetics, which contributed approximately 39% to our 2012 sales, has customers throughout the world. Economic or political instability in certain regions of the world where DYNAenergetics conducts a significant volume of its business, such as Russia, could have a material adverse effect on DYNAenergetics' business and operating results.

AMK Welding, contributed approximately 4% to our 2012 sales, continues to rely primarily on one customer for the majority of its sales. This customer and AMK Welding have entered into a long-term supply agreement for certain of the services provided to this customer. Any termination of or significant reduction in AMK Welding's business relationship with this customer could have a material adverse effect on AMK Welding's business and operating results.

Failure to attract and retain key personnel could adversely affect our current operations.

Our continued success depends to a large extent upon the efforts and abilities of key managerial and technical employees. The loss of services of certain of these key personnel could have a material adverse effect on our business, results of operations, and financial condition. There can be no assurance that we will be able to attract and retain such individuals on acceptable terms, if at all; and the failure to do so could have a material adverse effect on our business, financial condition, and results of operations.

Liabilities under environmental and safety laws could result in restrictions or prohibitions on our facilities, substantial civil or criminal liabilities, as well as the assessment of strict liability and/or joint and several liability.

We are subject to extensive environmental and safety regulation in North America and Europe. Any failure to comply with current and future environmental and safety regulations could subject us to significant liabilities. In particular, any failure to control the discharge of hazardous materials and wastes could subject us to significant liabilities, which could adversely affect our business, results of operations or financial

condition.

We and all our activities in the United States are subject to federal, state and local environmental and safety laws and regulations, including but not limited to, noise abatement and air emissions regulations, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, regulations issued and laws enforced by the labor and employment departments of the U.S. and the states in which we conduct business, by the U.S. Department of Commerce, the U.S. Environmental Protection Agency, and by state and local health and safety agencies. In Germany, we and all our activities are subject to various safety and environmental regulations of the federal state which are enforced by the local authorities, including the Federal Act on Emission Control (Bundesimmissionsschutzgesetz). The Federal Act on Emission Control permits are held by companies jointly owned by DYNAenergetics and the other companies that are located at the Würgendorf and Troisdorf manufacturing sites and are for an indefinite period of time. In France, we and all our activities are subject to state environmental and safety regulations established by various departments of the French Government, including the Ministry of Labor, the Ministry of Ecology and the Ministry of Industry, and to local

Table of Contents

environmental and safety regulations and administrative procedures established by DRIRE (Direction Régionale de l' Industrie, de la Recherche et de l' Environnement) and the Préfecture des Pyrénées Orientales. In addition, our shooting operations in Germany and France may be particularly vulnerable to noise abatement regulations because these operations are primarily conducted outdoors. The Dillenburg facility is operated based on a mountain plan (Bergplan), which is a specific permit granted by the local mountain authority. This permit must be renewed every three years.

Changes in or compliance with environmental and safety laws and regulations could inhibit or interrupt our operations, or require modifications to our facilities. Any actual or alleged violations of environmental and safety laws could result in restrictions or prohibitions on our facilities, substantial civil or criminal sanctions, as well as the assessment of strict liability and/or joint and several liability under applicable law. Under certain environmental laws, we could be held responsible for all of the costs relating to any contamination at our or our predecessor's past or present facilities and at third party waste disposal sites. We could also be held liable for any and all consequences arising out of human exposure to hazardous substances or other environmental damage. Accordingly, environmental, health or safety matters may result in significant unanticipated costs or liabilities.

We are subject to extensive government regulation and failure to comply could subject us to future liabilities and could adversely affect our ability to conduct or to expand our business.

We are subject to extensive government regulation in the United States, Germany, France, Canada, Russia and Kazakhstan, including guidelines and regulations for the safe manufacture, handling, transport and storage of explosives issued by the U.S. Bureau of Alcohol, Tobacco and Firearms; the Federal Motor Carrier Safety Regulations set forth by the U.S. Department of Transportation; the Safety Library Publications of the Institute of Makers of Explosive; and similar guidelines of their European counterparts. In Germany, the transport, storage and use of explosives is governed by a permit issued under the Explosives Act (Sprengstoffgesetz). In France, the manufacture and transportation of explosives is subcontracted to a third party which is responsible for compliance with regulations established by various State and local governmental agencies concerning the handling and transportation of explosives. Our French operations could be adversely affected if the third party does not comply with these regulations. We must comply with licensing and regulations for the purchase, transport, storage, manufacture, handling and use of explosives. In addition, while our shooting facilities in Würzburg and Troisdorf, Germany and Tautavel, France are located outdoors, our shooting facilities located in Pennsylvania and in Dillenburg, Germany are located in mines, which subject us to certain regulations and oversight of governmental agencies that oversee mines.

We are also subject to extensive environmental and occupational safety regulation, as described below under Liabilities under environmental and safety laws could result in restrictions or prohibitions on our facilities, substantial civil or criminal liabilities, as well as the assessment of strict liability and/or joint and several liability and The use of explosives subjects us to additional regulation, and any accidents or injuries could subject us to significant liabilities.

The export of certain products from the United States or from foreign subsidiaries of U.S. companies is restricted by U.S. and similar foreign export regulations. These regulations generally prevent the export of products that could be used by certain end users, such as those in the nuclear or biochemical industries. In addition, the use and handling of explosives may be subject to increased regulation due to heightened concerns about security and terrorism. Such regulations could restrict our ability to access and use explosives and increase costs associated with the use of such explosives, which could have a material adverse effect on our business, financial condition, and results of operations.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Any failure to comply with current and future regulations in North America and Europe could subject us to future liabilities. In addition, such regulations could restrict our ability to expand our facilities, construct new facilities, or compete in certain markets or could require us to incur other significant expenses in order to maintain compliance. Accordingly, our business, results of operations or financial condition could be adversely affected by our non-compliance with applicable regulations, by any significant limitations on our business as a result of our inability to comply with applicable regulations, or by any requirement that we spend substantial amounts of capital to comply with such regulations.

Table of Contents

Work stoppages and other labor relations matters may make it substantially more difficult or expensive for us to produce our products, which could result in decreased sales or increased costs, either of which would negatively impact our financial condition and results of operations.

We are subject to the risk of work stoppages and other labor relations matters, particularly in Germany and France, where some of our employees are unionized. The employees at our U.S. and Canadian facilities, where a significant portion of our products are manufactured, are not unionized. While we believe our relations with employees are satisfactory, any prolonged work stoppage or strike at any one of our principal facilities could have a negative impact on our business, financial condition or results of operations. We have not experienced a strike or work stoppage in the last 3 years. However, if a work stoppage occurs at one or more of our facilities, it may materially impair our ability to operate our business in the future.

As we regularly test the value of goodwill associated with our recent acquisitions, economic conditions may lead to an impairment of such goodwill.

We review the carrying value of goodwill at least annually to assess impairment because it is not amortized. Additionally, we review the carrying value of any intangible asset or goodwill whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Our impairment testing in the fourth quarter of 2012 did not result in a determination that any of our goodwill was impaired. However, future impairment is possible and could occur if (i) the operating results underperform what we have estimated or (ii) additional volatility of the capital markets should cause us to raise the percent discount rate utilized in our discounted cash flow analysis or decrease the multiples utilized in our market-based analysis. The use of different estimates or assumptions within our discounted cash flow model when determining the fair value of our reporting units or using methodologies other than as described above could result in different values for reporting units and could result in an impairment charge.

The unsuccessful integration of a business we acquire could have a material adverse effect on operating results.

We continue to consider possible acquisitions as part of our growth strategy. Any potential acquisition may require additional debt or equity financing, resulting in additional leverage and dilution to existing stockholders. We may be unable to consummate any future acquisition. If any acquisition is made, we may not be able to integrate such acquisition successfully without a material adverse effect on our financial condition or results of operations.

Table of Contents

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Corporate Headquarters

Our corporate headquarters are located in Boulder, Colorado. The term of the lease for the office space is through November 30, 2015, with renewal options through November 30, 2021.

Explosive Metalworking

We own our principal domestic manufacturing site, which is located in Mount Braddock, Pennsylvania. We currently lease our primary domestic shooting site, which is located in Dunbar, Pennsylvania, and we also have license and risk allocation agreements relating to the use of a secondary shooting site that is located within a few miles of our Mount Braddock, Pennsylvania manufacturing facility. The shooting site in Dunbar and the nearby secondary shooting site support our Mount Braddock manufacturing facility. The lease for the Dunbar property will expire on December 15, 2015, but we have options to renew the lease which extend through December 15, 2029. The license and risk allocation agreements will expire on December 31, 2018, but we have options to renew these agreements through December 31, 2028. Our German subsidiary, Dynaplat, has a manufacturing site in Würgendorf, Germany and a shooting site in Dillenburg, Germany. Portions of these sites are leased and portions are owned. The lease expiration date for our Würgendorf manufacturing site is August 31, 2016, but we have options to renew the lease through August 31, 2021 and the expiration date for our Dillenburg shooting site is August 31, 2016 and may be renewed. Our French subsidiary, Nobelclad, owns the land and the buildings housing its operations in Rivesaltes, France, and Tautavel, France (except for a small portion in Tautavel that is leased). This lease expires on December 31, 2016, and may be extended.

Oilfield Products

Our German subsidiary, DYNAenergetics, leases a manufacturing site and sales office in Troisdorf, Germany. The lease expiration date for our Troisdorf manufacturing site is December 31, 2015 and for the sales office the lease expiration date is February 29, 2016. Our Canadian subsidiary, DYNAenergetics Canada leases office and warehouse space in various cities throughout Alberta, Canada. They also lease bunkers for storage of their explosives in various locations throughout Alberta, Canada. These agreements are on a month to month basis. Our DYNAenergetics US subsidiary leases office and warehouse space in various cities throughout Texas, as well as Lafayette, Louisiana and New Mexico. They also lease storage bunkers in various locations in Texas, Arkansas, Louisiana and New Mexico which have month to month agreements. Our Russian subsidiaries lease office and warehouse space in Tyumen and Moscow, Russia. Our Kazakhstan subsidiary leases office and warehouse space in Aktobe, Kazakhstan.

AMK Welding

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

We own the land and buildings housing the operations of AMK Welding in South Windsor, Connecticut.

Below are charts summarizing our properties by segment, including their location, type, size, whether owned or leased and lease terms, if applicable.

Corporate Headquarters

Location	Facility Type	Facility Size	Owned/Leased	Expiration Date of Lease (if applicable)
Boulder, Colorado	Corporate and Sales Office	14,630 sq. ft.	Leased	November 30, 2015, with renewal options through November 30, 2021

Table of Contents*Explosive Metalworking*

Location	Facility Type	Facility Size	Owned/Leased	Expiration Date of Lease (if applicable)
Mt. Braddock, Pennsylvania	Clad Plate Manufacturing	48,000 sq. ft.	Owned	
Dunbar, Pennsylvania	Clad Plate Shooting Site	322 acres	Leased	December 15, 2015, with renewal options through December 15, 2029
Rivesaltes, France	Clad Plate Manufacturing	6.6 acres	Owned	
Rivesaltes, France	Clad Plate Manufacturing, Nobelclad Europe Sales and Administration Office	49,643 sq. ft.	Owned	
Rivesaltes, France	Clad Plate Manufacturing	Land around building: 61,354 sq. ft.	Leased	June 31, 2020, with renewal options
		Building: 11,302 sq. ft.	Leased	
Tautavel, France	Clad Shooting Site	116 acres	109 acres owned, 7 acres leased	December 31, 2016, with renewal options
Dillenburg Germany	Dynaplat, Shooting site	11.4 acres	Owned	
		9,849 sq. ft.	Leased	August 31, 2013, with renewal options through August 31, 2021
Würgendorf, Germany	Dynaplat, Manufacturing	Land: 25 acres	Owned	
		Shooting site: 53,282 sq. ft.	Leased	August 31, 2016, with renewal options
		Building: 37,007 sq. ft.	Leased	
Würgendorf, Germany	Dynaplat, Sales and Administration Office	2,965 sq. ft.	Leased	March 31, 2013

Table of Contents*Oilfield Products*

Location	Facility Type	Facility Size	Owned/Leased	Expiration Date of Lease (if applicable)
Troisdorf, Germany	DYNAenergetics, Manufacturing	263,201 sq. ft.	Leased	December 31, 2015
Troisdorf, Germany	DYNAenergetics, Office	2,033 sq. ft.	Leased	February 29, 2016
Laatzen, Germany	DYNAenergetics, Sales	2,314 sq. ft.	Leased	December 31, 2013
Alberta, Canada	Various storage magazines		Leased	Month to month agreement
Calgary, Alberta	DYNAenergetics Canada, Sales office	535 sq. ft.	Leased	September 30, 2013
Edmonton, Alberta	DYNAenergetics Canada, Sales office and warehouse	24,000 sq. ft.	Leased	January 31, 2014
Edmonton, Alberta	DYNAenergetics Canada, Storage magazines	45.56 acres	Leased	Month to month agreement
Grande Prairie, Alberta	DYNAenergetics Canada, Sales office and warehouse	3,000 sq. ft.	Leased	December 31, 2015, with five year renewal options
Lloydminster, Alberta	DYNAenergetics Canada, Sales office and warehouse	5,460 sq. ft.	Leased	October 31, 2014
Red Deer, Alberta	DYNAenergetics Canada, Sales office and warehouse	6,583 sq. ft.	Leased	October 31, 2016
Austin, Texas	DYNAenergetics US, Office	2,400 sq. ft.	Leased	April 30, 2017
Bridgeport, Texas	DYNAenergetics US, Office and warehouse	4,000 sq. ft.	Leased	June 30, 2013
Bridgeport, Texas	DYNAenergetics US, Land for magazines	100 acres	Leased	Month to month agreement
Corpus Christi, Texas	DYNAenergetics US, Office and warehouse	6,000 sq. ft.	Leased	August 31, 2013
Rosharon, Texas	DYNAenergetics US, Office and warehouse	5,000 sq. ft.	Leased	August 31, 2015
Rosharon, Texas	DYNAenergetics US, Land for magazines	.25 acre	Leased	September 1, 2015
Spicewood, Texas	DYNAenergetics US, Land for magazines	500 acres	Leased	December 31, 2015
Tyler, Texas	DYNAenergetics US, Office and warehouse	4,000 sq. ft.	Leased	September 30, 2013
Victoria, Texas	DYNAenergetics US, Office and warehouse	4,000 sq. ft.	Leased	June 30, 2013
Victoria, Texas	DYNAenergetics US, Storage magazine	4,000 sq. ft.	Leased	Month to month agreement
East Camden, AR	DYNAenergetics US, Storage magazine	6,000 sq. ft.	Leased	Month to month agreement

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

Location	Facility Type	Facility Size	Owned/Leased	Expiration Date of Lease (if applicable)
Lafayette, Louisiana	DYNAenergetics US, Office and warehouse	6,800 sq. ft	Leased	Month to month agreement
Beaux Bridge, Louisiana	DYNAenergetics US, Storage magazine	600 sq. fe	Leased	Month to month agreement
Hobbs, New Mexico	DYNAenergetics US, Office and warehouse	5,000 sq. ft	Leased	June 30, 2013
Hobbs, New Mexico	DYNAenergetics US, Storage magazines	600 sq. ft	Leased	Month to month agreement
Tyumen, Russia	Perfoline, Manufacturing	23,369 sq. ft	Leased	November 30, 2013
Moscow, Russia	DYNARus, Sales office	939 sq. ft	Leased	June 30, 2013
Chapaevsk Russia	DYNARus, Warehouse	300 sq. ft	Leased	December 31, 2015
Noyabrsk, Russia	DYNARus, Warehouse	3,229 sq. ft	Leased	June 30, 2013
Nizhnevartovsk, Russia	DYNARus, Warehouse	7,750 sq. ft	Leased	March 31, 2014
Sheremetyevo, Russia (Mezdunarodnoye Shosse 9)	DYNARus, Warehouse	Any shipped quantity of goods	Leased	Not limited
Aktobe, Kazakhstan	KazDYNAenergetics, Sales Office	538 sq. ft	Owned	
Aktobe, Kazakhstan	KazDYNAenergetics, Land (sales office)	0.09 acres	Owned	
Aktobe, Kazakhstan	KazDYNAenergetics, Box for keeping truck and hardware	1,076.4 sq. ft	Leased	Subject for prolongation every year
Aktobe, Kazakhstan	KazDYNAenergetics, Bunker	2,388.5 sq. ft	Owned	
Aktobe, Kazakhstan	KazDYNAenergetics, Land	20 acres	Leased	Year 2050
Aktobe, Kazakhstan	KazDYNAenergetics, Land (power line)	0.5 acres	Leased	Year 2050

AMK Welding

Location	Facility Type	Facility Size	Owned/Leased	Expiration Date of Lease (if applicable)
South Windsor, Connecticut	AMK Welding	33,850 sq. ft.	Owned	

ITEM 3. Legal Proceedings

Although we may in the future become a party to litigation, there are no pending legal proceedings against us.

