

DYNAMIC MATERIALS CORP  
Form 10-Q  
October 27, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Form 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_ .

Commission file number 001-14775

DYNAMIC MATERIALS CORPORATION  
(Exact name of Registrant as Specified in its Charter)  
Delaware 84-0608431  
(State of Incorporation or Organization) (I.R.S. Employer Identification No.)  
5405 Spine Road, Boulder, Colorado 80301  
(Address of principal executive offices, including zip code)

(303) 665-5700  
(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares of Common Stock outstanding was 14,482,261 as of October 27, 2016.

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CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains “forward-looking statements” within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. We intend the forward-looking statements throughout this quarterly report on Form 10-Q to be covered by the safe harbor provisions for forward-looking statements. Statements contained in this report which are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. These statements can sometimes be identified by our use of forward-looking words such as “may,” “believe,” “plan,” “anticipate,” “estimate,” “expect,” “intend,” and other phrases of similar meaning. Such statements include projections, guidance and other statements regarding our expected financial position and operating results, our business strategy, our financing plans, our liquidity position and factors impacting such position, and the outcome of any pending litigation or contingencies. The forward-looking information is based on information available as of the date of this quarterly report and on numerous assumptions and developments that are not within our control. Although we believe that our expectations as expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Factors that could cause actual results to differ materially include, but are not limited to, those factors referenced in our Annual Report on Form 10-K for the year ended December 31, 2015 and such things as the following: changes in global economic conditions; the ability to obtain new contracts at attractive prices; the size and timing of customer orders and shipment; product pricing and margins; our ability to realize sales from our backlog; fluctuations in customer demand; fluctuations in foreign currencies; competitive factors; the timely completion of contracts; the timing and size of expenditures; the timely receipt of government approvals and permits; the price and availability of metal and other raw material; the adequacy of local labor supplies at our facilities; current or future limits on manufacturing capacity at our various operations; our ability to successfully integrate acquired businesses; the availability and cost of funds; and general economic conditions, both domestic and foreign, impacting our business and the business of the end-market users we serve. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s analysis only as of the date hereof. We undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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## Part I - FINANCIAL INFORMATION

## ITEM 1. Condensed Consolidated Financial Statements

DYNAMIC MATERIALS CORPORATION  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Amounts in Thousands, Except Share and Per Share Data)

|  | September<br>30,<br>2016<br>(unaudited) | December<br>31,<br>2015<br>(as<br>adjusted) |
|--|---|---|
| <b>ASSETS</b>  |   |   |
| <b>CURRENT ASSETS:</b>   |   |   |
| Cash and cash equivalents  | \$ 7,451                                | \$ 6,291                                    |
| Accounts receivable, net of allowance for doubtful accounts of \$1,185 and \$974, respectively | 25,970                                  | 35,798                                      |
| Inventory, net   | 32,866                                  | 35,449                                      |
| Prepaid expenses and other   | 6,597                                   | 8,916                                       |
| Total current assets   | 72,884                                  | 86,454                                      |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>   | 112,758                                 | 106,523                                     |
| Less - accumulated depreciation  | (53,752 )                               | (48,524 )                                   |
| Property, plant and equipment, net   | 59,006                                  | 57,999                                      |
| <b>GOODWILL, net</b>   | 17,417                                  | 17,190                                      |
| <b>PURCHASED INTANGIBLE ASSETS, net</b>  | 17,521                                  | 20,418                                      |
| <b>OTHER ASSETS, net</b>   | 107                                     | 131   |
| <b>TOTAL ASSETS</b>  | <b>\$ 166,935</b>                       | <b>\$ 182,192</b>                           |

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

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DYNAMIC MATERIALS CORPORATION  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Amounts in Thousands, Except Share and Per Share Data)

|  | September<br>30,<br>2016<br><br>(unaudited) | December<br>31,<br>2015<br><br>(as<br>adjusted) |
|--|---|---|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |   |   |
| <b>CURRENT LIABILITIES:</b>  |   |   |
| Accounts payable   | \$ 11,785                                   | \$ 14,624                                       |
| Accrued expenses   | 5,336                                       | 3,972   |
| Accrued anti-dumping duties  | 6,502                                       | 6,374   |
| Dividend payable   | 290   | 284   |
| Accrued income taxes   | 419   | 2,783   |
| Accrued employee compensation and benefits   | 3,043                                       | 2,465   |
| Customer advances  | 2,589                                       | 2,396   |
| <br>Total current liabilities  | <br>29,964                                  | <br>32,898                                      |
| <br>LINES OF CREDIT  | <br>14,699                                  | <br>26,826                                      |
| <br>DEFERRED TAX LIABILITIES   | <br>1,556                                   | <br>2,119                                       |
| <br>OTHER LONG-TERM LIABILITIES  | <br>2,036                                   | <br>1,928                                       |
| <br>Total liabilities  | <br>48,255                                  | <br>63,771                                      |
| <br><b>COMMITMENTS AND CONTINGENT LIABILITIES</b>  |   |   |
| <br><b>STOCKHOLDERS' EQUITY:</b>   |   |   |
| 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; 14,484,639 and 14,212,115 shares outstanding, respectively | 724   | 711   |
| Additional paid-in capital   | 72,258                                      | 70,408  |
| Retained earnings  | 82,589                                      | 87,767  |
| Other cumulative comprehensive loss  | (36,866 )                                   | (40,465 )                                       |
| Treasury stock, at cost; 2,378 and 0 shares, respectively  | (25 )                                       | — )   |
| <br>Total stockholders' equity   | <br>118,680                                 | <br>118,421                                     |
| <br>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY   | <br>\$ 166,935                              | <br>\$ 182,192                                  |

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

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DYNAMIC MATERIALS CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
 (Amounts in Thousands, Except Share and Per Share Data)  
 (unaudited)

|  | Three months ended |            | Nine months ended |            |
|--|--------------------|------------|-------------------|------------|
|  | September 30,      |            | September 30,     |            |
|  | 2016               | 2015       | 2016              | 2015       |
| NET SALES                                      | \$36,553           | \$39,508   | \$118,402         | \$125,068  |
| COST OF PRODUCTS SOLD                          | 28,096             | 29,219     | 89,652            | 91,491     |
| Gross profit                                   | 8,457              | 10,289     | 28,750            | 33,577     |
| COSTS AND EXPENSES:                            |                    |            |                   |            |
| General and administrative expenses            | 5,685              | 5,071      | 15,522            | 16,670     |
| Selling and distribution expenses              | 3,832              | 4,867      | 12,352            | 14,703     |
| Amortization of purchased intangible assets    | 1,009              | 1,007      | 3,023             | 3,037      |
| Restructuring expenses                         | 373                | 285        | 1,202             | 3,397      |
| Total costs and expenses                       | 10,899             | 11,230     | 32,099            | 37,807     |
| OPERATING LOSS                                 | (2,442 )           | (941 )     | (3,349 )          | (4,230 )   |
| OTHER INCOME (EXPENSE):                        |                    |            |                   |            |
| Other income (expense), net                    | (157 )             | (1,463 )   | 178               | (299 )     |
| Interest expense                               | (265 )             | (255 )     | (826 )            | (700 )     |
| Interest income                                | —                  | —          | 2                 | 4          |
| LOSS BEFORE INCOME TAXES                       | (2,864 )           | (2,659 )   | (3,995 )          | (5,225 )   |
| INCOME TAX PROVISION                           | 272                | 1,574      | 321               | 2,704      |
| NET LOSS                                       | \$(3,136 )         | \$(4,233 ) | \$(4,316 )        | \$(7,929 ) |
| LOSS PER SHARE                                 |                    |            |                   |            |
| Basic  | \$(0.22 )          | \$(0.30 )  | \$(0.31 )         | \$(0.57 )  |
| Diluted  | \$(0.22 )          | \$(0.30 )  | \$(0.31 )         | \$(0.57 )  |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: |                    |            |                   |            |
| Basic  | 14,195,921         | 13,932,033 | 14,105,594        | 13,916,236 |
| Diluted  | 14,195,921         | 13,932,033 | 14,105,594        | 13,916,236 |
| DIVIDENDS DECLARED PER COMMON SHARE            | \$0.02             | \$0.04     | \$0.06            | \$0.12     |

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

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DYNAMIC MATERIALS CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(Amounts in Thousands)

(unaudited)

|  | Three months<br>ended September<br>30, |           | Nine months ended<br>September 30, |            |
|--|--|-----------|------------------------------------|------------|
|  | 2016                                   | 2015      | 2016                               | 2015       |
| Net loss   | \$(3,136)                              | \$(4,233) | \$(4,316)                          | \$(7,929 ) |
| Change in cumulative foreign currency translation adjustment | 852                                    | (1,453 )  | 3,599                              | (9,676 )   |
| Total comprehensive loss                                     | \$(2,284)                              | \$(5,686) | \$(717 )                           | \$(17,605) |

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



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DYNAMIC MATERIALS CORPORATION  
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

(Amounts in Thousands, Except Share Data)

(unaudited)

|   | Common Stock |        | Additional | Retained | Other        | Treasury Stock |          | Total     |
|---|--------------|--------|------------|----------|--------------|----------------|----------|-----------|
|   | Shares       | Amount | Paid-In    | Earnings | Cumulative   | Shares         | Amount   |           |
|   |              |        | Capital    |          | Loss         |                |          |           |
| Balances, December 31, 2015                                     | 14,212,115   | \$ 711 | \$ 70,408  | \$87,767 | \$ (40,465 ) | —              | \$ —     | \$118,421 |
| Net loss  | —            | —      | —          | (4,316 ) | —            | —              | —        | (4,316 )  |
| Change in cumulative foreign<br>currency translation adjustment | —            | —      | —          | —        | 3,599        | —              | —        | 3,599     |
| Shares issued in connection with<br>stock compensation plans    | 272,524      | 13     | 177        | —        | —            | —              | —        | 190       |
| Stock-based compensation  | —            | —      | 1,673      | —        | —            | —              | —        | 1,673     |
| Dividends declared  | —            | —      | —          | (862 )   | —            | —              | —        | (862 )    |
| Treasury stock purchases  | —            | \$ —   | —          | —        | —            | (2,378)        | \$ (25 ) | \$ (25 )  |
| Balances, September 30, 2016                                    | 14,484,639   | \$ 724 | \$ 72,258  | \$82,589 | \$ (36,866 ) | (2,378)        | \$ (25 ) | \$118,680 |

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

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DYNAMIC MATERIALS CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015  
 (Amounts in Thousands)  
 (unaudited)

|   | 2016      | 2015      |
|---|-----------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |           |           |
| Net loss  | \$(4,316) | \$(7,929) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |           |           |
| Depreciation (including capital lease amortization)                                       | 5,024     | 4,696     |
| Amortization of purchased intangible assets   | 3,023     | 3,037     |
| Amortization of deferred debt issuance costs  | 123       | 189       |
| Stock-based compensation  | 1,599     | 2,223     |
| Excess tax benefit from stock-based compensation  | —         | (72 )     |
| Deferred income tax provision (benefit)   | (563 )    | 1,924     |
| Gain on disposal of property, plant and equipment   | 35        | 59        |
| Restructuring charges   | 1,202     | 3,397     |
| Accrued anti-dumping duties   | 128       | —         |
| Change in:  |           |           |
| Accounts receivable, net  | 10,480    | (220 )    |
| Inventory, net  | 3,400     | (3,908 )  |
| Prepaid expenses and other  | (347 )    | (1,523 )  |
| Accounts payable  | (3,166 )  | (3,742 )  |
| Customer advances   | 180       | (1,271 )  |
| Accrued expenses and other liabilities  | 1,037     | (3,274 )  |
| Net cash provided by (used in) operating activities                                       | 17,839    | (6,414 )  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |           |           |
| Acquisition of property, plant and equipment  | (4,070 )  | (4,812 )  |
| Proceeds on sale of property, plant and equipment   | 31        | —         |
| Change in other non-current assets  | 31        | 122       |
| Net cash used in investing activities   | (4,008 )  | (4,690 )  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |           |           |
| Borrowings (repayments) on bank lines of credit, net                                      | (12,250 ) | 13,446    |
| Payment on capital lease obligations  | (3 )      | (4 )      |
| Payment of dividends  | (861 )    | (1,692 )  |
| Payment of deferred debt issuance costs   | —         | (1,042 )  |
| Net proceeds from issuance of common stock to employees and directors                     | 190       | 185       |
| Treasury stock purchases  | (21 )     | —         |
| Excess tax benefit from stock-based compensation  | —         | 72        |
| Net cash provided by (used in) financing activities                                       | (12,945 ) | 10,965    |
| <b>EFFECTS OF EXCHANGE RATES ON CASH</b>  | 274       | (687 )    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                               | 1,160     | (826 )    |
| <b>CASH AND CASH EQUIVALENTS, beginning of the period</b>                                 | 6,291     | 9,400     |

|  |         |         |
|--|---------|---------|
| CASH AND CASH EQUIVALENTS, end of the period | \$7,451 | \$8,574 |
|--|---------|---------|

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

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DYNAMIC MATERIALS CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Amounts in Thousands, Except Share and Per Share Data)  
(unaudited)

1. BASIS OF PRESENTATION

The information included in the condensed consolidated financial statements is unaudited but includes all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the financial statements that are included in our Annual Report filed on Form 10-K for the year ended December 31, 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Dynamic Materials Corporation ("DMC") and its controlled subsidiaries. Only subsidiaries in which controlling interests are maintained are consolidated. All significant intercompany accounts, profits, and transactions have been eliminated in consolidation.

Income Taxes

The effective tax rate for each of the periods reported differs from the U.S. statutory rate due primarily to favorable foreign permanent differences, variation in contribution to consolidated pre-tax income from each jurisdiction for the respective periods and differences between the U.S. and foreign tax rates (which range from 20% to 35%) on earnings that have been permanently reinvested.

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. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. The deferred income tax impact of tax credits are recognized as an immediate adjustment to income tax expense. We recognize deferred tax assets for the expected future effects of all deductible temporary differences to the extent we believe these assets will more likely than not be realized. We record a valuation allowance when, based on current circumstances, it is more likely than not that all or a portion of the deferred tax assets will not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, recent financial operations and their associated valuation allowances, if any.

We recognize the tax benefits from uncertain tax positions only when it is more likely than not, based on the technical merits of the position; the tax position will be sustained upon examination, including the resolution of any related appeals or litigation. The tax benefits recognized in the consolidated financial statements from such a position are measured as the largest benefit that is more likely than not of being realized upon ultimate resolution. We recognize interest and penalties related to uncertain tax positions in operating expense.

Tax audits are currently in progress for the years 2013 through 2015 in the U.S. and 2011 through 2014 in Germany. Our tax provisions reflect our best estimate of state, local, federal, and foreign taxes. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with our expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

## 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”) during periods in which we have net income 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:

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|  | Three months ended |             | Nine months ended |             |
|--|--------------------|-------------|-------------------|-------------|
|  | September 30,      |             | September 30,     |             |
|  | 2016               | 2015        | 2016              | 2015        |
| Numerator:   |                    |             |                   |             |
| Net loss   | \$ (3,136)         | \$ (4,233 ) | \$ (4,316)        | \$ (7,929 ) |
| Less income allocated to RSAs                                    | —                  | —           | —                 | —           |
| Net loss allocated to common stock for EPS calculation           | \$ (3,136)         | \$ (4,233 ) | \$ (4,316)        | \$ (7,929 ) |
| Denominator:   |                    |             |                   |             |
| Weighted average common shares outstanding - basic               | 14,195,921         | 13,932,033  | 14,105,594        | 13,916,236  |
| Dilutive stock-based compensation plans                          | —                  | —           | —                 | —           |
| Weighted average common shares outstanding - diluted             | 14,195,921         | 13,932,033  | 14,105,594        | 13,916,236  |
| Net income (loss) allocated to common stock for EPS calculation: |                    |             |                   |             |
| Basic  | \$ (0.22 )         | \$ (0.30 )  | \$ (0.31 )        | \$ (0.57 )  |
| Diluted  | \$ (0.22 )         | \$ (0.30 )  | \$ (0.31 )        | \$ (0.57 )  |

## Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, trade accounts receivable and payable, accrued expenses and lines of credit approximate their fair value.