ITEM 4. Mine Safety Disclosures

Not applicable.

Table of Contents**PART II****ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is publicly traded on The Nasdaq National Market (Nasdaq) under the symbol BOOM. The following table sets forth quarterly high and low sales prices for the common stock during our last two fiscal years, as reported by Nasdaq.

2012	High		Low	
First Quarter	\$	24.53	\$	19.37
Second Quarter	\$	21.50	\$	15.35
Third Quarter	\$	18.65	\$	14.74
Fourth Quarter	\$	15.52	\$	12.18
2011				
First Quarter	\$	27.99	\$	19.55
Second Quarter	\$	29.69	\$	20.00
Third Quarter	\$	24.49	\$	14.00
Fourth Quarter	\$	24.10	\$	15.00

As of March 11, 2013, there were approximately 351 holders of record of our common stock.

We declared and paid quarterly dividends aggregating \$0.16 per share dividend in each of 2012 and 2011. We may pay quarterly dividends subject to capital availability and periodic determinations that cash dividends 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 considerations, changes in income tax laws, and any other factors that our Board of Directors deems relevant. Any determination to pay cash dividends will be at the discretion of the Board of Directors.

Table of Contents

FINANCIAL PERFORMANCE

The following graph compares the performance of our common stock with the Nasdaq Non-Financial Stocks Index and the Nasdaq Composite (U.S.) Index. The comparison of total return (change in year-end stock price plus reinvested dividends) for each of the years assumes that \$100 was invested on December 31, 2007, in each of the Company, Nasdaq Non-Financial Stocks Index and the Nasdaq Composite (U.S.) Index with investment weighted on the basis of market capitalization. Historical results are not necessarily indicative of future performance.

Total Return Analysis	12/31/07	12/31/08	12/31/09	12/31/10	12/30/11	12/31/12
Dynamic Materials Corporation	\$ 100	\$ 32.93	\$ 34.41	\$ 39.10	\$ 34.53	\$ 24.50
Nasdaq Non-Financial Stocks	\$ 100	\$ 58.78	\$ 88.64	\$ 104.98	\$ 104.84	\$ 122.87
Nasdaq Composite (US)	\$ 100	\$ 61.17	\$ 87.93	\$ 104.13	\$ 104.69	\$ 123.85

Table of Contents**ITEM 6. Selected Financial Data**

The following selected financial data should be read in conjunction with the Consolidated Financial Statements, including the related Notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations. The 2009 selected financial data includes the operating results of LRI from the October 1, 2009, acquisition date through December 31, 2009, and balance sheet information as of December 31, 2009. The 2010 selected financial data includes consolidation of the operating results of the two Russian joint ventures from the April 30, 2010, acquisition date, through December 31, 2010, and balance sheet information as of December 31, 2010. The 2010 selected financial data also includes the operating results of DYNAenergetics US from the June 4, 2010, acquisition date, through December 31, 2010, and balance sheet information as of December 31, 2010. The 2012 selected financial data includes the operating results of TRX from the January 3, 2012, acquisition date through December 31, 2012, and the balance sheet information as of December 31, 2012.

	(Dollars in Thousands, Except Per Share Data)					
	Year Ended December 31,					
	2012	2011	2010	2009	2008	
Statement of Operations						
Net sales	\$ 201,567	\$ 208,891	\$ 154,739	\$ 164,898	\$ 232,577	
Cost of products sold	141,859	153,445	117,789	121,779	161,732	
Gross profit	59,708	55,446	36,950	43,119	70,845	
Cost and expenses	42,305	37,227	30,161	26,881	32,793	
Income from operations	17,403	18,219	6,789	16,238	38,052	
Other income (expense), net	(851)	(1,409)	(401)	(3,255)	(4,640)	
Income before income taxes	16,552	16,810	6,388	12,983	33,412	
Income tax provision	4,858	4,369	1,133	4,378	9,206	
Net income	11,694	12,441	5,255	8,605	24,206	
Net income (loss) attributable to non-controlling interest	(2)	(50)	(10)	56	138	
Net income attributable to Dynamic Materials Corporation	\$ 11,696	\$ 12,491	\$ 5,265	\$ 8,549	\$ 24,068	
Net income per share:						
Basic	\$ 0.87	\$ 0.94	\$ 0.40	\$ 0.67	\$ 1.89	
Diluted	\$ 0.87	\$ 0.93	\$ 0.40	\$ 0.66	\$ 1.87	
Weighted average number of shares outstanding:						
Basic	13,264,636	13,089,691	12,869,666	12,640,069	12,445,685	
Diluted	13,268,713	13,099,121	12,881,754	12,662,440	12,554,402	
Dividends Declared per Common Share	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.12	\$ 0.15	
Financial Position						
Current assets	\$ 100,666	\$ 91,189	\$ 72,735	\$ 87,974	\$ 91,049	
Total assets	235,431	213,426	201,393	225,176	229,586	
Current liabilities	24,378	29,310	38,392	42,135	45,747	
Long-term debt and capital lease obligations	37,853	26,650	14,734	34,556	46,514	
Other non-current liabilities	10,644	11,423	13,183	16,189	18,691	
Non-controlling interest	84	83	160	185	132	
Dynamic Materials Corporation's stockholders' equity	162,472	145,960	134,924	132,111	118,502	

Table of Contents

ITEM 7. 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 included elsewhere in this annual report.

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

Executive Overview

Our business is organized into three segments: Explosive Metalworking (which we also refer to as Nobelclad), Oilfield Products and AMK Welding. In 2012, Explosive Metalworking accounted for 57% of our net sales and 69% of our income from operations before consideration of unallocated corporate expenses and stock-based compensation expense, which are not allocated to our business segments. Our Oilfield Products and AMK Welding segments accounted for 39% and 4%, respectively, of our 2012 net sales, and 28% and 3%, respectively, of our income from operations before unallocated corporate expenses and stock-based compensation expense. In 2011 and 2010, Explosive Metalworking accounted for 60% and 64% of our net sales, respectively, and 66% and 60%, respectively, of income from operations before unallocated corporate expenses and stock-based compensation expense.

Our 2012 net sales decreased by \$7,324, or 3.5%, compared to 2011 net sales. This sales decline includes an unfavorable foreign exchange translation adjustment of \$6,464 that relates principally to the strengthening of the U.S. dollar against the Euro during 2012. Excluding the impact of this foreign exchange adjustment, the decrease in our 2012 consolidated net sales was negligible. The year-to-year consolidated net sales decrease reflects sales decreases of \$10,866 (8.6%) and \$1,080 (10.9%) for our Explosive Metalworking and AMK Welding segments, respectively, that were partially offset by a sales increase of \$4,622 (6.4%) for our Oilfield Products segment. As a result of an improvement in our consolidated gross margin rate to 29.6% in 2012 from 26.5% in 2011, our 2012 consolidated gross profit increased by \$4,262, or 7.7%, despite the 3.5% drop in our consolidated net sales. This increase in gross profit was offset by a \$5,078, or 13.6%, increase in our total operating expenses, resulting in a slight decrease in our consolidated income from operations to \$17,403 in 2012 from \$18,219 in the same period of 2011. This \$816 decrease reflects increases of \$1,381 and \$859 in the operating income reported by our Explosive Metalworking and Oilfield Products segments, respectively, which were offset by a \$1,131 decrease in AMK Welding's operating income of and increases in unallocated corporate expenses and stock-based compensation expense of \$879 and \$1,046, respectively. Reported consolidated operating income for 2012 and for 2011 includes amortization expense of \$6,210 and \$5,707, respectively, relating to purchased intangible assets associated with several acquisitions executed between November 2007 and January 2012. We reported net income of \$11,696 in 2012 compared to \$12,491 in 2011.

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, chemicals and petrochemicals, aluminum production, power generation, shipbuilding, industrial refrigeration, alternative energy and hydrometallurgy. These industries tend to be cyclical in nature and the uneven worldwide economic recovery has affected many of these markets. While certain sectors continue to be slow, including

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

alternative energy, hydrometallurgy and power generation, 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, our Explosive Metalworking segment benefited from the modest improvement during 2011 and 2012 in some of the industries it supplies and we believe that it is well-positioned to further benefit as global economic conditions improve.

As a result of acquisitions made during 2009, 2010 and 2012 and strong organic sales growth beginning in the third quarter of 2010 and continuing through the second quarter of 2012, our Oilfield Products segment has grown into a second core business for us, generating 39% of our consolidated net sales in 2012 as compared to only 13% of our consolidated net sales in 2009.

Our Explosive Metalworking backlog was \$46,398 at December 31, 2012 compared to \$44,564 at December 31, 2011. Based upon the December 31, 2012 Explosive Metalworking backlog, recent quoting activity for this segment and expected year over year sales increases for both our Oilfield Products and AMK Welding business segments, we believe

Table of Contents

that our 2013 consolidated net sales could increase by 8% to 10% from the \$201,567 in consolidated net sales that we reported in 2012.

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.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

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.

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 increased slightly to \$46,398 at December 31, 2012 from \$44,564 at December 31, 2011.

Forward-Looking Statements

This annual report and the documents incorporated by reference into it contain certain forward-looking statements within the safe harbor provisions of the Private Securities Litigations Reform Act of 1995. These statements include information with respect to our anticipated future financial condition and results of operations and businesses. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, will, continue,

Table of Contents

project, forecast, and similar expressions, as well as statements in the future tense, identify forward-looking statements.

These forward-looking statements are not guarantees of our future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements. These risks and uncertainties include:

- The ability to obtain new contracts at attractive prices;
- The size and timing of customer orders;
- Fluctuations in customer demand;
- General economic conditions, both domestically and abroad, and their effect on us and our customers;
- Competitive factors;
- The timely completion of contracts;
- The timing and size of expenditures;
- The timely receipt of government approvals and permits;
- The adequacy of local labor supplies at our facilities;
- The availability and cost of funds; and

- Fluctuations in foreign currencies.

The effects of these factors are difficult to predict. New factors emerge from time to time and we cannot assess the potential impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date of this annual report, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of such statement or to reflect the occurrence of unanticipated events. In addition, see [Risk Factors](#) for a discussion of these and other factors.

Year ended December 31, 2012 compared to Year Ended December 31, 2011

Net sales

	2012		2011		Change	Percentage Change
Net sales	\$	201,567	\$	208,891	\$ (7,324)	(3.5)%

Net sales for 2012 decreased 3.5% to \$201,567 from \$208,891 in 2011. This \$7,324 sales decline includes an unfavorable foreign exchange translation adjustment of \$6,464 that relates principally to the strengthening of the U.S. dollar against the Euro during 2012. Excluding the impact of this foreign exchange adjustment, the decrease in our 2012 consolidated net sales was only 0.4%.

Explosive Metalworking sales decreased 8.6% to \$115,333 in 2012 (57.2% of total sales) from \$126,199 in 2011 (60.4% of total sales). Our beginning of the year Explosive Metalworking backlog decreased to \$44,564 at the beginning of 2012 from \$56,539 at the beginning of 2011. The \$10,866 decrease in year-to-year 2012 sales follows this \$11,975 decrease in beginning of the year backlog. The backlog at the beginning of 2011 was favorably impacted by two large orders that we booked in December of 2010. We did not see similar large order activity near the end of either 2011 or 2012 when our year-end backlog stood at \$44,564 and \$46,398, respectively.

Oilfield Products contributed \$77,404 to sales in 2012 (38.4% of total sales) compared to \$72,782 in 2011 (34.8% of total sales), which represents a sales increase of 6.4%. Excluding incremental sales of \$5,458 from our 2012 acquisition of TRX, 2012 Oilfield Products sales decreased \$836, or 1.1%. This decrease is principally attributable to a decline in rig count in both the United States and Canada during last the first six months of 2012 which negatively affected our North America sales for this same period.

Table of Contents

AMK Welding contributed \$8,830 to 2012 sales (4.4% of total sales) versus sales of \$9,910 in 2011 (4.7% of total sales), a decrease of 10.9%. This decrease reflects a \$1,769, or 24.2%, decline in ground power sales that is attributable to a customer's decision to discontinue new production work on a ground turbine platform that has accounted for a major portion of AMK's historical ground power revenues. We believe that AMK can replace this lost revenue stream over time by developing new business opportunities with both existing and new customers in the aircraft engine, ground turbine, and oil and gas industries.

Gross profit

	2012	2011	Change	Percentage Change
Gross profit	\$ 59,708	\$ 55,446	\$ 4,262	7.7%
Consolidated gross profit margin rate	29.6%	26.5%		

Gross profit increased by 7.7% to \$59,708 in 2012 from \$55,446 in 2011, including the negative impact of \$1,555 in unfavorable foreign exchange translation adjustments relating principally to the strengthening of the U.S. dollar against the Euro. Our 2012 consolidated gross profit margin rate increased to 29.6% from 26.5% in 2011. The gross profit margin for Explosive Metalworking increased from 22.4% in 2011 to 27.0% in 2012. Oilfield Products' gross margin increased to 34.8% in 2012 from 33.4% in 2011. The gross profit margin for AMK Welding decreased to 22.1% in 2012 from 31.1% in 2011.

The significant improvement in the 2012 gross profit margin rate for our Explosive Metalworking segment relates to favorable changes in product mix as compared to 2011 combined with an improved pricing environment. 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.

The modest increase in Oilfield Products gross margin rate in 2012 relates principally to favorable changes in product/customer mix.

The decrease in AMK Welding's reported gross margin relates principally to differences in the rate at which AMK Welding absorbed its fixed manufacturing overhead costs based on the sales decrease discussed above.

Based upon the expected contribution to 2013 consolidated net sales by each of our three business segments, we expect our consolidated full year 2013 gross margin to be in a range of 27% to 29% as compared to the 29.6% gross margin that we reported for 2012.

General and administrative expenses

2012	2011	Change	Percentage Change
-------------	-------------	---------------	--------------------------

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

General and administrative expenses	\$	19,141	\$	16,711	\$	2,430	14.5%
Percentage of net sales		9.5%		8.0%			

General and administrative expenses increased by \$2,430, or 14.5%, to \$19,141 in 2012 from \$16,711 in 2011. This increase includes increases of \$1,438 in salaries and accrued incentive compensation due principally to the addition of Kevin Longe, Chief Operating Officer, in July 2012 and the hiring of other administrative personnel during the year, an increase in stock-based compensation of \$586 and a net increase of \$406 in all other expense categories. The increase in our 2012 general and administrative expenses reflects the positive impact of \$556 in favorable foreign exchange adjustments associated with the strengthening of the U.S. dollar against the Euro. As a percentage of net sales, general and administrative expenses increased to 9.5% in 2012 from 8.0% in 2011.