## Recently Adopted Accounting Standards

In November 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") which requires that deferred tax liabilities and assets be classified as noncurrent in the statement of financial position based on an analysis of each taxpaying component within a jurisdiction. This ASU would have been effective for the Company December 1, 2017, however the Company elected to early adopt prospectively beginning with the year ended December 31, 2015, as is permitted under the standard.

In April 2015, the FASB issued an accounting standards update to revise the presentation of debt issuance costs. Under this pronouncement, entities will present debt issuance costs in their balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the deferred debt issuance costs will continue to be included in interest expense. The new accounting guidance represents a change in accounting principle and was required to be adopted retrospectively in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Accordingly, the Company applied the guidance and reclassified the prior period amount of \$674 of debt issuance costs from other assets, net to lines of credit in the balance sheet as of December 31, 2015. Because the application of this guidance affects classification only, such reclassifications did not have a material effect on the Company's consolidated financial position or results of operations.

## Recent Accounting Pronouncements

In March 2016, the FASB issued a new accounting pronouncement related to accounting for share-based payments. The pronouncement intends to simplify the accounting for share-based payment transactions, including income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. This pronouncement is effective for reporting periods beginning after December 15, 2016. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding the financial reporting of leasing transactions. This new standard requires a lessee to record assets and liabilities on the balance sheet for the rights and obligations arising from leases with terms of more than 12 months. The Company is required to adopt the new standard on January 1, 2019 using a modified retrospective approach. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

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In July 2015, the FASB issued an accounting standards update to simplify the measurement of inventory and to change the measurement from lower of cost or market to lower of cost and net realizable value. This pronouncement is effective for reporting periods beginning after December 15, 2016. We currently do not expect that the adoption of this standard will have a material impact on the Company's financial position or results of operations.

In May 2014, the FASB issued an accounting standards update to clarify the principles of recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and IFRS. The pronouncement is effective for reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We currently are evaluating the potential impact the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

### 3. 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 manufacturing overhead. As necessary, we record provisions and maintain reserves for excess, slow moving and obsolete inventory. To determine reserve amounts, we regularly review inventory quantities on hand and values, and compare them to estimates of future product demand, market conditions, production requirements and technological developments.

Inventories consist of the following at September 30, 2016 and December 31, 2015 and include reserves of \$3,830 and \$3,682, respectively:

|                 | September 30,<br>2016 | December 31,<br>2015 |
|-----------------|-----------------------|----------------------|
| Raw materials   | \$ 14,395             | \$ 14,513            |
| Work-in-process | 6,482                 | 8,112                |
| Finished goods  | 11,645                | 12,320               |
| Supplies        | 344                   | 504                  |
|                 | \$ 32,866             | \$ 35,449            |



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## 4. GOODWILL

All of the goodwill is recorded within our NobelClad segment. The changes to the carrying amount of goodwill during the period are summarized below:

|  |          |
|--|----------|
| Goodwill balance at December 31, 2015  | \$17,190 |
| Adjustment due to recognition of tax benefit of tax amortization of certain goodwill | (229 )   |
| Adjustment due to exchange rate differences  | 456      |
| Goodwill balance at September 30, 2016   | \$17,417 |

## 5. PURCHASED INTANGIBLE ASSETS

The following table presents details of our purchased intangible assets, other than goodwill, as of September 30, 2016:

|                          | Gross    | Accumulated<br>Amortization | Net      |
|--------------------------|----------|-----------------------------|----------|
| Core technology          | \$18,874 | \$ (8,459 )                 | \$10,415 |
| Customer relationships   | 37,559   | (30,615 )                   | 6,944    |
| Trademarks / Trade names | 2,025    | (1,863 )                    | 162      |
| Total intangible assets  | \$58,458 | \$ (40,937 )                | \$17,521 |

The following table presents details of our purchased intangible assets, other than goodwill, as of December 31, 2015:

|                          | Gross    | Accumulated<br>Amortization | Net      |
|--------------------------|----------|-----------------------------|----------|
| Core technology          | \$18,524 | \$ (7,528 )                 | \$10,996 |
| Customer relationships   | 36,830   | (27,701 )                   | 9,129    |
| Trademarks / Trade names | 1,988    | (1,695 )                    | 293      |
| Total intangible assets  | \$57,342 | \$ (36,924 )                | \$20,418 |

The change in the gross value of our purchased intangible assets from December 31, 2015 to September 30, 2016 was due to foreign currency translation and an adjustment due to recognition of tax benefit of tax amortization previously applied to certain goodwill related to the DynaEnergetics reporting unit. After the goodwill was written off at December 31, 2015, the tax amortization reduces other noncurrent intangible assets related to the historical acquisition.

## 6. CUSTOMER ADVANCES

On occasion, we require customers to make advance payments prior to the shipment of goods in order to help finance our inventory investment on large orders or to keep customers' credit limits at acceptable levels. As of September 30, 2016 and December 31, 2015, customer advances totaled \$2,589 and \$2,396, respectively, and originated from several customers.

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## 7. DEBT

Lines of credit consisted of the following at September 30, 2016 and December 31, 2015:

|                              | September 30,<br>2016 | December 31,<br>2015<br>(as adjusted) |
|------------------------------|-----------------------|---------------------------------------|
| Syndicated credit agreement: |                       |                                       |
| U.S. Dollar revolving loan   | \$ 15,250             | \$ 27,500                             |
| Euro revolving loan          | —                     | —                                     |
| Long-term lines of credit    | 15,250                | 27,500                                |
| Less: debt issuance costs    | 551                   | 674                                   |
| Lines of credit              | \$ 14,699             | \$ 26,826                             |

## Syndicated Credit Agreement

We have a five-year \$75,000 syndicated credit agreement (“credit facility”), which allows for revolving loans of \$65,000 in US dollars and \$10,000 in alternate currencies as well as a \$100,000 accordion feature to increase the commitments in any of the loan classes subject to approval by applicable lenders. We also maintain a line of credit with a German bank for certain European operations. This line of credit provides a borrowing capacity of €4,000, of which €1,694 is available after considering outstanding letters of credit.

Borrowings under the \$65,000 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 an applicable margin (varying from 0.25% to 1.50%) and LIBOR loans bear interest at the applicable LIBOR rate plus an applicable margin (varying from 1.25% to 2.75%).

Borrowings under the \$10,000 Alternate Currency revolving loans can be in Canadian Dollars, Euros, Pound Sterling and any other currency that is freely transferable and convertible to U.S. Dollars. Alternative currency borrowings denominated in Canadian Dollars shall be comprised of Canadian Dealer Offered Rate (“CDOR”) Loans or Canadian Prime Loans, at our option, and bear interest at the CDOR rate plus applicable margin (varying from 1.25% to 2.75%) or the applicable Canadian Prime Rate plus an applicable margin (varying from 0.25% to 1.50%), respectively. Alternative currency borrowings denominated in Euros shall be comprised of Euro Interbank Offered Rate (“EURIBOR”) loans and bear interest at the EURIBOR rate plus an applicable margin (varying from 1.25% to 2.75%). Alternative currency borrowings denominated in any other alternate currency shall be comprised of Eurocurrency loans and bear interest at the LIBOR rate plus an applicable margin (varying from 1.25% to 2.75%).

## 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; mortgaging, pledging or disposition of major assets; and maintenance of specified financial ratios. As of September 30, 2016, we were in compliance with all financial covenants and other provisions of our debt agreements.

## 8. BUSINESS SEGMENTS

Our business is organized into two segments: NobelClad and DynaEnergetics. NobelClad's revenues are generated principally from cladding two dissimilar metals together using an explosion-welding process to form plates or transition joints. The clad plates and transition joints are sold to customers that fabricate industrial equipment for various industries, including oil and gas, petrochemicals, alternative energy, hydrometallurgy, aluminum production, shipbuilding, power generation and industrial refrigeration. DynaEnergetics manufactures shaped charges, detonators and detonating cord, perforating guns, and bidirectional boosters for sale to customers that perform the perforation of oil and gas wells and to customers involved in oil and gas exploration and development activities.