Selling and distribution expenses

		2012		2011		Change	Percentage Change
Selling and distribution expenses	\$	16,954	\$	14,809	\$	2,145	14.5%
Percentage of net sales		8.4%		7.1%			

Table of Contents

Selling and distribution expenses, which include sales commissions of \$1,592 in 2012 and \$1,751 in 2011, increased by 14.5% to \$16,954 in 2012 from \$14,809 in 2011, with this increase reflecting the positive impact of \$361 in favorable foreign exchange translation adjustments. This increase in our selling and distribution expenses includes increased selling and distribution expenses of \$1,159 at our U.S. divisions and \$986 at our foreign divisions. The \$1,159 increase in our U.S. selling and distribution expenses reflects a decrease in commission expense of \$314 that was offset by an increase in salaries and accrued incentive compensation of \$151, an increase of \$396 in stock-based compensation, an increase of \$170 for legal expenses and a net increase of \$756 in all other spending categories. The \$986 increase in our foreign divisions' selling and distribution expenses reflects increases of \$556 and \$155 for salary expense and sales commissions, respectively, and a net increase of \$275 in all other spending categories. As a percentage of net sales, selling and distribution expenses increased to 8.4% in 2012 compared to 7.1% in 2011.

Our 2012 consolidated selling and distribution expenses include \$6,795 and \$9,058 for our Explosive Metalworking and Oilfield Products business segments, respectively. Our 2011 consolidated selling and distribution expenses include \$6,043 and \$8,061 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.

Amortization expenses

	2012		2011		Change	Percentage Change
Amortization of purchased intangible assets	\$	6,210	\$	5,707	\$ 503	8.8%
Percentage of net sales		3.1%		2.7%		

Amortization expense relates to the amortization of values assigned to intangible assets in connection with our prior year acquisitions of DYNAenergetics, LRI, the two Russian joint ventures, Austin Explosives and our January 3, 2012 acquisition of TRX Industries. The \$503 increase in 2012 amortization expenses reflects \$894 in new amortization expense associated with the TRX acquisition that was partially offset by favorable foreign currency translation effects. Amortization expense for 2012 includes \$4,924, \$1,101, and \$185 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively. Amortization expense for 2011 includes \$4,316, \$1,191, \$200 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 and the acquisition of the two Russian joint ventures is expected to approximate 3,490 and 245, respectively, in 2013. Our 2013 amortization expense associated with the Austin Explosives acquisition and the January 2012 acquisition of TRX Industries is expected to approximate \$435 and \$895, respectively, and our 2013 amortization expense (as measured in Canadian dollars) associated with the LRI acquisition is expected to approximate 80 CAD.

Operating income

	2012		2011		Change	Percentage Change
Operating income	\$	17,403	\$	18,219	\$ (816)	(4.5)%

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Income from operations (operating income) decreased by 4.5% to \$17,403 in 2012 from \$18,219 in 2011. The above consolidated operating income totals for 2012 and 2011 include \$3,565 and \$2,686, respectively, of unallocated corporate expenses and \$4,443 and \$3,397, respectively, of stock-based compensation expense. These expenses are not allocated to our business segments and thus are not included in the below 2012 and 2011 operating income totals for Explosive Metalworking, Oilfield Products, and AMK Welding.

The \$816 decrease in our consolidated operating income reflects an increase of \$1,109 in the aggregate operating income reported by our three business segments that was offset by increases in unallocated corporate expenses and stock-based compensation expense of \$879 and \$1,046, respectively. The increase in unallocated corporate expenses relates principally to expenses associated with the addition of Kevin Longe, our current Chief Operating Officer, who joined the company in July 2012 and will succeed Yvon Cariou as President and Chief Executive Officer on March 1, 2013 upon Mr. Cariou's retirement. The increase in stock-based compensation includes \$672 relating to the accelerated recognition

Table of Contents

of stock-based compensation expense resulting from accelerated vesting of restricted stock awards associated with Mr. Cariou's planned retirement on March 1, 2013 and the December 31, 2012 retirement of another senior executive.

Explosive Metalworking reported operating income of \$17,439 in 2012 as compared to \$16,058 in 2011. This \$1,381 or 8.6% increase is largely attributable to the 20.3% increase in the 2012 gross margin rate as discussed above. Operating results of Explosive Metalworking for 2012 and 2011 include \$2,054 and \$2,224, respectively, of amortization expense of purchased intangible assets.

Oilfield Products reported operating income of \$7,047 in 2012 as compared to operating income of \$6,188 in 2011. The \$859 increase in operating income for our Oilfield Products segment is principally attributable to the sales increase of \$4,622, or 6.4%, as discussed above and the corresponding \$2,633 increase in gross profit. This gross profit increase was partially offset by an increase of \$1,774, or 9.8%, in total operating expenses. Operating results of Oilfield Products for 2012 and 2011 include \$4,156 and \$3,483, respectively, of amortization expense of purchased intangible assets.

AMK Welding reported operating income of \$925 in 2012, a decrease of \$1,131 or 55.0% from the \$2,056 in operating income that it reported in 2011. The decline in AMK's operating income is largely attributable to the declines in sales and gross margin rate as discussed above.

Other income (expense), net

	2012		2011		Change	Percentage Change
Other income (expense), net	\$	(32)	\$	528	\$ (560)	(106.1)%

We reported net other expense of \$32 in 2012 compared to net other income of \$528 in 2011. Our 2012 net other income includes net realized and unrealized foreign exchange losses of \$45 and net other income items aggregating \$13. Our 2011 net other income includes net realized and unrealized foreign exchange gains of \$372, including a gain of \$87 on our currency swap agreement, and net other income items aggregating \$156.

Interest income (expense), net

	2012		2011		Change	Percentage Change
Interest income (expense), net	\$	(819)	\$	(1,937)	\$ 1,118	(57.7)%

We recorded net interest expense of \$819 in 2012 compared to net interest expense of \$1,937 in 2011. Since our average borrowings were approximately \$6,900 on average higher during 2012 than during 2011, the significant decrease in 2012 interest expense is entirely attributable to lower average interest rates on our 2012 outstanding borrowings, including a 150 basis point interest rate reduction on revolving credit borrowings under our five-year credit facility that we entered into on December 21, 2011.

Income tax provision

	2012		2011		Change	Percentage Change
Income tax provision	\$	4,858	\$	4,369	\$ 489	11.2%
Effective tax rate		29.3%		26.0%		

We recorded an income tax provision of \$4,858 in 2012 compared to \$4,369 in 2011. Our 2012 effective tax rate increased to 29.3% from 26.0% in 2011. Our consolidated income tax provision for 2012 and 2011 included \$3,587 and \$4,078, respectively, related to U.S. taxes, with the remainder relating to net foreign tax provision of \$1,271 in 2012 and a net foreign tax benefit of \$291 in 2011 associated with our foreign operations and holding companies.

Our statutory income tax rates range from 19% to 35% for our various U.S. and foreign operating subsidiaries and holding companies. The increase in our 2012 consolidated effective tax rate relates principally to a change in U.S. income tax laws for 2012 related to the earnings of foreign subsidiaries. In January 2013, the United States Congress authorized, and the President signed into law, changes to the U. S. income tax laws which were retroactive to January 1, 2012; however, since these changes were enacted in 2013, the financial statement benefit of such credits cannot be

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

reflected until the first quarter of 2013. Had these changes been enacted before the end of 2012, our 2012 effective tax rate of 29.3% would have been reduced to approximately 23.8%. Year-to-year fluctuations in our consolidated effective tax rate also reflect 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 year.

We expect our blended effective tax rate for the full year 2013 to range from 20% to 22% based on projected pre-tax income and the financial statement benefit of certain tax credits that we will recognize in the first quarter of 2013 relating to the tax law changes enacted in January 2013 as discussed above. Excluding the impact of the first quarter tax benefit, the blended effective tax rate for 2013 is projected to be in a range of 25% to 27%.

Adjusted EBITDA

	2012	2011	Change	Percentage Change
Adjusted EBITDA	\$ 33,595	\$ 32,865	\$ 730	2.2%

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 2012 and 2011 was \$16,190 and \$14,596, 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.

	2012	2011
Net income attributable to DMC	\$ 11,696	\$ 12,491
Interest expense	832	1,945
Interest income	(13)	(8)
Provision for income taxes	4,858	4,369
Depreciation	5,537	5,492
Amortization of purchased intangible assets	6,210	5,707
EBITDA	29,120	29,996
Stock-based compensation	4,443	3,397
Other (income) expense, net	32	(528)
Equity in earnings of joint ventures		
Adjusted EBITDA	\$ 33,595	\$ 32,865

Adjusted EBITDA increased 2.2% to \$33,595 in 2012 from \$32,865 in 2011 primarily due to a \$1,594 increase in 2012 aggregate increase in non-cash depreciation, amortization of purchased intangible assets and stock-based compensation expense. This increase was partially offset by a decrease in operating income of \$816.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Year ended December 31, 2011 compared to Year Ended December 31, 2010

Net sales

	2011	2010	Change	Percentage Change
Net sales	\$ 208,891	\$ 154,739	\$ 54,152	35.0%

Table of Contents

Net sales for 2011 increased 35.0% to \$208,891 from \$154,739 in 2010. Explosive Metalworking sales increased 28.0% to \$126,199 in 2011 (60.4% of total sales) from \$98,570 in 2010 (63.7% of total sales). This \$27,629 sales increase reflects a general 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 received in December of 2010.

Oilfield Products contributed \$72,782 to sales in 2011 (34.8% of total sales) compared to \$45,332 in 2010 (29.3% of total sales), which represents a sales increase of 60.6%. Excluding incremental sales of \$5,743 from our 2010 acquisition of Austin Explosives and the step acquisition of two Russian joint ventures, 2011 Oilfield Products sales increased \$21,707, or 47.9%, reflecting a substantial increase in global oil and gas drilling activities, particularly in North America.

AMK Welding contributed \$9,910 to 2011 sales (4.7% of total sales) versus sales of \$10,837 in 2010 (7.0% of total sales), a decrease of 8.6%. This decrease includes a \$1,932 decline in sales from ground power work that was partially offset by an \$827 increase in sales from aircraft engine work.

Gross profit

	2011	2010	Change	Percentage Change
Gross profit	\$ 55,446	\$ 36,950	\$ 18,496	50.1%
Consolidated gross profit margin rate	26.5%	23.9%		

Gross profit increased by 50.1% to \$55,446 in 2011 from \$36,950 in 2010. Our 2011 consolidated gross profit margin rate increased to 26.5% from 23.9% in 2010. The gross profit margin for Explosive Metalworking increased from 18.8% in 2010 to 22.4% in 2011. Oilfield Products gross margin remained flat at 33.4% in both 2011 and 2010. The gross profit margin for AMK Welding decreased to 31.1% in 2011 from 33.1% in 2010.

The 19.3% increase in the 2011 gross profit margin rate for Explosive Metalworking reflects an 11.9% increase in our U.S. gross margin rate from 22.2% in 2010 to 24.9% in 2011 and a 45.6% increase in our European gross margin rate from 11.8% in 2010 to 17.2% in 2011 on year-to-year sales increases of 30% and 24%, respectively. The increase in the 2011 gross profit margin rate for our Explosive Metalworking segment relates principally to favorable changes in product mix as compared to 2010 but also reflects a somewhat improved pricing environment compared to the extremely competitive pricing environment that existed throughout 2010 and a more favorable absorption of fixed manufacturing overhead expenses.

The Oilfield Products gross margin rate of 33.4% in 2011 was the same as that reported in 2010. The absence of change in the Oilfield Products gross margin rate reflects favorable 2011 cost variances resulting from increased production levels that were totally offset by unfavorable changes in product/customer mix.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

The decrease in AMK Welding's reported gross margin relates principally to differences in the rate at which AMK Welding absorbed its fixed manufacturing overhead costs based on the sales decrease discussed above.

General and administrative expenses

	2011		2010		Change	Percentage Change
General and administrative expenses	\$ 16,711	\$	\$ 13,696	\$	3,015	22.0%
Percentage of net sales	8.0%		8.9%			

General and administrative expenses increased by \$3,015, or 22.0%, to \$16,711 in 2011 from \$13,696 in 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 \$2,468 or 18.0%. This increase includes increases of \$781 and \$456 in salaries and incentive compensation, respectively, an increase in legal fees of \$293, an increase in consulting fees of \$227 relating to information technology projects, an increase of \$221 in other outside professional service fees, a \$146 increase in business development expenses, an increase of \$128 in certain corporate governance and public-company expenses (board of director fees, directors and officers insurance and other

Table of Contents

investor relations expenses), and a net increase of \$216 in all other expense categories. As a percentage of net sales, general and administrative expenses decreased to 8.0% in 2011 from 8.9% in 2010.

Selling and distribution expenses

	2011	2010	Change	Percentage Change
Selling and distribution expenses	\$ 14,809	\$ 11,135	\$ 3,674	33.0%
Percentage of net sales	7.1%	7.2%		

Selling and distribution expenses, which include sales commissions of \$1,751 in 2011 and \$852 in 2010, increased by 33.0% to \$14,809 in 2011 from \$11,135 in 2010. Excluding incremental selling and distribution expenses of \$1,517 that resulted from the acquisition of Austin Explosives and the Russian joint ventures, our selling and distribution expenses increased by \$2,157 or 19.4%. This increase in our selling and distribution expenses includes increased selling and distribution expenses of \$1,160 at our U.S. divisions and \$997 at our foreign divisions. The \$1,160 increase in our U.S. selling and distribution expenses reflects increases of \$30 and \$434 for salaries and accrued incentive compensation, respectively, an increase of \$597 for sales commissions and a net increase of \$99 in all other spending categories. The \$997 increase in our foreign divisions selling and distribution expenses reflects increases of \$373 and \$302 for salary expense and sales commissions, respectively, and a net increase of \$322 in all other spending categories. As a percentage of net sales, selling and distribution expenses remained relatively flat at 7.1% in 2011 compared to 7.2% in 2010.

Our 2011 consolidated selling and distribution expenses include \$6,043 and \$8,061 for our Explosive Metalworking and Oilfield Products business segments, respectively. Our 2010 consolidated selling and distribution expenses include \$5,166 and \$5,186 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.

Amortization expenses

	2011	2010	Change	Percentage Change
Amortization of purchased intangible assets	\$ 5,707	\$ 5,330	\$ 377	7.1%
Percentage of net sales	2.7%	3.4%		

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 2011 includes \$4,316, \$1,191, and \$200 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively and increased from 2010, primarily due to a full year of amortization related to 2010 acquisitions. Amortization expense for 2010 includes \$3,854, \$1,136, \$340 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively.

Operating income

	2011		2010		Change	Percentage Change
Operating income	\$	18,219	\$	6,789	\$ 11,430	168.4%

Income from operations (operating income) increased by 168.4% to \$18,219 in 2011 from \$6,789 in 2010. Explosive Metalworking reported operating income of \$16,058 in 2011 as compared to \$7,461 in 2010. This 115.2% increase is largely attributable to the 28.0% increase in net sales and the 19.3% increase in the 2011 gross margin rate as discussed above. Operating results of Explosive Metalworking for 2011 and 2010 include \$2,224 and \$2,271, respectively, of amortization expense of purchased intangible assets.

Table of Contents

Oilfield Products reported operating income of \$6,188 in 2011 as compared to operating income of \$2,426 in 2010. The significant improvement in operating results for our Oilfield Products segment is attributable to the significant increases in sales and gross profit as 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 2011 and 2010 include \$3,483 and \$3,059, respectively, of amortization expense of purchased intangible assets.

AMK Welding reported operating income of \$2,056 in 2011, a decrease of 21.4% from the \$2,617 in operating income that it reported in 2010. The decline in AMK's operating income is largely attributable to the declines in sales and gross margin rate as discussed above.

Operating income in 2011 and 2010 includes \$2,686 and \$2,214, respectively, of unallocated corporate expenses and \$3,397 and \$3,501, respectively, of stock-based compensation expense. These expenses are not allocated to our business segments and thus are not included in the above 2011 and 2010 operating income totals for Explosive Metalworking, Oilfield Products, and AMK Welding.

Gain on step acquisition of joint ventures

	2011	2010	Change	Percentage Change
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

	2011	2010	Change	Percentage Change
Other income (expense), net	\$ 528	\$ 199	\$ 329	165.3%

We reported net other income of \$528 in 2011 compared to net other income of \$199 in 2010. Our 2011 net other income includes net realized and unrealized foreign exchange gains of \$372, including a gain of \$87 on our currency swap agreement (which expired in April 2011), and net other income items aggregating \$156. Our 2010 net other income includes net realized and unrealized foreign exchange gains of \$150, including a gain of \$118 on our currency swap agreement, and net other income items aggregating \$59.

Interest income (expense), net

	2011		2010		Change	Percentage Change
Interest income (expense), net	\$	(1,937)	\$	(2,972)	\$ 1,035	(34.8)%

We recorded net interest expense of \$1,937 in 2011 compared to net interest expense of \$2,972 in 2010. Our 2010 interest expense includes 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. Our 2011 interest expense includes a non-recurring, non-cash charge of \$284 related to the write-off of certain unamortized debt issuance costs associated with the our bank syndicate credit facility entered into on November 16, 2007, which was amended and restated in its entirety on December 21, 2011 through a new five-year credit facility with a syndicate of four banks. The decrease in our 2011 interest expense is attributable to a significant

Table of Contents

reduction in average outstanding borrowings that resulted principally from \$22,124 in payments on syndicated term loans during 2010, including the March 2010 prepayment of the Euro term loan discussed above.

Income tax provision

	2011	2010	Change	Percentage Change
Income tax provision	\$ 4,369	\$ 1,133	\$ 3,236	285.6%
Effective tax rate	26.0%	17.7%		

We recorded an income tax provision of \$4,369 in 2011 compared to \$1,133 in 2010. The 2011 effective tax rate increased to a more normal level of 26.0% from 17.7% in 2010. Our unusually low 2010 effective tax rate related principally to the low tax rate applicable to the non-recurring gain on the acquisition of non-controlling interests in two Russian joint ventures. Our effective tax rate on the \$4,281 of ordinary pretax income that we reported in 2010 was 25.1%. Our consolidated income tax provision for 2011 and 2010 included \$4,078 and \$1,670, respectively, related to U.S. taxes, with the remainder relating to net foreign tax provision of \$291 in 2011 and a net foreign tax benefit of \$537 in 2010 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 years ended December 31, 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.

Adjusted EBITDA

	2011	2010	Change	Percentage Change
Adjusted EBITDA	\$ 32,865	\$ 21,013	\$ 11,852	56.4%

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 2011 and 2010 was \$14,596 and \$14,214, 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.

	2011	2010
Net income attributable to DMC	\$ 12,491	\$ 5,265
Interest expense	1,945	3,046

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Interest income	(8)	(74)
Provision for income taxes	4,369	1,133
Depreciation	5,492	5,383
Amortization of purchased intangible assets	5,707	5,330
EBITDA	29,996	20,083
Stock-based compensation	3,397	3,501
Other (income) expense, net	(528)	(2,316)
Equity in earnings of joint ventures		(255)
Adjusted EBITDA	\$ 32,865	\$ 21,013

Table of Contents

Adjusted EBITDA increased 56.4% to \$32,865 in 2011 from \$21,013 in 2010 primarily due to the \$11,430 increase in operating income.

Liquidity and Capital Resources

We have historically financed our operations from a combination of internally generated cash flow, revolving credit borrowings, various long-term debt arrangements, and the issuance of common stock. 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. We are constructing new production facilities in Russia and the United States and are anticipating total capital expenditures of approximately \$22.5 million on these two projects. Approximately \$6.8 million of this total has been spent through December 31, 2012 and additional spending of more than \$14 million is expected during 2013.

Debt facilities

On December 21, 2011, we entered into a five-year syndicated credit agreement, which provides revolving loan availability of \$36,000, 16,000 Euros and 1,500 Canadian dollars through a syndicate of four banks, and amends and restates in its entirety our prior syndicated credit agreement entered into on November 16, 2007. Our prior syndicated credit agreement provided for revolving loan availability of \$25,000 and 7,000 Euros, and also had a remaining balance of \$13,247 outstanding under a \$45,000 term loan. On the closing date of our amended and restated new credit agreement, the remaining outstanding balance on our term loan was converted to a revolving credit loan.

There are two significant financial covenants under our syndicated credit agreement, the leverage ratio and fixed charge coverage ratio requirements. The leverage ratio is defined in the credit agreement 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 years ended December 31, 2012 and 2011, Consolidated EBITDA approximated the Adjusted EBITDA that we reported for the respective periods. As of December 31, 2012, the maximum leverage ratio permitted by our credit facility was 2.25 to 1.0. The actual leverage ratio as of December 31, 2012 was 1.16 to 1.0. The maximum leverage ratio permitted as of March 31, June 30, September 30 and December 31, 2013 is also 2.25 to 1.0.

The fixed charge ratio, as defined in the credit agreement, means, for any period, the ratio of Consolidated EBITDA to Fixed Charges. Consolidated EBITDA is defined above and Fixed Charges equals the sum of cash interest expense, cash dividends, cash income taxes and an amount equal to 75% of depreciation expense. As of December 31, 2012, the minimum fixed charge ratio permitted by our credit facility was 2.0 to 1.0. The actual fixed charge ratio as of December 31, 2012 was 2.32 to 1.0. The minimum fixed charge coverage ratio permitted for the twelve month periods ending March 31, June 30, September 30 and December 31, 2013 is 2.0 to 1.0.

As of December 31, 2012, U.S. dollar revolving loans of \$31,900, Euro revolving loans of \$4,625 and Canadian dollar revolving loans of \$1,254 were outstanding under our syndicated credit agreement, \$981 was outstanding under our separate DYNAenergetics line of credit agreement,

and \$120 was outstanding under loan agreements with the former owners of LRI. While we had approximately \$23,914 of unutilized revolving credit loan capacity as of December 31, 2012 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 December 31, 2012, we were in compliance with all financial covenants and other provisions of our debt agreements.

Table of Contents

The table below presents principal cash flows by expected maturity dates for our debt obligations and other contractual obligations and commitments as of December 31, 2012:

Contractual Obligations	Payment Due by Period As of December 31, 2012				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
Total long-term debt and interest obligations (1)	\$ 69	\$ 56	\$	\$	\$ 125
Capital lease obligations (2)	55	23			78
Operating lease obligations (3)	2,928	3,815	998	228	7,969
License agreements obligations (4)	398	796	796	398	2,388
Purchase obligations (5)	17,857				17,857
Total	\$ 21,307	\$ 4,690	\$ 1,794	\$ 626	\$ 28,417

(1) Amounts represent future cash payments on our long-term debt and interest expense obligations and are reflected in accompanying Consolidated Balance Sheets.

(2) The present value of these capital lease obligations are included in our Consolidated Balance Sheets. See Note 9 of the Notes to Consolidated Financial Statements for additional information.

(3) The operating lease obligations presented reflect future minimum lease payments due under non-cancelable portions of our leases as of December 31, 2012. Our operating lease obligations are described in Note 9 of the Notes to Consolidated Financial Statements.

(4) The license agreements obligations presented reflect future minimum payments due under non-cancelable portions of our agreements as of December 31, 2012. Our license agreements obligations are described in Note 9 of the Notes to Consolidated Financial Statements.

(5) Amounts represent commitments to purchase goods or services to be utilized in the normal course of business. These amounts are not reflected in accompanying Consolidated Balance Sheets.

As of December 31, 2012, we have \$31,900, \$4,625 and \$1,254 of outstanding borrowings under our U.S. dollar, Euro and Canadian dollar revolving lines of credit, respectively, at then current interest rates of 1.72%, 1.61% and 2.83%, respectively. The credit agreement has a five-year term ending December 21, 2016. For more information about our debt obligations, see Note 5 to our consolidated financial statements elsewhere in this annual report.

Cash flows from operating activities

Net cash flows provided by operating activities increased to \$19,970 in 2012 from \$9,726 in 2011, with the majority of this \$10,244 increase resulting from changes in our working capital. While we experienced net negative changes to working capital in both 2012 and 2012, the net negative change in working capital was reduced to \$6,771 in 2012 from \$16,408 in 2011. Negative changes in our 2012 working capital included increases in inventories and prepaid expenses of \$2,342 and \$149, respectively, and decreases in accounts payable, customer advances and accrued expenses and other liabilities of \$3,618, \$578 and \$644, respectively. These were partly offset by a decrease in accounts receivable of \$560. All of foregoing changes in working capital relate to typical fluctuations in our business flow and the related timing of cash payments and receipts.

Net cash flows provided by operating activities decreased to \$9,726 in 2011 from \$16,693 in 2010. This \$6,967 decrease reflects a \$7,186 increase in net income that was more than offset by net negative changes in working capital that totaled \$16,408. Negative changes in our 2011 working capital included increases in accounts receivable, inventories and prepaid expenses and a decrease in accounts payable of \$9,551, \$8,392, \$1,346 and \$1,035, respectively. These were partly offset by increases in accrued expenses and other liabilities of \$3,451 and customer advances of \$465. The \$9,551 increase in accounts receivables follows the \$9,436 increase in fourth quarter 2011 consolidated sales compared to those

Table of Contents

in the fourth quarter of 2010. The \$8,392 increase in inventories relates principally to our Oilfield Products segment, which made a deliberate effort to build up its finished goods inventories to better meet the strong increase in business activity that the segment has experienced in 2011 and the expected sales demand in 2012. The \$3,342 increase in accrued expenses and other liabilities relates to both timing issues and a significant increase in accrued incentive compensation.

Net cash flows provided by operating activities for 2010 totaled \$16,693. Operating cash flow included net income of \$5,255, non-cash depreciation and amortization expense of \$11,300, stock-based compensation of \$3,501 and net positive changes in working capital of \$683. These sources of operating cash flow were partially offset by a \$2,117 non-cash gain on step acquisition of joint ventures and a deferred income tax benefit of \$1,708. Positive cash flows from changes in working capital included decreases in accounts receivable and inventories and increases in accounts payable of \$2,690, \$1,696, and \$2,970, respectively. These were partly offset by decreases in customer advances and accrued expenses and other liabilities of \$4,871 and \$1,365, respectively. The decreases in accounts receivable and inventories reflect declines of more than 20% in our Explosive Metalworking segment's accounts receivable and inventory balances that follow the decrease in this segment's sales levels, with these declines being partially offset by increased accounts receivable and inventories in our Oilfield Products segment, which reflect a strong rebound in this segment's underlying sales and production activity during the last half of 2010. The decrease in customer advances reflects the return of customer advances to a more normal level after the inclusion at December 31, 2009 of a \$4,500 advance from one customer on a large order that was shipped during 2010. The increase in accounts payable relates primarily to the timing of inventory purchases and payments while the decrease in accrued expenses and other liabilities relates to both timing issues and a decrease in accrued incentive compensation.

Cash flows from investing activities

Net cash flows used in investing activities for 2012 totaled \$25,555 which included our \$10,294 cash investment in TRX Industries and \$15,647 in capital expenditures. Our capital expenditures in 2012 included \$6,830 for our greenfield projects in Russia and North America and \$2,300 on implementing a new ERP system for our Nobelclad U.S. entity.

Net cash flows used in investing activities for 2011 totaled \$7,731 which consisted almost entirely of capital expenditures.

Net cash flows used in investing activities for 2010 totaled \$9,265 which included investments in acquisitions of \$5,685 and \$3,527 in capital expenditures.

Cash flows from financing activities

Net cash flows provided by financing activities for 2012 totaled \$8,517 and included net borrowings on bank lines of credit of \$12,174. These sources of cash flow were partially offset by uses of cash for financing activities, including \$1,176 in loan payments to former owners of LRI and quarterly dividend payments of \$2,155.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Net cash flows used in financing activities for 2011 totaled \$1,395. Significant uses of cash for financing activities included term loan payments of \$22,247, including a prepayment of \$13,247, under our prior syndicated credit agreement that was replaced on December 21, 2011 by a new five-year syndicated credit facility, payment of annual dividends of \$2,130, \$627 in final principal payments on our Nord LB term loans, \$435 payment of debt issuance costs related to the new syndicated credit agreement and \$295 payment on capital lease obligations. Sources of cash flow from financing activities included net borrowings on bank lines of credit of \$24,191, including net borrowings of \$25,402 under our new syndicated credit facility, and \$177 in net proceeds from the issuance of common stock relating to the exercise of stock options.

Net cash flows used in financing activities for 2010 totaled \$24,947. Significant uses of cash for financing activities 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, \$6,750 for scheduled term loan principal payments under our syndicated credit agreement, payment of annual dividends of \$2,089, \$797 in principal payments on our Nord LB term loans, \$601 for the negative tax impact of stock-based compensation and payment on capital lease obligations of \$304. Sources of cash flow from financing activities included net borrowings on bank lines of credit of \$780 and \$188 in net proceeds from the issuance of common stock relating to the exercise of stock options.

Table of Contents

Critical Accounting Policies and Estimates

Our historical consolidated financial statements and notes to our historical consolidated financial statements contain information that is pertinent to our management's discussion and analysis of financial condition and results of operations. Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that our management make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. However, the accounting principles used by us generally do not change our reported cash flows or liquidity. Existing rules must be interpreted and judgments made on how the specifics of a given rule apply to us.

In management's opinion, the more significant reporting areas impacted by management's judgments and estimates are revenue recognition, asset impairments, goodwill and other intangible assets, and income taxes. Management's judgments and estimates in these areas are based on information available from both internal and external sources, and actual results could differ from the estimates, as additional information becomes known. We believe the following to be our most critical accounting policies.

Revenue recognition

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

Asset impairments

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

Business Combinations

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

We account for our business acquisitions using the purchase method of accounting. We allocate the total cost of the acquisition to the underlying net assets based on their respective estimated fair values. As part of this allocation process, we identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding multiple, highly subjective variables, including those with respect to future cash flows, discount rates, asset lives, and the use of different valuation models and therefore require considerable judgment. Our estimates and assumptions are based, in part, on the availability of listed market prices or other transparent market data. These determinations affect the amount of amortization expense recognized in future periods. We base our fair value estimates on assumptions we believe to be reasonable but are inherently uncertain.

Goodwill and Other Intangible Assets

We review the carrying value of goodwill at least annually to assess impairment because it is not amortized. Additionally, we review the carrying value of any intangible asset or goodwill whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Examples of such events or changes in circumstances, many of which are subjective in nature, include significant negative industry or economic trends, significant changes in the manner of our use of the acquired assets or our strategy, a significant decrease in the market

Table of Contents

value of the asset, and a significant change in legal factors or in the business climate that could affect the value of the asset. If an impairment indicator is present, we perform an analysis to confirm whether an impairment has actually occurred and if so, the amount of the required impairment charge. We assess impairment by comparing the fair value of an identifiable intangible asset or goodwill with its carrying value. The determination of fair value involves significant management judgment and assumptions, including assumptions regarding estimated useful lives, revenue growth, operating margins, future market conditions and discount rates.