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The accounting policies of all of the segments are the same as those described in the summary of significant accounting policies included herein and in our Annual Report on Form 10-K for the year ended December 31, 2015. 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.

Segment information is presented for the three and nine months ended September 30, 2016 and 2015 as follows:

|                                 | Three months<br>ended September<br>30, |           | Nine months ended<br>September 30,    |            |
|---------------------------------|--|-----------|---------------------------------------|------------|
|                                 | 2016                                   | 2015      | 2016                                  | 2015       |
| Net sales:                      |  |           |                                       |            |
| NobelClad                       | \$ 16,915                              | \$ 21,306 | \$ 68,374                             | \$ 66,699  |
| DynaEnergetics                  | 19,638                                 | 18,202    | 50,028                                | 58,369     |
| Consolidated net sales          | \$ 36,553                              | \$ 39,508 | \$ 118,402                            | \$ 125,068 |
|                                 |  |           |                                       |            |
|                                 | Three months<br>ended September<br>30, |           | Nine months<br>ended September<br>30, |            |
|                                 | 2016                                   | 2015      | 2016                                  | 2015       |
| Operating income (loss)         |  |           |                                       |            |
| NobelClad                       | \$ 701                                 | \$ 1,672  | \$ 6,340                              | \$ 4,479   |
| DynaEnergetics                  | (977 )                                 | (655 )    | (2,959 )                              | (201 )     |
| Segment operating income (loss) | (276 )                                 | 1,017     | 3,381                                 | 4,278      |
| Unallocated corporate expenses  | (1,614 )                               | (1,305 )  | (5,057 )                              | (5,771 )   |
| Stock-based compensation        | (552 )                                 | (653 )    | (1,673 )                              | (2,737 )   |
| Other income (expense)          | (157 )                                 | (1,463 )  | 178                                   | (299 )     |
| Interest expense                | (265 )                                 | (255 )    | (826 )                                | (700 )     |
| Interest income                 | —                                      | —         | 2                                     | 4          |
| Loss before income taxes        | \$(2,864)                              | \$(2,659) | \$(3,995)                             | \$(5,225)  |

|                                       | Three months<br>ended<br>September 30, |          | Nine months<br>ended<br>September 30, |          |
|---------------------------------------|--|----------|---------------------------------------|----------|
|                                       | 2016                                   | 2015     | 2016                                  | 2015     |
| Depreciation and amortization:        |  |          |                                       |          |
| NobelClad                             | \$ 1,006                               | \$ 1,013 | \$ 3,000                              | \$ 3,116 |
| DynaEnergetics                        | 1,763                                  | 1,537    | 5,047                                 | 4,617    |
| Segment depreciation and amortization | \$ 2,769                               | \$ 2,550 | \$ 8,047                              | \$ 7,733 |

During the three and nine months ended September 30, 2016 and 2015, no one customer accounted for more than 10% of total net sales.



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## 9. RESTRUCTURING

During 2016 and 2015, we executed several programs to enhance operating efficiencies across our businesses, including closing distribution and production centers, consolidating manufacturing to more cost-effective locations, and reducing corporate headcount.

**NobelClad Restructuring**

Beginning in 2014 and continuing into 2015, NobelClad shifted the majority of clad metal plate production in Europe from facilities in Rivesaltes, France and Würgendorf, Germany to its manufacturing facility in Liebenscheid, Germany.

**DynaEnergetics Restructuring**

In the second quarter of 2016, DynaEnergetics reduced headcount in Troisdorf, Germany and Austin, Texas. During the third quarter of 2016, we incurred additional expenses to consolidate administrative offices to Houston, Texas. Additionally, we had a favorable adjustment for previously accrued severance amounts and equipment write-offs after relocating perforating gun manufacturing operations from the previous leased facility in Troisdorf, Germany to the new facility in Liebenscheid, Germany.

In the first quarter of 2015, we launched several initiatives to enhance DynaEnergetics' operational efficiencies and align its production and distribution resources with the anticipated demands of the market. In January 2015, we closed two North American distribution centers. In February 2015, we announced the closure of a perforating gun manufacturing facility and distribution center in Edmonton, Alberta. North America perforating gun manufacturing was consolidated at DynaEnergetics' existing gun facility in Whitney, Texas. We also exited several other distribution centers in Texas and Colombia. Two centralized distribution centers replaced the distribution centers closed.

**Corporate Restructuring**

In conjunction with the DynaEnergetics cost reductions announced in the second quarter of 2016, we eliminated certain positions and incurred restructuring charges associated with the accelerated vesting of stock awards.

In the first quarter of 2015, we restructured our corporate office by eliminating certain positions, and incurred restructuring charges associated with severance and accelerated vesting of stock awards.

Total restructuring and impairment charges incurred for these programs are as follows and are reported in the "restructuring expenses" line item in our consolidated statement of operations:

|                | Three months ended September 30, 2016 |                              |                        |  |       |
|----------------|---------------------------------------|------------------------------|------------------------|--|-------|
|                | Contract<br>Termination<br>Costs      | Equipment<br>Moving<br>Costs | Other<br>Exit<br>Costs |  | Total |
| DynaEnergetics | \$(41) \$ 370                         | \$ 1                         | 43                     |  | \$373 |
| Total          | \$(41) \$ 370                         | \$ 1                         | \$ 43                  |  | \$373 |
|                | Three months ended September 30, 2015 |                              |                        |  |       |
|                | Contract<br>Termination<br>Costs      | Equipment<br>Moving<br>Costs | Other<br>Exit<br>Costs |  | Total |
| NobelClad      | \$94 \$ —                             | \$ (46 )                     | \$ —                   |  | \$48  |
| DynaEnergetics | — 97                                  | 73                           | 67                     |  | 237   |
| Total          | \$94 \$ 97                            | \$ 27                        | \$ 67                  |  | \$285 |



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| Nine months ended September 30, 2016 |                 |                            |                            |                        |                  |                |
|--------------------------------------|-----------------|----------------------------|----------------------------|------------------------|------------------|----------------|
|                                      | Severance Costs | Contract Termination Costs | Equipment Moving Costs     | Other Exit Costs       | Total            |                |
| DynaEnergetics                       | \$684           | \$ 386                     | \$ 15                      | 43                     | \$1,128          |                |
| Corporate                            | 74              | —                          | —                          | —                      | 74               |                |
| <b>Total</b>                         | <b>\$758</b>    | <b>\$ 386</b>              | <b>\$ 15</b>               | <b>\$ 43</b>           | <b>\$1,202</b>   |                |
| Nine months ended September 30, 2015 |                 |                            |                            |                        |                  |                |
|                                      | Severance       | Asset Impairment           | Contract Termination Costs | Equipment Moving Costs | Other Exit Costs | Total          |
| NobelClad                            | \$91            | \$ —                       | \$ 40                      | \$ 471                 | \$ 4             | \$606          |
| DynaEnergetics                       | 245             | 205                        | 341                        | 303                    | 137              | 1,231          |
| Corporate                            | 1,560           | —                          | —                          | —                      | —                | 1,560          |
| <b>Total</b>                         | <b>\$1,896</b>  | <b>\$ 205</b>              | <b>\$ 381</b>              | <b>\$ 774</b>          | <b>\$ 141</b>    | <b>\$3,397</b> |

During the nine months ended September 30, 2016, the changes to the restructuring liability associated with these programs is summarized below:

|                            | December 31, 2015 | Expense (1)     | Payments         | Currency and Other Adjustments | September 30, 2016 |
|----------------------------|-------------------|-----------------|------------------|--------------------------------|--------------------|
| Severance                  | \$ 452            | \$ 684          | \$ (374 )        | \$ 3                           | \$ 765             |
| Contract termination costs | 282               | 386             | (169 )           | 5                              | 504                |
| Equipment moving costs     | —                 | 15              | (14 )            | —                              | 1                  |
| Other exit costs           | —                 | 43              | —                | —                              | 43                 |
| <b>Total</b>               | <b>\$ 734</b>     | <b>\$ 1,128</b> | <b>\$ (557 )</b> | <b>\$ 8</b>                    | <b>\$ 1,313</b>    |

(1) Severance expense excludes \$74 of non-cash charges for accelerated vesting of stock awards.