We evaluate goodwill for impairment on a reporting unit level on at least an annual basis. A reporting unit is a group of businesses (i) for which discrete financial information is available and (ii) that have similar economic characteristics. We test goodwill for impairment first by determining the fair value of each reporting unit and then comparing the fair value of each reporting unit to its carrying value. If carrying value exceeds fair value for any reporting unit, then we calculate and compare the implied fair value of goodwill to the carrying amount of goodwill and record an impairment charge for any excess of carrying value over implied fair value. Our impairment testing has not resulted in a determination that any of our goodwill was impaired. A future impairment is possible and could occur if (i) operating results underperform what we have estimated or (ii) additional volatility of the capital markets or other factors should cause us to raise the percent discount rate utilized in our discounted cash flow analysis or decrease the multiples utilized in our market-based analysis. The use of different estimates or assumptions within our discounted cash flow model when determining the fair value of our reporting units or using methodologies other than as described above could result in different values for reporting units and could result in an impairment charge.

Finite-lived intangible assets are reviewed for impairment when indicators are present. We compare the expected undiscounted future operating cash flows associated with these finite-lived assets to their respective carrying values to determine if they are fully recoverable. If the expected future operating cash flows of an asset are not sufficient to recover the carrying value, we estimate the fair value of the asset. Impairment is recognized when the carrying amount of the asset is not recoverable and when the carrying value exceeds fair value. The projected cash flows require several assumptions related to, among other things, relevant market factors, revenue growth, if any, and operating margins.

Income taxes

We are required to recognize deferred tax assets and deferred tax liabilities for the expected future income tax consequences of transactions that have been included in our financial statements but not our tax returns. Deferred tax assets and liabilities are determined based on income tax credits and on the temporary differences between the Consolidated Financial Statement basis and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. We routinely evaluate deferred tax assets to determine if they will, more likely than not, be recovered from future projected taxable income; if not, we record an appropriate valuation allowance.

Off Balance Sheet Arrangements

We have no obligations, assets or liabilities other than those appearing or disclosed in our financial statements forming part of this annual report; no trading activities involving non-exchange traded contracts accounted for at fair value; and no relationships and transactions with persons or entities that derive benefits from their non-independent relationship with us or our related parties.

Recent Accounting Pronouncements

Please refer to Note 2 to our Consolidated Financial Statements in this annual report for a discussion of recent accounting pronouncements and their anticipated effect on our business.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our interest rate risk management policies are designed to reduce the potential earnings volatility that could arise from changes in interest rates. Periodically, we use interest rate swaps to stabilize funding costs by managing the

Table of Contents

exposure created by the differing maturities and interest rate structures of our assets and liabilities. See Note 2 to the Consolidated Financial Statements for further information on interest rate risk management.

Foreign Currency Risk

Our consolidated financial statements are expressed in U.S. dollars, but a portion of our business is conducted in currencies other than U.S. dollars. Changes in the exchange rates for such currencies into U.S. dollars can affect our revenues, earnings, and the carrying value of our assets and liabilities in our consolidated balance sheet, either positively or negatively. Sales made in currencies other than U.S. dollars accounted for 37%, 34%, and 38% of total sales for the years ended 2012, 2011, and 2010, respectively.

Table of Contents

ITEM 8. Financial Statements and Supplementary Data

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2012 and 2011 and for Each of the Three Years Ended

December 31, 2012, 2011 and 2010

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	44
Financial Statements:	
<u>Consolidated Balance Sheets</u>	45
<u>Consolidated Statements of Operations</u>	47
<u>Consolidated Statements of Comprehensive Income</u>	48
<u>Consolidated Statements of Stockholders' Equity</u>	49
<u>Consolidated Statements of Cash Flows</u>	50
<u>Notes to Consolidated Financial Statements</u>	52

The consolidated financial statement schedules required by Regulation S-X are filed under Item 15 Exhibits and Financial Statement Schedules .

Table of Contents

Report of Independent Registered Public Accounting Firm

The Stockholders and the

Board of Directors of Dynamic Materials Corporation

We have audited the accompanying consolidated balance sheets of Dynamic Materials Corporation and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also include the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dynamic Materials Corporation and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the financial information set forth herein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Dynamic Materials Corporation and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado

March 14, 2013

Table of ContentsDYNAMIC MATERIALS CORPORATIONCONSOLIDATED BALANCE SHEETSDECEMBER 31, 2012 AND 2011

(Dollars in Thousands)

	2012	2011
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,200	\$ 5,276
Accounts receivable, net of allowance for doubtful accounts of \$406 and \$424, respectively	36,981	36,368
Inventories	48,320	43,218
Prepaid expenses and other	5,091	4,858
Current deferred tax assets	2,074	1,469
Total current assets	100,666	91,189
PROPERTY, PLANT AND EQUIPMENT	90,621	72,914
Less - accumulated depreciation	(36,645)	(31,512)
Property, plant and equipment, net	53,976	41,402
GOODWILL, net	37,431	37,507
PURCHASED INTANGIBLE ASSETS, net	41,958	42,054
DEFERRED TAX ASSETS	804	485
OTHER ASSETS, net	596	789
TOTAL ASSETS	\$ 235,431	\$ 213,426

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

Table of ContentsDYNAMIC MATERIALS CORPORATIONCONSOLIDATED BALANCE SHEETSAS OF DECEMBER 31, 2012 AND 2011

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

	2012	2011
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 11,281	\$ 14,753
Accrued expenses	4,564	5,358
Dividend payable	540	535
Accrued income taxes	406	780
Accrued employee compensation and benefits	4,977	4,666
Customer advances	1,363	1,918
Lines of credit	981	13
Current maturities on long-term debt	65	1,153
Current portion of capital lease obligations	52	66
Current deferred tax liabilities	149	68
Total current liabilities	24,378	29,310
LINES OF CREDIT	37,779	26,462
LONG-TERM DEBT	55	118
CAPITAL LEASE OBLIGATIONS	19	70
DEFERRED TAX LIABILITIES	9,211	10,185
OTHER LONG-TERM LIABILITIES	1,433	1,238
Total liabilities	72,875	67,383
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 9)		
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; 13,519,555 and 13,367,169 shares issued and outstanding, respectively	676	668
Additional paid-in capital	60,158	55,983
Retained earnings	108,101	98,565
Other cumulative comprehensive loss	(6,463)	(9,256)
Total Dynamic Materials Corporation's stockholders' equity	162,472	145,960
Non-controlling interest	84	83
Total stockholders' equity	162,556	146,043

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$	235,431	\$	213,426
---	----	---------	----	---------

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

Table of ContentsDYNAMIC MATERIALS CORPORATIONCONSOLIDATED STATEMENTS OF OPERATIONSFOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010(Dollars in Thousands, Except Share and Per Share Data)

	2012	2011	2010
NET SALES	\$ 201,567	\$ 208,891	\$ 154,739
COST OF PRODUCTS SOLD	141,859	153,445	117,789
Gross profit	59,708	55,446	36,950
COSTS AND EXPENSES:			
General and administrative expenses	19,141	16,711	13,696
Selling and distribution expenses	16,954	14,809	11,135
Amortization of purchased intangible assets	6,210	5,707	5,330
Total costs and expenses	42,305	37,227	30,161
INCOME FROM OPERATIONS	17,403	18,219	6,789
OTHER INCOME (EXPENSE):			
Gain on step acquisition of joint ventures			2,117
Other income (expense), net	(32)	528	199
Interest expense	(832)	(1,945)	(3,046)
Interest income	13	8	61
Related party interest income			13
Equity in earnings of joint ventures			255
INCOME BEFORE INCOME TAXES	16,552	16,810	6,388
INCOME TAX PROVISION	4,858	4,369	1,133
NET INCOME	11,694	12,441	5,255
Less: Net loss attributable to non-controlling interest	(2)	(50)	(10)
NET INCOME ATTRIBUTABLE TO DYNAMIC MATERIALS CORPORATION	\$ 11,696	\$ 12,491	\$ 5,265
INCOME PER SHARE:			
Basic	\$ 0.87	\$ 0.94	\$ 0.40
Diluted	\$ 0.87	\$ 0.93	\$ 0.40
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:			
Basic	13,264,636	13,089,691	12,869,666
Diluted	13,268,713	13,099,121	12,881,754
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.16	\$ 0.16	\$ 0.16

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

Table of Contents

DYNAMIC MATERIALS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Dollars in Thousands)

	2012	2011	2010
Net income including non-controlling interest	\$ 11,694	\$ 12,441	\$ 5,255
Derivative valuation, net of tax of \$299			454
Change in cumulative foreign currency translation adjustment	2,796	(2,927)	(7,207)
Total comprehensive income (loss)	14,490	9,514	(1,498)
Comprehensive income (loss) attributable to non-controlling interest	1	(119)	(25)
Comprehensive income (loss) attributable to Dynamic Materials Corporation	\$ 14,489	\$ 9,633	\$ (1,473)

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

Table of ContentsDYNAMIC MATERIALS CORPORATIONCONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITYFOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Income/(Loss)	Non- Controlling Interest	Total
	Shares	Amount					
Balances, December 31, 2009	12,870	\$ 643	\$ 46,080	\$ 85,048	\$ 340	\$ 185	\$ 132,296
Net income (loss)				5,265		(10)	5,255
Derivative valuation, net of tax of \$299					454		454
Change in cumulative foreign currency translation adjustment					(7,192)	(15)	(7,207)
Shares issued for acquisitions	222	11	3,290				3,301
Shares issued in connection with stock compensation plans	133	7	181				188
Tax impact of stock-based compensation			(601)				(601)
Stock-based compensation			3,501				3,501
Dividends declared				(2,103)			(2,103)
Balances, December 31, 2010	13,225	\$ 661	\$ 52,451	\$ 88,210	\$ (6,398)	\$ 160	\$ 135,084
Net income (loss)				12,491		(50)	12,441
Change in cumulative foreign currency translation adjustment					(2,858)	(69)	(2,927)
Shares issued in connection with stock compensation plans	142	7	170				177
Tax impact of stock-based compensation			(35)				(35)
Stock-based compensation			3,397				3,397
Dividends declared				(2,136)			(2,136)
Contribution from non-controlling stockholder						42	42
Balances, December 31, 2011	13,367	\$ 668	\$ 55,983	\$ 98,565	\$ (9,256)	\$ 83	\$ 146,043
Net income (loss)				11,696		(2)	11,694
Change in cumulative foreign currency translation adjustment					2,793	3	2,796
Shares issued in connection with stock compensation plans	153	8	185				193
Tax impact of stock-based compensation			(453)				(453)
Stock-based compensation			4,443				4,443
Dividends declared				(2,160)			(2,160)
Balances, December 31, 2012	13,520	\$ 676	\$ 60,158	\$ 108,101	\$ (6,463)	\$ 84	\$ 162,556

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

Table of ContentsDYNAMIC MATERIALS CORPORATIONCONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010(Dollars in Thousands)

	2012		2011		2010
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	\$ 11,694	\$	12,441	\$	5,255
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation (including capital lease amortization)	5,537		5,492		5,383
Amortization of purchased intangible assets	6,210		5,707		5,330
Amortization of deferred debt issuance costs	124		649		587
Stock-based compensation	4,443		3,397		3,501
Deferred income tax benefit	(1,267)		(1,587)		(1,708)
Equity in earnings of joint ventures					(255)
Gain on step acquisition of joint ventures					(2,117)
Loss on disposal of property, plant and equipment			35		34
Change in:					
Accounts receivable, net	560		(9,551)		2,690
Inventories	(2,342)		(8,392)		1,696
Prepaid expenses and other	(149)		(1,346)		(437)
Accounts payable	(3,618)		(1,035)		2,970
Customer advances	(578)		465		(4,871)
Accrued expenses and other liabilities	(644)		3,451		(1,365)
Net cash provided by operating activities	19,970		9,726		16,693
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property, plant and equipment	(15,647)		(7,726)		(3,527)
Acquisition of TRX Industries	(10,294)				
Acquisition of Austin Explosives Company					(3,620)
Step acquisition of joint ventures, net of cash acquired					(2,065)
Change in other non-current assets	386		(5)		(53)
Net cash used in investing activities	(25,555)		(7,731)		(9,265)

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

Table of ContentsDYNAMIC MATERIALS CORPORATIONCONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010(Dollars in Thousands)

	2012	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment on syndicated term loans		(22,247)	(22,124)
Borrowings on bank lines of credit, net	12,174	24,191	780
Payment on loans with former owners of LRI	(1,176)	(36)	
Payment on Nord LB term loans		(627)	(797)
Payment on capital lease obligations	(66)	(295)	(304)
Payment of dividends	(2,155)	(2,130)	(2,089)
Payment of deferred debt issuance costs		(435)	
Contribution from non-controlling stockholder		42	
Net proceeds from issuance of common stock to employees and directors	193	177	188
Tax impact of stock-based compensation	(453)	(35)	(601)
Net cash provided by (used in) financing activities	8,517	(1,395)	(24,947)
EFFECTS OF EXCHANGE RATES ON CASH	(8)	104	(320)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,924	704	(17,839)
CASH AND CASH EQUIVALENTS, beginning of the period	5,276	4,572	22,411
CASH AND CASH EQUIVALENTS, end of the period	\$ 8,200	\$ 5,276	\$ 4,572
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for -			
Interest	\$ 746	\$ 1,280	\$ 2,458
Income taxes, net	\$ 7,395	\$ 5,847	\$ 4,111
NON-CASH FINANCING ACTIVITY:			
Common stock issued for acquisitions	\$	\$	\$ 3,301

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

Table of Contents

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

(Currency Amounts in Thousands, Except Per Share Data)

(1) ORGANIZATION AND BUSINESS

Dynamic Materials Corporation (DMC) was incorporated in the state of Colorado in 1971 and reincorporated in the state of Delaware during 1997. DMC is headquartered in Boulder, Colorado and has manufacturing facilities in the United States, Germany, France, Canada and Russia. Customers are located throughout the world. DMC currently operates under three business segments Explosive Metalworking, in which metals are metallurgically joined or altered by using explosives; Oilfield Products, which manufactures, markets, and sells oil field perforating equipment and explosives; and AMK Welding, which utilizes a number of welding technologies to weld components for manufacturers of jet engines and ground-based turbines. DMC has eight wholly-owned operating subsidiaries, Nobelclad Europe S.A. (Nobelclad), DYNAenergetics GmbH and Co. KG (DYNAenergetics), Dynaplat GmbH and Co. KG (Dynaplat), DYNAenergetics Canada, DYNAenergetics RUS, Perfoline, DYNAenergetics US and Nitro Metall Aktiebolag (Nitro Metall). DYNAenergetics RUS, Perfoline and DYNAenergetics US (formally Austin Explosives Company) were acquired in 2010 as described below. DMC also has one majority-owned subsidiary, KAZ DYNAenergetics, who distributes perforating equipment in Kazakhstan. In addition, DMC has six wholly owned holding companies. Dynamic Materials Luxembourg S.a r.l 1, Dynamic Materials Luxembourg S.a r.l 2, DYNAenergetics Holding GmbH, DYNAenergetics Beteiligungs GmbH and Dynaplat Holdings GmbH were established in connection with the acquisition of DYNAenergetics and DYNAenergetics NA, LLC was established in connection with the 2009 acquisition of LRI Oil Tools, Inc.

2010 Acquisitions

On April 30, 2010, we purchased the outstanding minority-owned 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. Our statements of operations include the effect of the DYNAenergetics RUS and Perfoline acquisitions from the April 30, 2010 closing date. See Note 3 for additional disclosures regarding these acquisitions.

On June 4, 2010, we completed our acquisition of the assets of Texas-based Austin Explosives Company (AECO). This business is now part of our Oilfield Products business segment. AECO had been a long-time distributor of DYNAenergetics shaped charges. Our statements of operations include the effect of the AECO acquisition from the June 4, 2010 closing date. See Note 3 for additional disclosures regarding this acquisition.