## 10. COMMITMENTS AND CONTINGENCIES

### Contingent Liabilities

The Company records an accrual for contingent liabilities when a loss is both probable and reasonably estimable. If some amount within a range of loss appears to be a better estimate than any other amount within the range, that amount is accrued. When no amount within a range of loss appears to be a better estimate than any other amount, the lowest amount in the range is accrued.

### Anti-dumping and Countervailing Duties

In June 2015, U.S. Customs and Border Protection (“U.S. Customs”) sent us a Notice of Action that proposed to classify certain of our imports as subject to anti-dumping duties pursuant to a 2010 anti-dumping duty (“AD”) order on Oil Country Tubular Goods (“OCTG”) from China. A companion countervailing duty (“CVD”) order on the same product is in effect as well. The Notice of Action covered one entry of certain raw material steel mechanical tubing made in China and imported into the U.S. from Canada by our DynaEnergetics segment during 2015 for use in manufacturing perforating guns.

In July 2015, we sent a response to U.S. Customs outlining the reasons our mechanical tubing imports do not fall within the scope of the AD order on OCTG from China and should not be subject to anti-dumping duties. U.S.



Customs proposed to take

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similar action with respect to other entries of this product and requested an approximately \$1,100 cash deposit or bond for AD/CVD duties.

In August 2015, we posted the bond of approximately \$1,100 to U.S. Customs. Subsequently, U.S. Customs declined to conclude on the Company's assertion that the mechanical tubing the Company has been importing is not within the scope of the AD order on OCTG from China. As a result, on September 25, 2015 the Company filed a request for a scope ruling with the U.S. Department of Commerce ("Commerce Department").

On February 15, 2016, the Company received the Commerce Department's scope ruling, which determined certain imports, primarily used for gun carrier tubing, are included in the scope of the AD/CVD orders on OCTG from China and thus is subject to AD/CVD duties.

On March 11, 2016, the Company filed an appeal with the U.S. Court of International Trade related to the Commerce Department's scope ruling. In its financial statements for the year ended December 31, 2015, the Company recorded a \$6.4 million reserve for AD/CVD duties and interest that the Company expects to pay if it is unsuccessful in its appeal. For the nine months ended September 30, 2016, the Company recorded \$128 of interest on its reserve for AD/CVD duties.

The Company will incur legal defense costs and could also be subject to additional interest and penalties. Accruals for potential penalties are not reflected in our financial statements as of September 30, 2016 as they are neither probable nor estimable at this time.

## Patent and Trademark Infringement

On September 22, 2015, GEODynamics, Inc., a US-based oil and gas perforating equipment manufacturer based in Fort Worth, TX, filed a patent and trademark infringement action against DynaEnergetics US, Inc., ("DynaEnergetics"), a wholly owned subsidiary of DMC, in the United States District Court for the Eastern District of Texas ("District Court") regarding alleged infringement of US Patent No. 9,080,431 granted on July 14, 2015 ("the '431 patent") and a related US trademark for REACTIVE, alleging that DynaEnergetics' US sales of DPEX® shaped charges infringe the '431 patent and the trademark. DynaEnergetics denies validity and infringement of the '431 patent and trademark and has vigorously defended against this lawsuit. Motions for summary judgment are due by December 2, 2016, and DynaEnergetics expects to file more than one summary judgment motion. On July 1, 2016, GeoDynamics filed a second patent infringement action against DynaEnergetics in District Court alleging infringement of US Patent No. 8,544,563 ("the '563 patent"), also based on DynaEnergetics' US sales of DPEX™ shaped charges. DynaEnergetics denies validity and infringement of the '563 patent and plans to vigorously defend against this lawsuit. On September 20, 2016, DynaEnergetics instituted an Inter Parties Review (IPR) against the '563 patent at the U.S. Patent and Trademark Office ("USPTO"), requesting that the '563 patent be declared invalid by the USPTO.

We do not believe that the '431 or '563 patents or infringement claims based on the patents are valid, and we do not believe it is probable that we will incur a material loss in this matter. However, if the District Court or a jury determines that the patents are valid and that DynaEnergetics has infringed them, it is reasonably possible that our financial statements could be materially affected. We are not able to provide a reasonable estimate of the range of loss, and we have not accrued for any such losses. Such an evaluation includes, among other things, a determination of the total number of infringing sales in the United States of the implicated systems; what a reasonable royalty, if any, might be under the circumstances; or, alternatively, the scope of damages and the relevant period for which damages would apply, if any.



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

The following discussion should be read in conjunction with our historical consolidated financial statements and notes, as well as the selected historical consolidated financial data that are included in our Annual Report filed on Form 10-K for the year ended December 31, 2015.

Unless stated otherwise, all currency amounts are presented in thousands of U.S. dollars (000s).

Overview

Dynamic Materials Corporation ("DMC") operates a diversified family of technical product and process businesses serving the energy, industrial and infrastructure markets. Our businesses operate globally through an international network of manufacturing, distribution and sales facilities. Our business is organized into two segments: NobelClad and DynaEnergetics.

NobelClad

NobelClad manufactures clad metal plates and transition joints, which are made from clad plates, for sale 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. These industries tend to be cyclical in nature and timing of new order inflow remains difficult to predict. We use backlog as a primary means to measure the immediate outlook for our NobelClad business. We define "backlog" at any given point in time as 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. NobelClad's backlog decreased to \$32,931 at September 30, 2016 from \$41,832 at December 31, 2015.

The largest component of NobelClad's cost of products sold is the cost of metals and alloys used to manufacture clad metal plates. Because NobelClad's metal products are primarily produced for custom projects and conform to requirements set forth in customers' purchase orders, it 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. In a declining price market for metals, NobelClad experiences corresponding declines in revenue.

DynaEnergetics

DynaEnergetics manufactures shaped charges, detonators and detonating cord, perforating guns, and bidirectional boosters for sale to customers that perform the perforation of oil and gas wells and to customers involved in oil and gas exploration activities.

These products are sold to large, mid-sized, and small oilfield service companies in the U.S., Europe, Canada, South America, Africa, the Middle East, Russia, and Asia. DynaEnergetics also sells directly to end-users. The market for perforating products, which are used during the well completion process, generally corresponds with oil and gas exploration and production activity. Exploration activity over the last several years has led to increasingly complex well completion operations, which in turn, has increased the demand for high quality and technically advanced perforating products.

Cost of products sold for DynaEnergetics 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.

#### Factors Affecting Results

During the three and nine months ended September 30, 2016, the following factors most affected our financial performance:

NobelClad experienced a shipment delay associated with a large order, which negatively impacted revenue and gross profit for the third quarter. The year-to-date period was positively impacted by the shipment in the second quarter of specialized plates for a large semiconductor capital equipment project in East Asia.

DynaEnergetics' third quarter net sales improved from the prior year primarily due to the India project that shipped in the third quarter of 2016 versus shipping in the second quarter of 2015. Gross profit percentage for the quarter

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and year-to-date periods was impacted by continued pressure on selling prices from the prolonged downturn in the oil and gas well-completions sector, which is the segment's primary end market.

Restructuring expenses of \$1,202 for the year-to-date period primarily related to severance for headcount reductions and lease termination costs in DynaEnergetics.

Selling, general, and administrative expenses of \$27,874 for the year-to-date period compared favorably to \$31,373 for the same period in 2015.

Net debt (lines of credit less cash and cash equivalents) of \$7,248 decreased 65% from December 31, 2015.

The Company continued its investments in research and development, as well as technology, product and market development initiatives. DynaEnergetics' research and development spending was \$814 and \$2,718, respectively, for the three and nine months ended September 30, 2016 compared to \$584 and \$1,721, respectively, in the three and nine months ended September 30, 2015. Research and development expenses are included in costs of product sold line item in the consolidated statements of operations.

## Consolidated Results of Operations

Three months ended September 30, 2016 compared with three months ended September 30, 2015

|   | Three months ended |          |           |          |
|---|--------------------|----------|-----------|----------|
|   | September 30,      |          | \$ change | % change |
|   | 2016               | 2015     |           |          |
| Net sales                                   | \$36,553           | \$39,508 | \$(2,955) | (7)%     |
| Gross profit                                | 8,457              | 10,289   | (1,832)   | (18)%    |
| Gross profit percentage                     | 23.1               | % 26.0   | %         |          |
| <b>COSTS AND EXPENSES:</b>                  |                    |          |           |          |
| General and administrative expenses         | 5,685              | 5,071    | 614       | 12%      |
| % of net sales                              | 15.6               | % 12.8   | %         |          |
| Selling and distribution expenses           | 3,832              | 4,867    | (1,035)   | (21)%    |
| % of net sales                              | 10.5               | % 12.3   | %         |          |
| Amortization of purchased intangible assets | 1,009              | 1,007    | 2         | —%       |
| % of net sales                              | 2.8                | % 2.5    | %         |          |
| Restructuring charges                       | 373                | 285      | 88        | 31%      |
| Operating loss                              | (2,442)            | (941)    | (1,501)   | (160)%   |
| Other income (expense), net                 | (157)              | (1,463)  | 1,306     | 89%      |
| Interest income (expense), net              | (265)              | (255)    | (10)      | (4)%     |
| Loss before income taxes                    | (2,864)            | (2,659)  | (205)     | 8%       |
| Income tax provision (benefit)              | 272                | 1,574    | (1,302)   | (83)%    |
| Net loss                                    | (3,136)            | (4,233)  | 1,097     | 26%      |
| Adjusted EBITDA                             | \$1,178            | \$2,546  | \$(1,368) | (54)%    |

Net sales The decrease compared with 2015 was due to a 21% decrease in NobelClad primarily due to delays at a subcontractor that pushed the shipment of a large project in the agricultural sector out of the third quarter of 2016. This partially was offset by an 8% increase in DynaEnergetics driven by the annual India project that shipped in the third quarter of 2016 versus the second quarter last year. Unit sales of DynaEnergetics' intrinsically-safe DynaSelect™ initiator increased significantly year over year. However, the increases in DynaEnergetics partially were offset by a decline in unit selling prices across all major product lines as a result of the downturn in the oil and gas exploration and development sector.

**Gross profit** The decrease in gross profit and gross profit percentage compared with 2015 was due to unfavorable selling prices in DynaEnergetics combined with unfavorable project mix and warranty work in NobelClad.

**General and administrative expenses** The increase compared with 2015 primarily was due to higher outside legal fees related to regulatory and litigation matters and information technology ("IT") project costs partially offset by lower salaries and benefits as a result of headcount reductions and a decline in stock-based compensation.

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**Selling and distribution expenses** The decrease compared with 2015 principally was due to lower bad debt expense, a decrease in outside sales agent commissions and the impact of closing multiple distribution centers in DynaEnergetics as part of its previously announced restructuring programs.

**Restructuring charges** For the three months ended September 30, 2016 the components of restructuring charges were as follows:

|                              | Severance<br>and<br>benefits | Contract<br>termination | Equipment<br>moving<br>and other<br>exit costs | Total |
|------------------------------|------------------------------|-------------------------|--|-------|
| DynaEnergetics restructuring | \$ (41 )                     | \$ 370                  | \$ 44  | \$373 |
| Total restructuring charges  | \$ (41 )                     | \$ 370                  | \$ 44  | \$373 |

DynaEnergetics restructuring includes severance adjustments related to headcount reductions announced in prior quarters, lease termination costs to exit administrative offices in Austin, Texas, and relocation of perforating gun manufacturing in Germany.

For the three months ended September 30, 2015 the components of restructuring charges were as follows:

|                              | Severance<br>and<br>benefits | Contract<br>termination | Equipment<br>moving<br>and other<br>exit costs | Total |
|------------------------------|------------------------------|-------------------------|--|-------|
| NobelClad restructuring      | \$ 94                        | \$ —                    | \$ (46 )                                       | \$48  |
| DynaEnergetics restructuring | —                            | 97                      | 140  | 237   |
| Total restructuring charges  | \$ 94                        | \$ 97                   | \$ 94  | \$285 |

NobelClad's restructuring relates to shifting the majority of clad metal plate production in Europe from facilities in Rivesaltes, France and Würgendorf, Germany to its manufacturing facility in Liebenseid, Germany.

DynaEnergetics' restructuring relates to the consolidation of perforating gun manufacturing centers and the closure of distribution centers in the Americas as well as the reduction of administrative workforce at the corporate offices in Troisdorf, Germany.

**Operating loss** The increase compared with 2015 was due to a decrease in NobelClad's operating income combined with a higher operating loss at DynaEnergetics and higher corporate unallocated expenses. Corporate unallocated and stock-based compensation expenses are not allocated to our business segments.

**Other income (expense), net** The decrease in expense compared with 2015 primarily was due to a decrease in unrealized foreign currency losses. Our subsidiaries frequently enter into inter-company and third party transactions that are denominated in currencies other than their functional currency. Changes in exchange rates with respect to these transactions will result in unrealized gains or losses if unsettled at the end of the reporting period or realized foreign currency transaction gains or losses at settlement of the transaction.

**Interest income (expense), net** The increase in expense compared with 2015 was due to interest on the accrued anti-dumping duties in the DynaEnergetics segment offset by lower interest on our line of credit.

**Income tax provision** We recorded income tax expense of \$272 for the third quarter of 2016 compared with income tax expense of \$1,574 for the third quarter of 2015. We currently are unable to recognize tax benefits associated with



losses incurred in certain jurisdictions due to valuation allowances recorded against deferred tax assets in those jurisdictions.

Net loss As a result of the factors discussed above, net loss for the three months ended September 30, 2016 was \$3,136, or \$0.22 per diluted share, compared with a net loss of \$4,233, or \$0.30 per diluted share, for the same period in 2015.

Adjusted EBITDA The decrease compared with 2015 primarily was due to an increased operating loss.

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Adjusted EBITDA is a non-GAAP (generally accepted accounting principles) measure that we believe provides an important indicator of our ongoing operating performance. We define EBITDA as net income plus or minus net interest, taxes, depreciation and amortization. Adjusted EBITDA excludes from EBITDA stock-based compensation, restructuring and impairment charges and, when appropriate, other items that management does not utilize in assessing DMC's operating performance (as further described in the following financial schedules).

EBITDA and Adjusted EBITDA, as well as income measures that exclude restructuring expenses (ex-items), are non-GAAP financial measures. Management uses these non-GAAP measures in its operational and financial decision-making, believing that it is useful to eliminate certain items in order to focus on what it deems to be a more reliable indicator of ongoing operating performance. As a result, internal management reports used during monthly operating reviews feature Adjusted EBITDA and certain management incentive awards are based, in part, on the amount of Adjusted EBITDA achieved during the year.

The presence of non-GAAP financial measures in this report is not intended to be considered in isolation or as a substitute for, or superior to, DMC's GAAP information, and investors are cautioned that the non-GAAP financial measures are limited in their usefulness and may be unique to DMC, should not be considered as a supplement to DMC's GAAP financial measures and do not reflect any positive or negative trends in DMC's performance. Because not all companies use identical calculations, DMC's presentation of non-GAAP financial measures may not be comparable to other similarly titled measures of other companies.