2012 Acquisition

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

On January 3, 2012, we acquired the assets and operating business of Texas-based TRX Industries, Inc. (TRX), a manufacturer of perforating guns. TRX, which has now been integrated into DYNAenergetics US, had been a long-term supplier to DYNAenergetics US and, in recent years, accounted for a rapidly growing percentage of its perforating gun purchases. Our statements of operations include the effect of the TRX acquisition from the January 3, 2012 closing date. See Note 3 for additional disclosures regarding this acquisition.

Table of Contents

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Consolidated Financial Statements include the accounts of 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. All significant intercompany accounts, profits, and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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 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 agreed to exchange \$2,700 for Euros at an exchange rate of 1.269 U.S. dollars per Euro 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 statement of operations. During the years ended December 31, 2011 and 2010, we recorded gains on this currency swap agreement of \$87 and \$118, respectively. These gains are classified as other income (expense), net in our statement of operations.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

In September 2011, DYNAenergetics entered into a new currency hedge agreement with its bank to hedge its risk on a new \$2,500 order which is similar to the order described above. This hedge agreement, which was amended in December 2011, allowed DYNAenergetics to sell \$2,500 for Euros at an exchange rate of 1.425 U.S. dollars per Euros if the market rate was under 1.25 or above 1.425 at the time of settlement. If the market rate upon settlement was between 1.25 and 1.425, the market rate would be used. The only exception to this would have been if the market exchange rate dropped below 1.25 any time prior to the settlement in which case the rate upon settlement would have been 1.425 even if the exchange rate subsequently rose back above 1.25 prior to settlement. As the market rate never went below 1.25 nor exceeded 1.425 at the time of settlement, the market rate was used at settlement and therefore, no gain or loss was recorded. This hedge agreement expired on May 3, 2012. 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 statement of operations.

Table of Contents

Cash and Cash Equivalents and Restricted Cash

For purposes of the consolidated financial statements, we consider highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

We review our accounts receivable balance routinely to identify any specific customers with collectability issues. In circumstances where we are aware of a specific customer's inability to meet its financial obligation to us, we record a specific allowance for doubtful accounts (with the offsetting expense charged to our statement of operations) against the amounts due reducing the net recognized receivable to the amount we estimate will be collected. For all other customers, we estimate our allowance for doubtful accounts based on historical rates of write offs of uncollectible receivables and our evaluation of the year end composition of accounts receivable.

Inventories

Inventories are stated at the lower-of-cost (first-in, first-out) or market value. Cost elements included in inventory are material, labor, subcontract costs, and factory overhead. Inventories consist of the following at December 31, 2012 and 2011:

	2012		2011	
Raw materials	\$	16,079	\$	15,526
Work-in-process		12,133		10,511
Finished goods		19,155		15,947
Supplies		953		1,234
	\$	48,320	\$	43,218

Shipping and handling costs incurred by us upon shipment to customers are included in cost of products sold in the accompanying consolidated statements of operations.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, except for assets acquired in acquisitions which are recorded at fair value. Additions, improvements, and betterments are capitalized. Maintenance and repairs are charged to operations as the costs are incurred. Depreciation is computed using the straight-line method over the estimated useful life of the related asset (except leasehold improvements which are depreciated over the shorter of their estimated useful life or the lease term) as follows:

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Buildings and improvements	15-30 years
Manufacturing equipment and tooling	3-15 years
Furniture, fixtures, and computer equipment	3-10 years
Other	3-10 years

Table of Contents

Property, plant and equipment consist of the following at December 31, 2012 and 2011:

	2012	2011
Land	\$ 2,792	\$ 2,249
Buildings and improvements	24,203	22,212
Manufacturing equipment and tooling	39,073	33,409
Furniture, fixtures and computer equipment	7,148	6,741
Other	3,534	2,257
Construction in process	13,871	6,046
	\$ 90,621	\$ 72,914

Asset Impairments

We review our long-lived assets to be held and used by us for impairment whenever events or changes in circumstances indicate their carrying amount may not be recoverable. In so doing, we estimate the future net cash flows expected to result from the use of these assets and their eventual disposition. If the sum of the expected future net cash flows (undiscounted and without interest charges) is less than the carrying amount of these assets, an impairment loss is recognized to reduce these assets to their estimated fair values. Otherwise, an impairment loss is not recognized. Long-lived assets to be disposed of, if any, are reported at the lower of carrying amount or fair value less cost to sell. There have been no asset impairments for the years ending December 31, 2012, 2011 and 2010.

Goodwill

Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses acquired. Goodwill is not amortized; however, the carrying value of goodwill must be tested annually for impairment on a reporting unit level. Our policy is to test goodwill in the fourth quarter of each year unless circumstances indicate impairment during an intervening period. We test goodwill for impairment using the following two-step approach:

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

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

Our quantitative impairment testing has not resulted in a determination that any of our goodwill is impaired. A future impairment is possible and could occur if (i) operating results underperform what we have estimated or (ii) additional volatility of the capital markets should cause us to raise the discount rate utilized in our discounted cash flow analysis or decrease the multiples utilized in our market-based analysis. The use of different estimates or assumptions within the discounted cash flow model when determining the fair value of our reporting units or using methodologies other than as described above could result in different values for reporting units and could result in an impairment charge.

Table of Contents

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

	Explosive Metalworking	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	(349)	(496)	(845)
Adjustment due to exchange rate differences	(472)	(349)	(821)
Goodwill balance at December 31, 2011	\$ 21,637	\$ 15,870	\$ 37,507
Adjustment due to recognition of tax benefit of tax amortization of certain goodwill	(322)	(485)	(807)
Adjustment due to exchange rate differences	419	312	731
Goodwill balance at December 31, 2012	\$ 21,734	\$ 15,697	\$ 37,431

All of the goodwill shown above, which is primarily in Germany, corresponds to amortizable goodwill for tax purposes.

Purchased Intangible Assets

Our purchased intangible assets include core technology, customer relationships and trademarks/trade names. Impairment, if any, is calculated based upon our evaluation whereby, estimated undiscounted future cash flows associated with these assets or operations are compared with their carrying value to determine if a write-down to fair value is required. Finite lived intangible assets are amortized over the estimated useful life of the related assets which have a weighted average amortization period of 12 years in total.

The weighted average amortization periods of the intangible assets by asset category are as follows:

Core technology	20 years
Customer relationships	9 years
Trademarks / Trade names	9 years

The following table presents details of intangible assets as of December 31, 2012:

	Gross	Accumulated Amortization	Net
Core technology	\$ 22,494	\$ (5,749)	\$ 16,745
Customer relationships	44,334	(20,046)	24,288
Trademarks / Trade names	2,409	(1,484)	925
Total intangible assets	\$ 69,237	\$ (27,279)	\$ 41,958

Table of Contents

The following table presents details of intangible assets as of December 31, 2011:

	Gross	Accumulated Amortization	Net
Core technology	\$ 22,041	\$ (4,525)	\$ 17,516
Customer relationships	38,165	(14,720)	23,445
Trademarks / Trade names	2,361	(1,268)	1,093
Total intangible assets	\$ 62,567	\$ (20,513)	\$ 42,054

The change in the gross value of our purchased intangible assets from December 31, 2011 to December 31, 2012 reflects the additional intangible assets associated with the acquisition of TRX and the impact of foreign currency translation adjustments.

Expected future amortization of intangible assets is as follows:

For the years ended December 31 -	
2013	\$ 6,341
2014	6,133
2015	4,681
2016	4,681
2017	4,658
Thereafter	15,464
	\$ 41,958

Other Assets

Included in other assets are net deferred debt issuance costs of \$406 and \$530 as of December 31, 2012 and 2011, respectively. On December 21, 2011, we entered into a new five-year syndicated credit agreement, which amended and restated in its entirety the prior syndicated agreement entered into on November 16, 2007. In connection with this amendment, \$284 of costs associated with the prior term loan and the banks which are no longer in the syndicate were expensed. The outstanding balance of deferred debt issuance as of December 31, 2011 included additional costs of \$435 that were incurred in connection with our amended and restated credit agreement and \$95 of deferred debt issuance costs that were carried over from the prior agreement. These deferred debt issuance are being amortized over the five-year term of the amended and restated credit agreement which expires on December 21, 2016.

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 December 31, 2012 and 2011, customer advances totaled \$1,363 and \$1,918, respectively, and originated from several customers.

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

Table of Contents

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. Revenue from sales of consigned inventory is recognized upon the use of the product by the consignee or according to the terms of the contract.

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.

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

		For the Year Ended December 31, 2012		
	Income	Shares	EPS	
Basic earnings per share:				
Net income attributable to DMC	\$ 11,696			
Less income allocated to RSAs	(211)			
Net income allocated to common stock for EPS calculation	\$ 11,485	13,264,636	\$	0.87
Adjust shares for dilutives:				
Stock-based compensation plans		4,077		
Diluted earnings per share:				
Net income attributable to DMC	\$ 11,696			
Less income allocated to RSAs	(211)			
Net income allocated to common stock for EPS calculation	\$ 11,485	13,268,713	\$	0.87
		For the Year Ended December 31, 2011		
	Income	Shares	EPS	
Basic earnings per share:				
Net income attributable to DMC	\$ 12,491			
Less income allocated to RSAs	(246)			
Net income allocated to common stock for EPS calculation	\$ 12,245	13,089,691	\$	0.94
Adjust shares for dilutives:				
Stock-based compensation plans		9,430		
Diluted earnings per share:				
Net income attributable to DMC	\$ 12,491			
Less income allocated to RSAs	(246)			
Net income allocated to common stock for EPS calculation	\$ 12,245	13,099,121	\$	0.93

Table of Contents

		For the Year Ended December 31, 2010		
Basic earnings per share:	Income	Shares	EPS	
Net income attributable to DMC	\$ 5,265			
Less income allocated to RSAs	(94)			
Net income allocated to common stock for EPS calculation	\$ 5,171	12,869,666	\$	0.40
Adjust shares for dilutives:				
Stock-based compensation plans		12,088		
Diluted earnings per share:				
Net income attributable to DMC	\$ 5,265			
Less income allocated to RSAs	(94)			
Net income allocated to common stock for EPS calculation	\$ 5,171	12,881,754	\$	0.40

Derivative Financial Instruments

In the past we have used interest rate swap agreements to manage our interest rate risk on significant portions of our variable rate term loan debt we carried at that time. The accounting method used for our interest rate swap agreements involved designating the derivative arrangements as hedges in accordance with accounting principles generally accepted in the United States and as a result, changes in the fair value of the swap agreement were recorded in other comprehensive income with the offset as a swap agreement asset or liability. It was our policy to execute such arrangements with creditworthy banks. Additionally, as discussed above, we have periodically used foreign currency hedge agreements to manage our foreign currency risk on select transactions.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade accounts receivable and payable, accrued expenses and long-term debt approximate their fair value.

We had an interest rate swap agreement, which expired on November 16, 2010, and two foreign currency hedge agreements, which expired on April 30, 2011 and May 3, 2012, that were recorded at fair value. 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:

- Level 1 Inputs to the valuation based upon quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

- 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 agreements were not exchange listed and were therefore valued with models that use Level 2 inputs.

Table of ContentsIncome Taxes

We recognize deferred tax assets and liabilities for the expected future income tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities based on enacted tax laws and for tax credits. We recognize deferred tax assets for the expected future effects of all deductible temporary differences. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized (see Note 7).

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 which are summarized below:

	2010	
	Sales to	Interest income from
DYNAenergetics RUS	\$ 663	\$ 13
Perfoline	19	13
Total	\$ 682	\$ 13

Concentration of Credit Risk

Financial instruments, which potentially subject us to a concentration of credit risk, consist primarily of cash, cash equivalents, and accounts receivable. Generally, we do not require collateral to secure receivables. At December 31, 2012, we had no financial instruments with off-balance sheet risk of accounting losses other than the derivative discussed above.

Other Cumulative Comprehensive Loss

Other cumulative comprehensive loss as of December 31, 2012, 2011, and 2010 consisted entirely of currency translation adjustments.

Recent Accounting Pronouncements

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

In June 2011, the Financial Accounting Standards Board (FASB) issued an accounting standard 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 was to be applied retrospectively and was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Other than revised disclosures, this update did not have a material impact on our financial statements.

On September 15, 2011 the FASB issued a revised accounting standard intended to simplify how an entity tests goodwill for impairment. The amendment allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is no longer 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 was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this amendment for our Explosive Metalworking reporting unit.

Table of Contents

Reclassifications

Certain prior year balances in the consolidated financial statements and notes have been reclassified to conform to the 2012 presentation.

(3) ACQUISITIONS

TRX Industries

On January 3, 2012, we acquired the assets and operating business of Texas-based TRX Industries, Inc. (TRX), a manufacturer of perforating guns, for a purchase price of \$10,294. TRX, which has now been integrated into DYNAenergetics US, had been a long-term supplier to DYNAenergetics US and, in recent years, accounted for a rapidly growing percentage of its perforating gun purchases.

The acquisition of TRX was structured as an asset purchase in an all-cash transaction. The purchase price was allocated to tangible and identifiable intangible assets based on their fair values as determined by appraisals performed as of the acquisition date on property, plant and equipment and discounted cash flow analysis on the identifiable intangible assets. The allocation of the purchase price to the assets of TRX was as follows:

Current assets	\$	2,702
Property, plant and equipment		2,227
Intangible assets		5,365
Deferred tax assets		40
Total assets acquired		10,334
Current liabilities		40
Total liabilities assumed		40
Net assets acquired	\$	10,294

We acquired identifiable finite-lived intangible assets as a result of the acquisition of TRX. The finite-lived intangible assets acquired were classified as customer relationships, totaling \$5,365, and are being amortized over 6 years. These amounts are included in Purchased Intangible Assets and are further discussed in Note 2.

Austin Explosives

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

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 expanded our Oilfield Products business, and positioned 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).

Table of Contents

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 and were valued at \$4,773, which are being amortized over 11 years. These amounts are included in Purchased Intangible Assets and are further discussed in Note 2.

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 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). The acquisition date fair value of the previous equity interest was \$3,533. We recognized a gain of \$2,117 as a result of revaluing our prior equity interest held before the acquisition to fair value as of the latter acquisition date. The gain is included in the line item `gain on step acquisition of joint ventures` in the consolidated statement of operations.

Table of Contents

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 and were valued at \$3,669, which are being amortized over 11 years. These amounts are included in Purchased Intangible Assets and are further discussed in Note 2.

Pro Forma Statements of Operations

The following table presents the pro-forma combined results of operations for the years ended December 31, 2011 and 2010 assuming (i) the acquisitions of TRX, AECO and the Russian joint ventures had occurred on January 1; (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 \$10,000 to fund the acquisition of TRX and 1,500 Euros to fund the acquisition of the Russian joint ventures:

	(Unaudited)			
	For the years ended December 31,			
	2011		2010	
Net sales	\$	216,014	\$	165,624
Income from operations	\$	20,022	\$	7,019
Net income attributable to DMC	\$	13,549	\$	4,985
Net income per share:				
Basic	\$	1.01	\$	0.38
Diluted	\$	1.01	\$	0.38

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

The pro-forma results above are not necessarily indicative of the operating results that would have actually occurred if the acquisition had been in effect on the dates indicated, nor are they necessarily indicative of future results of the combined companies. Since the above acquisitions occurred on or before January 3, 2012, the actual results for the year ended December 31, 2012 reflect the full year impact on these acquisitions.

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 decisions related to the ordinary course of business. Operating results from January 1, 2010 through April 30, 2010 includes our proportionate share of income from these unconsolidated joint ventures. 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 period from January 1, 2010 through April 30, 2010 are as follows:

	2010 (a)	
Net sales	\$	2,575
Gross profit	\$	656
Operating income	\$	302
Net income attributable to DMC	\$	468
Equity in earnings of joint ventures	\$	255

(a) Represents operating results through April 30, 2010

(5) DEBT

Lines of credit consisted of the following at December 31, 2012 and 2011:

	2012		2011	
Syndicated credit agreement:				
U.S. Dollar revolving loan	\$	31,900	\$	20,247
Euro revolving loan		4,625		6,215
Canadian Dollar revolving loan		1,254		
Commerzbank line of credit		981		
Nord LB line of credit				13
		38,760		26,475
Less current portion		(981)		(13)
Long-term lines of credit	\$	37,779	\$	26,462

Long-term debt consisted of the following at December 31, 2012 and 2011:

	2012		2011
Loans with former owners of LRI	\$ 120	\$	1,271
Less current maturities	(65)		(1,153)
Long-term debt	\$ 55	\$	118

Syndicated Credit Agreement

On December 21, 2011, we entered into a five-year syndicated credit agreement (credit facility) which amended and restated in its entirety our prior syndicated credit facility entered into on November 16, 2007. The new credit facility, which provides revolving loan availability of \$36,000, 16,000 Euros and 1,500 Canadian dollars, is through a syndicate of four banks, with JP Morgan Chase Bank, N.A. acting as administrative agent for the U.S. and Canadian

Table of Contents

dollar loans and JP Morgan Europe Ltd. acting as administrative agent for the Euro loans. The credit facility expires on December 21, 2016. Based upon our expected 2013 operating results, planned 2013 capital expenditures and expected changes in working capital levels during 2013, we expect our average 2013 borrowings to be equal to or exceed the amount of outstanding borrowings at December 31, 2012. Thus, we have classified all borrowings outstanding as of December 31, 2012 under our syndicated credit agreement as long-term lines of credit.

U.S. Dollar Revolving Loans: At our option, borrowings under the \$36,000 revolving loan can be in the form of Alternate Base Rate loans (ABR) borrowings are based on the greater of adjusted Prime rates, adjusted CD rates, or adjusted Federal Funds rates) or one, two, three, or six month London Interbank Offered Rate (LIBOR) loans. ABR loans bear interest at the defined ABR rate plus 0.00% (at our current leverage ratio) and LIBOR loans bear interest at the applicable LIBOR rate plus 1.5% (at our current leverage ratio). As of December 31, 2012, outstanding revolving loans totaled \$31,900 and had an all-in interest rate of 1.72% based on the LIBOR rate. Our rates are subject to change based upon changes in our current leverage ratio.

Euro Revolving Loans: At our option, borrowings under the 16,000 Euro revolving loan can be based on one, two, three, or six month Euro Interbank Offered Rate (EURIBOR) rates and bear interest at the applicable EURIBOR rate plus 1.5% (at our current leverage ratio). As of December 31, 2012, we had outstanding borrowings of 3,500 Euros (\$4,625 based on the December 31, 2012 exchange rate) under the Euro revolving loan bearing interest at an all-in rate of 1.61% based on the one month EURIBOR option. Our rates are subject to change based upon changes in our current leverage ratio.

Canadian Dollar Revolving Loans: At our option, borrowings under the \$1,500 Canadian dollar revolving loan can be based on one, two, three or six month Canadian Dealer Offered Rate (CDOR) rates and bear interest at the applicable CDOR rate plus 1.5% (at our current leverage ratio). As of December 31, 2012, we had outstanding borrowings of 1,250 Canadian dollars (\$1,254 based on the December 31, 2012 exchange rate) under the Canadian Dollar revolving loan bearing interest at an all-in rate of 2.83% based on the one month CDOR option. Our rates are subject to change based upon changes in our current leverage ratio.

The syndicated credit facility is secured by the assets of DMC including accounts receivable, inventory, and fixed assets, as well as guarantees and share pledges by DMC.

Line of Credit with German Bank

We maintain a line of credit with a German bank for certain DYNAenergetics operations. This line of credit provides a borrowing capacity of 4,000 Euros and is also used by DYNAenergetics to issue bank guarantees to its customers to secure advance payments made by them. As of December 31, 2012, we had outstanding borrowings of 742 Euros (\$981 based on the December 31, 2012 exchange rate). As of December 31, 2012, we had bank guarantees secured by the line of credit of \$1,261. The line of credit bears interest at a EURIBOR-based variable rate which at December 31, 2012 was 3.85%. The line of credit has open-ended terms and can be cancelled by the bank at any time.

Loans with Former Owners of LRI

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

In connection with our October 1, 2009 acquisition of LRI, we assumed loans with the former owners of LRI totaling 2,634 Canadian dollars. Following the acquisition, we immediately repaid 1,302 Canadian dollars of the loans, leaving a principal balance of 1,332 Canadian dollars, which was due in 35 equal installments beginning on December 1, 2011 with the final payment being due on October 1, 2014. Under the terms of our amended and restated credit facility, we were required to prepay the outstanding principal balance on certain of these loans in January 2012 in the amount of 1,080 Canadian dollars. As of December 31, 2012, the outstanding balance on these loans was 120 Canadian dollars (\$120 based on the December 31, 2012 exchange rate). These loans bear interest at the prime rate plus 1.25% (4.25% at December 31, 2012).

Loan Covenants and Restrictions

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;

Table of Contents

mortgaging, pledging or disposition of major assets; and maintenance of specified financial ratios. As of December 31, 2012, we were in compliance with all financial covenants and other provisions of our debt agreements.

Scheduled Debt Maturity

Our long-term debt, other than lines of credit, matures as follows:

Year ended December 31-	
2013	65
2014	55
	\$ 120

(6) STOCK OWNERSHIP AND BENEFIT PLANS

On September 21, 2006, our stockholders approved, and we adopted, the 2006 Stock Incentive Plan (2006 Plan). The 2006 Plan provides for the grant of various types of equity-based incentives, including stock options, restricted stock, restricted stock units, stock appreciation rights, performance shares, performance units and other stock-based awards. There are a total of 942,500 shares available for grant under the 2006 Plan. As of December 31, 2012, we have granted an aggregate of 805,850 shares of restricted stock and restricted stock units under the 2006 Plan, leaving 136,650 shares available for future grant.

The following table sets forth the total stock-based compensation expense included in the Consolidated Statements of Operations:

	2012	2011	2010
Cost of products sold	\$ 324	\$ 261	\$ 316
General and administrative expenses	3,018	2,431	2,402
Selling and distribution expenses	1,101	705	783
Stock-based compensation expense before income taxes	4,443	3,397	3,501
Income tax benefit	(864)	(918)	(888)
Stock-based compensation expense, net of income taxes	\$ 3,579	\$ 2,479	\$ 2,613
Earnings per share impact:			
Basic - net income	\$ 0.27	\$ 0.19	\$ 0.20
Diluted - net income	\$ 0.27	\$ 0.19	\$ 0.20

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Our stock-based compensation expense results from restricted stock awards, restricted stock units and stock issued under the Employee Stock Purchase Plan. Our 2012 stock-based compensation expense includes \$672 relating to the accelerated recognition of stock-based compensation expense resulting from accelerated vesting of restricted stock awards associated with our President and Chief Executive Officer's planned retirement on March 1, 2013 and the December 31, 2012 retirement of another senior executive. During the first quarter of 2013 and, as a result of board actions taken in January 2013, we expect to record a one-time expense of approximately \$3,000 associated with management retirements. This estimated expense will include approximately \$895 of stock-based compensation, with the remainder representing cash payments.

Restricted Stock Awards and Units: Restricted stock and restricted stock units granted to the executive officers and employees of DMC generally vest in one-third increments on the first, second, and third anniversary of the date of grant. Restricted stock granted to directors in 2012 vest in one-third increments on the first, second, and third anniversary dates. In previous years, restricted stock granted to directors of DMC vested on the first anniversary of the date of grant. In 2008, we granted 90,000 restricted stock awards under a supplemental executive retirement plan, with 100% of these awards vesting on the fifth anniversary of the date of grant. The fair value of restricted stock and restricted stock unit awards is based on the fair value of DMC's stock on the date of grant and is amortized to compensation expense over the vesting period on a straight line basis.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

A summary of the activity of our nonvested shares of restricted stock for the years ended December 31, 2012, 2011, and 2010 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2009	198,650	\$ 38.39
Granted	104,000	19.95
Vested	(65,161)	29.26
Balance at December 31, 2010	237,489	\$ 32.82
Granted	116,500	20.90
Vested	(90,660)	24.16
Forfeited	(1,500)	18.79
Balance at December 31, 2011	261,829	\$ 30.59
Granted	116,900	20.74
Vested	(136,344)	27.20
Balance at December 31, 2012	242,385	\$ 27.75

A summary of the activity of our nonvested restricted stock units for the years ended December 31, 2012, 2011, and 2010 is as follows:

	Share Units	Weighted Average Grant Date Fair Value
Balance at December 31, 2009	15,166	\$ 15.96
Granted	28,000	20.44
Vested	(8,583)	15.97
Balance at December 31, 2010	34,583	\$ 19.59
Granted	32,500	20.45
Vested	(13,085)	18.24
Balance at December 31, 2011	53,998	\$ 20.43
Granted	50,200	20.44
Vested	(20,769)	20.43
Balance at December 31, 2012	83,429	\$ 20.44

As of December 31, 2012, there was \$1,802 and \$976 of total unrecognized stock-based compensation related to unvested restricted stock awards and restricted stock units, respectively. The cost is expected to be recognized over a weighted average period of 1.23 years and 1.50 years for the restricted stock awards and restricted stock units, respectively.

Stock Options: Our incentive stock options were granted at exercise prices that equaled the fair market value of the stock at the date of grant based upon the closing sales price of DMC's common stock on that date. Incentive stock options generally vested 25% annually and expired ten years from the date of grant. Non-statutory stock options were generally granted at exercise prices that equaled the fair market value of the stock at the date of grant. We have not granted options since 2006.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

A summary of stock option activity for the years ended December 31, 2012, 2011, and 2010 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at December 31, 2009	28,000	\$ 10.37		
Exercised	(8,300)	4.75		
Balance at December 31, 2010	19,700	\$ 12.74		
Exercised	(4,200)	4.71		
Balance at December 31, 2011	15,500	\$ 14.92		
Exercised				
Balance at December 31, 2012	15,500	\$ 14.92	2.26	\$ 51
Exercisable at December 31, 2012	15,500	\$ 14.92	2.26	\$ 51

The intrinsic value of options exercised for the years ended December 31, 2012, 2011, and 2010 was \$0, \$74 and \$98, respectively. As of December 31, 2012 and 2011, there was no unrecognized stock-based compensation cost related to unvested stock options.

The following table summarizes information about employee stock options outstanding and exercisable at December 31, 2012:

Range of Exercise Prices	Number of Options Outstanding at and Exercisable December 31, 2012	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
\$1.42 - \$1.42	500	0.96	\$ 1.42
\$4.87 - \$4.87	5,000	2.06	\$ 4.87
\$20.62 - \$20.62	10,000	2.42	\$ 20.62
	15,500	2.26	\$ 14.92

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan (ESPP) which is authorized to issue up to 600,000 shares of which 158,055 shares remain available for future purchases. The offerings begin on the first day following each previous offering (Offering Date) and end six months from the offering date (Purchase Date). The ESPP provides that full time employees may authorize DMC to withhold up to 15% of their earnings, subject to certain limitations, to be used to purchase common stock of DMC at the lesser of 85% of the fair market value of DMC s common stock on the Offering Date or the Purchase Date. In connection with the ESPP, 14,717; 8,688; and 11,005 shares of our stock were purchased during the years

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

ended December 31, 2012, 2011, and 2010, respectively. Our total stock-based compensation expense for 2012, 2011, and 2010 includes \$58, \$57, and \$48 respectively, in compensation expense associated with the ESPP.

401(k) Plan

We offer a contributory 401(k) plan to our employees. We make matching contributions equal to 100% of each employee's contribution up to 3% of qualified compensation and 50% of the next 2% of qualified compensation.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

contributed by each employee. Total DMC contributions were \$431, \$379, and \$360 for the years ended December 31, 2012, 2011 and 2010, respectively.

(7) INCOME TAXES

The domestic and foreign components of income before tax for our operations for the years ended December 31 are summarized below:

	2012		2011		2010	
Domestic	\$	7,716	\$	12,550	\$	4,896
Foreign		8,836		4,260		1,492
	\$	16,552	\$	16,810	\$	6,388

The components of the provision for income taxes for the years ended December 31 are as follows:

	2012		2011		2010	
Current - Federal	\$	3,774	\$	4,260	\$	2,089
Current - State		148		137		(68)
Current - Foreign		2,203		1,559		820
		6,125		5,956		2,841
Deferred - Federal		(314)		(295)		(376)
Deferred - State		(21)		(24)		25
Deferred - Foreign						
Net operating losses		176		71		(784)
Other		(1,108)		(1,339)		(573)
		(1,267)		(1,587)		(1,708)
	\$	4,858	\$	4,369	\$	1,133

A reconciliation of our income tax provision computed by applying the Federal statutory income tax rate of 35% in 2012, 2011, and 2010 to income before taxes for the years ended December 31 is as follows:

	2012		2011		2010	
Federal income tax at statutory rate	\$	5,793	\$	5,900	\$	2,240
State and local tax items not included below, net		431		209		(185)
Effect of difference between U.S. Federal and foreign tax rates		(1,459)		(554)		261
Permanent differences:						
Foreign interest expense		(859)		(784)		(651)

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

U.S. manufacturing tax deduction	(356)	(414)	(117)
Deemed repatriation of foreign earnings	914		
Book gain on step acquisition of joint ventures			(453)
Other	326	279	148
Current year tax credits	(29)	(142)	(12)
Impact of statutory tax rate change	198	(31)	(36)
Other	(101)	(94)	(62)
Provision for income taxes	\$ 4,858	\$ 4,369	\$ 1,133

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

In January 2013, the United States Congress authorized, and the President signed into law, certain federal tax credits that can be reflected in our U.S. tax return for 2012; however, since this law was enacted in 2013, the financial statement benefit of such credits cannot be reflected until the first quarter of 2013. The lack of availability of such credits caused the 2012 effective tax rate to be approximately 5.5% higher than it would have been had the credits been approved in 2012.

Our deferred tax assets and liabilities at December 31, 2012 and 2011 consist of the following:

	2012	2011
Deferred tax assets:		
Income tax credit carryforward	\$ 584	\$ 1,015
Net foreign operating loss carryforward	6,019	6,196
Inventory differences	1,451	1,011
Allowance for doubtful accounts	113	111
Equity compensation	1,703	1,813
Vacation and other compensation accrual	420	261
Other, net	21	16
Deferred tax assets	10,311	10,423
Deferred tax liabilities:		
Purchased intangible assets	(13,257)	(14,027)
Depreciation and amortization	(2,097)	(2,469)
Investment in partnerships	(1,129)	(1,843)
Deferred profit	(236)	(383)
Other, net	(74)	
Deferred tax liabilities	(16,793)	(18,722)
Net deferred tax liabilities	\$ (6,482)	\$ (8,299)
Current deferred tax assets	\$ 2,074	\$ 1,469
Current deferred tax liabilities	(149)	(68)
Long-term deferred tax assets	804	485
Long-term deferred tax liabilities	(9,211)	(10,185)
Net deferred tax liabilities	\$ (6,482)	\$ (8,299)

As a result of stock-based compensation in 2012, 2011, and 2010, we decreased additional paid-in-capital by \$453, \$35, and \$601, respectively, for the tax impact. To the extent these adjustments reduced taxes currently payable, they are not reflected in the current income tax provision for those years.