The following is a reconciliation of the most directly comparable GAAP measure to EBITDA and Adjusted EBITDA.

|   | Three months<br>ended September<br>30, |           |
|---|--|-----------|
|   | 2016                                   | 2015      |
| Net loss                                    | \$(3,136)                              | \$(4,233) |
| Interest expense                            | 265                                    | 255       |
| Interest income                             | —                                      | —         |
| Provision for income taxes                  | 272                                    | 1,574     |
| Depreciation                                | 1,760                                  | 1,543     |
| Amortization of purchased intangible assets | 1,009                                  | 1,007     |
| EBITDA                                      | 170                                    | 146       |
| Restructuring charges                       | 373                                    | 285       |
| Stock-based compensation                    | 478                                    | 652       |
| Other (income) expense, net                 | 157                                    | 1,463     |
| Adjusted EBITDA                             | \$1,178                                | \$2,546   |

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Nine months ended September 30, 2016 compared with nine months ended September 30, 2015

|   | Nine months ended<br>September 30, |           | \$ change | %<br>change |
|---|------------------------------------|-----------|-----------|-------------|
|   | 2016                               | 2015      |           |             |
| Net sales                                   | \$118,402                          | \$125,068 | \$(6,666) | (5)%        |
| Gross profit                                | 28,750                             | 33,577    | (4,827)   | (14)%       |
| Gross profit percentage                     | 24.3                               | % 26.8    | %         |             |
| <b>COSTS AND EXPENSES:</b>                  |                                    |           |           |             |
| General and administrative expenses         | 15,522                             | 16,670    | (1,148)   | (7)%        |
| % of net sales                              | 13.1                               | % 13.3    | %         |             |
| Selling and distribution expenses           | 12,352                             | 14,703    | (2,351)   | (16)%       |
| % of net sales                              | 10.4                               | % 11.8    | %         |             |
| Amortization of purchased intangible assets | 3,023                              | 3,037     | (14)      | —%          |
| % of net sales                              | 2.6                                | % 2.4     | %         |             |
| Restructuring charges                       | 1,202                              | 3,397     | (2,195)   | (65)%       |
| Operating loss                              | (3,349)                            | (4,230)   | 881       | 21%         |
| Other income (expense), net                 | 178                                | (299)     | 477       | 160%        |
| Interest income (expense), net              | (824)                              | (696)     | (128)     | (18)%       |
| Loss before income taxes                    | (3,995)                            | (5,225)   | 1,230     | (24)%       |
| Income tax provision                        | 321                                | 2,704     | (2,383)   | (88)%       |
| Net loss                                    | (4,316)                            | (7,929)   | 3,613     | 46%         |
| Adjusted EBITDA                             | \$7,499                            | \$9,123   | \$(1,624) | (18)%       |

**Net sales** The decrease compared with 2015 was due to a 14% decrease in DynaEnergetics partially offset by a 3% increase in NobelClad. The decline in DynaEnergetics was due to prolonged downturn in the oil and gas well-completions sector while the increase in NobelClad primarily related to a large project for the semiconductor capital equipment industry that shipped in the second quarter of 2016.

**Gross profit** The decrease in gross profit and gross profit percentage compared with 2015 primarily was due to unfavorable selling prices in DynaEnergetics and a lower proportion of sales in DynaEnergetics relative to NobelClad.

**General and administrative expenses** The decrease compared with 2015 primarily was due to lower salaries and benefits from reducing headcount during the period and lower stock-based compensation. General and administrative expenses for 2015 also included incremental audit and legal expenses of \$450 associated with the restatement of previously-issued financial statements included in our 2014 Form 10-K.

**Selling and distribution expenses** The decrease compared with 2015 principally was due to lower salaries and benefits, lower bad debt expense in both DynaEnergetics and NobelClad, and lower outside sales agent commissions in DynaEnergetics driven by sales volume in territories in which our segments do not have a captive sales force.

**Restructuring charges** For the nine months ended September 30, 2016 the components of restructuring charges were as follows:

| Severance<br>and<br>benefits | Contract<br>termination | Equipment<br>moving<br>and other<br>exit costs | Total |
|------------------------------|-------------------------|--|-------|
|------------------------------|-------------------------|--|-------|

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|                              |        |        |       |         |
|------------------------------|--------|--------|-------|---------|
| DynaEnergetics restructuring | \$ 684 | \$ 386 | \$ 58 | \$1,128 |
| Corporate restructuring      | 74     | —      | —     | 74      |
| Total restructuring charges  | \$ 758 | \$ 386 | \$ 58 | \$1,202 |

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DynaEnergetics restructuring relates to severance for headcount reductions in Troisdorf, Germany and Austin, Texas as well as lease termination costs in Austin. Corporate restructuring relates to the accelerated vesting of stock awards in connection with the elimination of certain positions in DynaEnergetics.

For the nine months ended September 30, 2015 the components of restructuring charges were as follows:

|                              | Severance<br>and<br>benefits | Asset<br>impairments | Contract<br>termination | Equipment<br>moving<br>and other<br>exit costs | Total   |
|------------------------------|------------------------------|----------------------|-------------------------|--|---------|
| NobelClad restructuring      | \$ 91                        | \$ —                 | \$ 40                   | \$ 475   | \$606   |
| DynaEnergetics restructuring | 245                          | 205                  | 341                     | 440  | 1,231   |
| Corporate restructuring      | 1,560                        | —                    | —                       | —  | 1,560   |
| Total restructuring charges  | \$ 1,896                     | \$ 205               | \$ 381                  | \$ 915   | \$3,397 |

NobelClad's restructuring relates to shifting the majority of clad metal plate production in Europe from facilities in Rivesaltes, France and Würgendorf, Germany to its manufacturing facility in Liebenseid, Germany.

DynaEnergetics' restructuring relates to the consolidation of perforating gun manufacturing centers, the closure of distribution centers in the Americas, and the reduction of administrative workforce at its corporate offices in Troisdorf, Germany.

Corporate restructuring relates to severance payments and the accelerated vesting of stock awards associated with the elimination of certain positions in our corporate office.

Operating loss The decrease compared with 2015 was due to an increase in NobelClad's operating income and lower corporate unallocated and stock-based compensation expenses partially offset by an increase in DynaEnergetics' operating loss. Corporate unallocated and stock-based compensation expenses are not allocated to our business segments.

Other income (expense), net The change compared with 2015 was due to an increase in unrealized foreign currency gains partially offset by a decrease in realized foreign currency losses. Our subsidiaries frequently enter into inter-company and third party transactions that are denominated in currencies other than their functional currency. Changes in exchange rates with respect to these transactions will result in unrealized gains or losses if unsettled at end of the reporting period or realized foreign currency transaction gains or losses at settlement of the transaction.

Interest income (expense), net The increase in expense compared with 2015 was primarily due to interest expense recorded on the accrued anti-dumping duties in DynaEnergetics.

Income tax provision We recorded income tax expense of \$321 for the nine months ended September 30, 2016 compared with income tax expense of \$2,704 for the nine months ended September 30, 2015. We currently are unable to recognize tax benefits associated with losses incurred in certain jurisdictions due to valuation allowances recorded against our deferred tax assets in those jurisdictions.

Net loss As a result of the factors discussed above, net loss for nine months ended September 30, 2016 was \$4,316, or \$0.31 per diluted share, compared with a net loss of \$7,929, or \$0.57 per diluted share, for the same period in 2015.

Adjusted EBITDA The decrease compared with 2015 primarily was due to lower income tax expense and restructuring charges partially offset by a smaller operating loss compared with 2015.

See explanation of the use of Adjusted EBITDA under the comparison of the three months ended September 30, 2016 with the same period of 2015. The following is a reconciliation of the most directly comparable GAAP measure to EBITDA and Adjusted EBIDTA.

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|   | Nine months<br>ended September<br>30, |           |
|---|---------------------------------------|-----------|
|   | 2016                                  | 2015      |
| Net loss                                    | \$(4,316)                             | \$(7,929) |
| Interest expense                            | 826                                   | 700       |
| Interest income                             | (2)                                   | (4)       |
| Provision for income taxes                  | 321                                   | 2,704     |
| Depreciation                                | 5,024                                 | 4,696     |
| Amortization of purchased intangible assets | 3,023                                 | 3,037     |
| EBITDA                                      | 4,876                                 | 3,204     |
| Restructuring charges                       | 1,202                                 | 3,397     |
| Stock-based compensation                    | 1,599                                 | 2,223     |
| Other (income) expense, net                 | (178)                                 | 299       |
| Adjusted EBITDA                             | \$7,499                               | \$9,123   |

## Business Segment Financial Information

We primarily evaluate performance and allocate resources based on segment revenues, operating income and adjusted EBITDA as well as projected future performance. Segment operating income is defined as revenues less expenses identifiable to the segment. Segment operating income will reconcile to consolidated income before income taxes by deducting unallocated corporate expenses, including stock-based compensation, net other expense, net interest expense, and income tax provision.