As of December 31, 2012, 2011 and 2010, income considered to be permanently reinvested in non-U.S. subsidiaries totaled approximately \$42,543, \$27,745 and \$16,514, respectively. Deferred income taxes have not been provided on this undistributed income, as we do not plan to initiate any action that would require the payment of U.S. income taxes on these earnings. It is not practical to estimate the amount of additional taxes that might be payable on these amounts of undistributed foreign income.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

The components of the income tax credit carryforward as of December 31, 2012 are U.S. foreign tax credits of \$551 (which, if unused, expire between 2017 and 2019) and sundry state tax credits of \$33 (which, if unused, expire between 2013 and 2017). The components of the income tax credit carryforward as of December 31, 2011, are U.S. foreign tax credits of \$971 (which, if unused, expire between 2013 and 2019) and sundry state tax credits of \$44 (which, if unused, expire beginning in 2012 and 2019).

Table of Contents

As of December 31, 2012 and 2011, we had no state net operating loss carryforwards. The foreign loss carryforwards are primarily from jurisdictions which do not impose a time limitation on such carryforwards.

At December 31, 2012 and 2011, the balance of unrecognized tax benefits was \$0. We recognize interest and penalties related to uncertain tax positions in operating expense. As of December 31, 2012 and 2011, our accrual for interest and penalties related to uncertain tax positions was \$0.

DMC's U.S. Federal tax returns for the tax years 2009-2012 remain open to examination while most of DMC's state tax returns remain open to examination for the tax years 2008-2012. DMC's foreign tax returns remain open to examination for the tax years 2007-2012.

(8) 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 refrigeration, and similar industries. Our cladding process involves the detonation of large amounts of explosives. As a result, the sites where we perform cladding must meet certain criteria, including lack of proximity to a densely populated area, the specific geological characteristics of the site, and the ability to comply with local noise and vibration abatement regulations in conducting the process. 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. Our reportable segments are separately managed strategic business units that offer different products and services. Each segment's products are marketed to different customer types and require different manufacturing processes and technologies.

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 year ended December 31, 2010 presented below also reflects our new allocation methodology.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

Segment information is presented for the years ended December 31, 2012, 2011 and 2010 as follows:

	Explosive Metalworking	Oilfield Products	AMK Welding	Total
As of and for the year ended December 31, 2012:				
Net sales	\$ 115,333	\$ 77,404	\$ 8,830	\$ 201,567
Depreciation and amortization	\$ 5,580	\$ 5,631	\$ 536	\$ 11,747
Income from operations	\$ 17,439	\$ 7,047	\$ 925	\$ 25,411
Unallocated amounts:				
Corporate expenses				(3,565)
Stock-based compensation				(4,443)
Other expense				(32)
Interest expense				(832)
Interest income				13
Consolidated income before income taxes				\$ 16,552
Segment assets	\$ 100,227	\$ 112,319	\$ 6,120	\$ 218,666
Assets not allocated to segments:				
Cash and cash equivalents				8,200
Prepaid expenses and other assets				5,687
Deferred tax assets				2,878
Consolidated total assets				\$ 235,431
Capital expenditures	\$ 4,747	\$ 10,386	\$ 514	\$ 15,647

	Explosive Metalworking	Oilfield Products	AMK Welding	Total
As of and for the year ended December 31, 2011:				
Net sales	\$ 126,199	\$ 72,782	\$ 9,910	\$ 208,891
Depreciation and amortization	\$ 5,833	\$ 4,877	\$ 489	\$ 11,199
Income from operations	\$ 16,058	\$ 6,188	\$ 2,056	\$ 24,302
Unallocated amounts:				
Corporate expenses				(2,686)
Stock-based compensation				(3,397)
Other income				528
Interest expense				(1,945)
Interest income				8
Consolidated income before income taxes				\$ 16,810
Segment assets	\$ 102,473	\$ 92,070	\$ 6,006	\$ 200,549
Assets not allocated to segments:				
Cash and cash equivalents				5,276
Prepaid expenses and other assets				5,647
Deferred tax assets				1,954
Consolidated total assets				\$ 213,426
Capital expenditures	\$ 4,338	\$ 2,904	\$ 484	\$ 7,726

Table of Contents

	Explosive Metalworking	Oilfield Products	AMK Welding	Total
As of and for the year ended December 31, 2010:				
Net sales	\$ 98,570	\$ 45,332	\$ 10,837	\$ 154,739
Depreciation and amortization	\$ 5,891	\$ 4,351	\$ 471	\$ 10,713
Income from operations	\$ 7,461	\$ 2,426	\$ 2,617	\$ 12,504
Equity in earnings of joint ventures	\$	\$ 255	\$	255
Unallocated amounts:				
Corporate expenses				(2,214)
Stock-based compensation				(3,501)
Other income				2,316
Interest expense				(3,046)
Interest income				74
Consolidated income before income taxes				\$ 6,388
Segment assets	\$ 96,344	\$ 89,169	\$ 5,403	\$ 190,916
Assets not allocated to segments:				
Cash and cash equivalents				4,572
Prepaid expenses and other assets				4,600
Deferred tax assets				1,305
Consolidated total assets				\$ 201,393
Capital expenditures	\$ 2,407	\$ 832	\$ 288	\$ 3,527

The geographic location of our property, plant and equipment, net of accumulated depreciation, is as follows:

	As of December 31,		
	2012	2011	2010
United States	\$ 28,248	\$ 21,810	\$ 20,784
Germany	11,319	9,924	9,234
France	5,912	5,767	5,742
Russia	5,351	387	331
Canada	2,136	2,339	2,145
Rest of the world	1,010	1,175	1,570
Total	\$ 53,976	\$ 41,402	\$ 39,806

Table of Contents

All of our sales are from products shipped from our manufacturing facilities and distribution centers located in the United States, Germany, France, Canada, Sweden (subsequently closed during 2011), Russia and Kazakhstan. The following represents our net sales based on the geographic location of the customer:

	For the years ended December 31,		
	2012	2011	2010
United States	\$ 78,676	\$ 81,410	\$ 44,587
Canada	21,083	24,151	29,907
Germany	13,992	12,960	25,109
South Korea	9,469	29,951	10,309
China	7,986	1,468	1,797
France	6,838	3,828	5,425
Russia	6,472	8,658	7,067
Rest of the world	57,051	46,465	30,538
Total	\$ 201,567	\$ 208,891	\$ 154,739

During the years ended December 31, 2012, 2011, and 2010, no one customer accounted for more than 10% of total net sales.

(9) COMMITMENTS AND CONTINGENCIES

We lease certain office space, equipment, storage space, vehicles and other equipment under various non-cancelable lease agreements. Certain of these leases (primarily equipment related) are recorded as capital leases. Amortization expense associated with the capital leases is combined with depreciation expense of fixed assets. Details of capitalized leased assets as of December 31, 2012 and 2011 are as follows:

	2012	2011
Manufacturing equipment and tooling	\$ 292	\$ 364
Furniture, fixtures and computer equipment		57
Total	292	421
Less: Accumulated amortization	(231)	(300)
Net capitalized leased assets	\$ 61	\$ 121

Table of Contents

Future minimum rental commitments under non-cancelable leases are as follows:

	Capital Leases	Operating Leases
Year ended December 31 -		
2013	\$ 55	\$ 2,928
2014	23	2,099
2015		1,716
2016		579
2017		419
Thereafter		228
Total minimum payments	78	\$ 7,969
Amounts representing interest	(7)	
Present value of net minimum lease payments	71	
Current portion of capital lease obligations	(52)	
Capital lease obligations	\$ 19	

Total rental expense included in operations was \$3,182, \$2,973, and \$2,295 for the years ended December 31, 2012, 2011, and 2010, respectively.

During 2008, we entered into a license agreement and a risk allocation agreement related to our U.S. Explosive Metalworking business. These agreements, which were amended in 2012, provide us with the ability to perform our explosive shooting process at a second shooting site in Pennsylvania. Future minimum payments required to be made by us under these agreements are as follows:

Year ended December 31 -	
2013	\$ 398
2014	398
2015	398
2016	398
2017	398
Thereafter	398
Total minimum payments	\$ 2,388

In the normal course of business, we are party to various contractual disputes and claims. After considering our evaluations by legal counsel regarding pending actions, we are of the opinion that the outcome of such actions will not have a material adverse effect on the financial position or results of operations.

Table of Contents(10) QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected unaudited quarterly financial data for the years ended December 31, 2012 and 2011 are presented below:

	Year ended December 31, 2012			
	Quarter ended March 31,	Quarter ended June 30,	Quarter ended September 30,	Quarter ended December 31,
Net sales	\$ 50,212	\$ 48,687	\$ 50,149	\$ 52,519
Gross profit	\$ 14,377	\$ 13,939	\$ 15,349	\$ 16,043
Net income	\$ 2,428	\$ 2,653	\$ 3,754	\$ 2,861
Net income per share - basic	\$ 0.18	\$ 0.20	\$ 0.28	\$ 0.21
Net income per share - diluted	\$ 0.18	\$ 0.20	\$ 0.28	\$ 0.21

	Year ended December 31, 2011			
	Quarter ended March 31,	Quarter ended June 30,	Quarter ended September 30,	Quarter ended December 31,
Net sales	\$ 45,574	\$ 54,165	\$ 54,890	\$ 54,262
Gross profit	\$ 10,302	\$ 15,473	\$ 14,832	\$ 14,840
Net income	\$ 750	\$ 3,868	\$ 4,273	\$ 3,599
Net income per share - basic	\$ 0.06	\$ 0.29	\$ 0.32	\$ 0.27
Net income per share - diluted	\$ 0.06	\$ 0.29	\$ 0.32	\$ 0.27

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in or disagreements with accountants on accounting and financial disclosure for the fiscal year ended December 31, 2012.

ITEM 9A. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on such evaluation, such officers have concluded that our

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

disclosure controls and procedures are effective at the reasonable assurance level as of the end of the period covered by this Annual Report. There have been no changes in internal control over financial reporting during the fourth quarter of 2012.

Table of Contents

Management's Report on Internal Control over Financial Reporting

The management of Dynamic Materials Corporation and subsidiaries ("DMC") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of DMC's management, including its Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of DMC's internal control over financial reporting as of December 31, 2012 based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In designing and evaluating the internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on that evaluation, management concluded that DMC's internal control over financial reporting was effective as of December 31, 2012.

DMC's internal control over financial reporting as of December 31, 2012, has also been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report which is included elsewhere herein.

/s/ Kevin Longe
Kevin Longe
President and Chief Executive Officer
March 14, 2013

/s/ Richard A. Santa
Richard A. Santa
Senior Vice President and Chief Financial Officer
March 14, 2013

Table of Contents

Report of Independent Registered Public Accounting Firm

The Stockholders and the

Board of Directors of Dynamic Materials Corporation

We have audited Dynamic Materials Corporation and subsidiaries (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Dynamic Materials Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Dynamic Materials Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 of

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Dynamic Materials Corporation and subsidiaries and our report dated March 14, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado
March 14, 2013

Table of Contents

ITEM 9B. Other Information

Not applicable.

Table of Contents

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Item 10 incorporates information by reference to our Proxy Statement for the 2013 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2012.

ITEM 11. Executive Compensation

Item 11 incorporates information by reference to our Proxy Statement for the 2013 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2012.

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

Item 12 incorporates information by reference to our Proxy Statement for the 2013 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2012.

For information regarding securities authorized for issuance under our equity compensation plans see the Proxy Statement for our 2013 Annual Meeting of Shareholders, which information is incorporated herein by reference.

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

Item 13 incorporates information by reference to our Proxy Statement for the 2013 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2012.

ITEM 14. Principal Accounting Fees and Services

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Item 14 incorporates information by reference to our Proxy Statement for the 2013 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2012.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a)(1) **Financial Statements**

See Index to Financial Statements in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

(a)(2) **Financial Statement Schedules**

See Schedule II beginning on page 84 of this Annual Report on Form 10-K.

(a)(3) **Exhibits**

Exhibit Number	Description
3.1	Certificate of Incorporation of the Company (incorporated by reference to the Company's Quarterly report on Form 10-Q/A for the quarter ended March 31, 2004).

Table of Contents

3.2	Bylaws of the Company (incorporated by reference to the Company's Quarterly report on Form 10-Q/A for the quarter ended March 31, 2004).
10.1	Amended and Restated Credit Agreement dated as of December 21, 2011, by and among the Company, the US borrowers party thereto, the Euro borrowers party thereto, the Canadian borrowers party thereto, the guarantors party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as US administrative agent, J.P. Morgan Europe Limited, as Euro administrative agent, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian administrative agent, KeyBank National Association, as syndication agent, Wells Fargo Bank, National Association, as documentation agent, and JPMorgan Chase Bank, N.A., as sole bookrunner and lead arranger (incorporated by reference to the Company's Annual report on Form 10-K for the year ended December 31, 2011).
10.2	Employment Agreement, dated as of March 1, 2013, by and between the Company and Kevin Longe. *
10.3	Agreement, dated as of January 18, 2013, by and between the Company and Richard A. Santa. *
10.4	Consulting Agreement, dated September 11, 2012, among DYNAenergetics Holding GmbH, the Company and RoRo Consult GmbH, (incorporated by reference to the Company's Form 8-K filed with the Commission on September 13, 2012). *
10.5	Dynamic Materials Corporation 2006 Stock Incentive Plan (incorporated by reference to the Company's Form 10-Q filed with the Commission on November 2, 2006). *
10.6	Amendment No. 1 to Dynamic Materials Corporation 2006 Stock Incentive Plan dated March 11, 2013. *
10.7	Form of Executive Officer Restricted Stock Award Agreement (incorporated by reference to the Company's Form 8-K filed with the Commission on June 12, 2007). *
10.8	Form of Non-Executive Director Restricted Stock Award Agreement (incorporated by reference to the Company's Form 8-K filed with the Commission on June 12, 2007). *
10.9	Form of Indemnification Agreement (incorporated by reference to the Company's Form 8-K filed with the Commission on January 24, 2011). *
21.1	Subsidiaries of the Company.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
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 Vice President and Chief Financial Officer pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Annual Report on Form 10-K of Dynamic Materials Corporation. For the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statement of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.**

* Management contract or compensatory plan or arrangement.

** 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

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

INDEX TO SCHEDULE II

AS OF DECEMBER 31, 2012

	PAGE
<u>Schedule II (a)</u>	84
<u>Schedule II (b)</u>	84
<u>Schedule II (c)</u>	84

Table of Contents

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

SCHEDULE II(a) - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at beginning of period	Additions charged to income	Accounts receivable written off	Other Adjustments	Balance at end of period
Year ended -					
December 31, 2010	\$ 390	\$	\$	(12)	\$ 378
December 31, 2011	\$ 378	\$ 267	\$ (149)	(72)	\$ 424
December 31, 2012	\$ 424	\$ 63	\$ (10)	(71)	\$ 406

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

SCHEDULE II(b) - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

WARRANTY RESERVE

	Balance at beginning of period	Additions charged to income	Repairs allowed	Other Adjustments	Balance at end of period
Year ended -					
December 31, 2010	\$ 298	\$ 463	\$ (164)	\$	\$ 597
December 31, 2011	\$ 597	\$ 756	\$ (761)	\$	\$ 592
December 31, 2012	\$ 592	\$ 175	\$ (134)	(190)	\$ 443

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

SCHEDULE II(c) - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

INVENTORY RESERVE

	Balance at beginning of period	Additions charged to income	Inventory write-offs	Balance at end of period
Year ended -				
December 31, 2010	\$ 256	\$ 210	\$ (241)	\$ 225

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

December 31, 2011	\$	225	\$	77	\$	(145)	\$	157
December 31, 2012	\$	157	\$	310	\$	(130)	\$	337