## NobelClad

Three months ended September 30, 2016 compared with three months ended September 30, 2015

|   | Three months ended<br>September 30, |          |           |             |
|---|-------------------------------------|----------|-----------|-------------|
|   | 2016                                | 2015     | \$ change | %<br>change |
| Net sales                                   | \$16,915                            | \$21,306 | \$(4,391) | (21)%       |
| Gross profit                                | 3,112                               | 4,522    | (1,410)   | (31)%       |
| Gross profit percentage                     | 18.4                                | % 21.2   | %         |             |
| <b>COSTS AND EXPENSES:</b>                  |                                     |          |           |             |
| General and administrative expenses         | 907                                 | 1,014    | (107)     | (11)%       |
| Selling and distribution expenses           | 1,409                               | 1,693    | (284)     | (17)%       |
| Amortization of purchased intangible assets | 95                                  | 95       | —         | —%          |
| Restructuring expenses                      | —                                   | 48       | (48)      | (100)%      |
| Operating income                            | 701                                 | 1,672    | (971)     | (58)%       |
| Adjusted EBITDA                             | \$1,707                             | \$2,733  | \$(1,026) | (38)%       |

**Net sales** The decrease compared with 2015 reflects the timing differences with respect to when orders enter our backlog and the subsequent shipment of these orders. During the third quarter of 2016, NobelClad experienced a temporary delay at a subcontractor that pushed the shipment of a large order out of the third quarter.

**Gross profit** The decrease in gross profit and gross profit percentage compared with 2015 primarily was due to warranty work and less favorable margins on its mix of projects in the third quarter of 2016 compared with the same

period in 2015.

General and administrative expenses The decrease compared with 2015 primarily was attributable to a decline in salaries and wages.

Selling and distribution expenses The decrease compared with 2015 primarily was attributable to lower bad debt expense.

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**Restructuring expense** Restructuring expenses in 2015 related to shifting the majority of clad metal plate production in Europe from facilities in Rivesaltes, France and Würgendorf, Germany to our manufacturing facility in Liebenscheid, Germany.

**Operating income** The decrease in operating income was driven by lower gross profit partially offset by lower general and administrative expenses and no restructuring charges in 2016.

**Adjusted EBITDA** The decrease compared with 2015 primarily was due to a decrease in operating income. See explanation of the use of Adjusted EBITDA under "Consolidated Results of Operations." The following is a reconciliation of the most directly comparable GAAP measure to Adjusted EBITDA.

|                                       | Three months ended<br>September 30, |         |
|---------------------------------------|-------------------------------------|---------|
|                                       | 2016                                | 2015    |
| Operating income                      | \$701                               | \$1,672 |
| Adjustments:                          |                                     |         |
| Restructuring                         | —                                   | 48      |
| Depreciation                          | 911                                 | 918     |
| Amortization of purchased intangibles | 95                                  | 95      |
| Adjusted EBITDA                       | \$1,707                             | \$2,733 |

Nine months ended September 30, 2016 compared with nine months ended September 30, 2015

|   | Nine months ended<br>September 30, |          |           |          |
|---|------------------------------------|----------|-----------|----------|
|   | 2016                               | 2015     | \$ change | % change |
| Net sales                                   | \$68,374                           | \$66,699 | \$1,675   | 3 %      |
| Gross profit                                | 13,728                             | 13,052   | 676       | 5 %      |
| Gross profit percentage                     | 20.1 %                             | 19.6 %   |           |          |
| <b>COSTS AND EXPENSES:</b>                  |                                    |          |           |          |
| General and administrative expenses         | 2,754                              | 3,350    | (596 )    | (18 %)   |
| Selling and distribution expenses           | 4,348                              | 4,331    | 17        | — %      |
| Amortization of purchased intangible assets | 286                                | 286      | —         | — %      |
| Restructuring expenses                      | —                                  | 606      | (606 )    | (100)%   |
| Operating income                            | 6,340                              | 4,479    | 1,861     | 42 %     |
| Adjusted EBITDA                             | \$9,340                            | \$8,201  | \$1,139   | 14 %     |

**Net sales** The increase compared with 2015 reflects the timing differences with respect to when orders enter our backlog and the subsequent shipment of these orders. During the second quarter of 2016, NobelClad shipped a large project related to specialized explosion clad plates to be used in the fabrication of equipment for a semiconductor material production facility in East Asia.

**Gross profit** The increase in gross profit and gross profit percentage compared with 2015 primarily was due to more favorable margins on its mix of projects during the nine months ended September 30, 2016 compared with the same period in 2015. Gross profit also benefited from lower manufacturing overhead expenses from the consolidation of European manufacturing facilities.

**General and administrative expenses** The decrease compared with 2015 primarily was attributable to lower salaries and wages and outside service costs.

**Restructuring expense** Restructuring expenses in 2015 related to shifting the majority of clad metal plate production in Europe from facilities in Rivesaltes, France and Würgendorf, Germany to our manufacturing facility in Liebenscheid, Germany.

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**Operating income** The increase in operating income was driven by higher gross profit from favorable project mix, lower general and administrative expenses and no restructuring charges in 2016.

**Adjusted EBITDA** The increase compared with 2015 was due to an increase in operating income and no restructuring expenses during the nine months ended September 30, 2016. See explanation of the use of Adjusted EBITDA under "Consolidated Results of Operations." The following is a reconciliation of the most directly comparable GAAP measure to Adjusted EBITDA.

|                                       | Nine months<br>ended<br>September 30,<br>2016 2015 |         |
|---------------------------------------|--|---------|
| Operating income                      | \$6,340  | \$4,479 |
| Adjustments:                          |  |         |
| Restructuring                         | —  | 606     |
| Depreciation                          | 2,714  | 2,830   |
| Amortization of purchased intangibles | 286  | 286     |
| Adjusted EBITDA                       | \$9,340  | \$8,201 |

## DynaEnergetics

Three months ended September 30, 2016 compared with three months ended September 30, 2015

|   | Three months ended<br>September 30, |          | \$      | %      |
|---|-------------------------------------|----------|---------|--------|
|   | 2016                                | 2015     | change  | change |
| Net sales                                   | \$19,638                            | \$18,202 | \$1,436 | 8 %    |
| Gross profit                                | 5,399                               | 5,829    | (430 )  | (7 )%  |
| Gross profit percentage                     | 27.5 %                              | 32.0 %   |         |        |
| <b>COSTS AND EXPENSES:</b>                  |                                     |          |         |        |
| General and administrative expenses         | 2,739                               | 2,244    | 495     | 22 %   |
| Selling and distribution expenses           | 2,350                               | 3,091    | (741 )  | (24 )% |
| Amortization of purchased intangible assets | 914                                 | 912      | 2       | — %    |
| Restructuring expenses                      | 373                                 | 237      | 136     | 57 %   |
| Operating loss                              | (977 )                              | (655 )   | (322 )  | (49 )% |
| Adjusted EBITDA                             | \$1,159                             | \$1,119  | \$40    | 4 %    |

**Net sales** The increase compared with 2015 primarily was due to the India project that shipped in the third quarter of 2016 versus the second quarter last year. Demand for DynaEnergetics' intrinsically-safe DynaSelect™ initiator has increased significantly year over year. However, this was partially offset by a decline in unit selling prices across all major product lines as a result of the prolonged downturn in well completion activity.

**Gross profit** The decrease in gross profit and gross profit percentage compared with 2015 was due to lower selling prices and higher spending on research and development partially offset by favorable product mix.

**General and administrative expenses** The increase compared with 2015 primarily was due to higher outside legal expenses related to regulatory and litigation matters partially offset by lower salaries and wages.

**Selling and distribution expenses** The decrease compared with 2015 was principally due to lower bad debt expense combined with lower salaries and wages from closing distribution centers in 2015.

**Restructuring expense** DynaEnergetics' restructuring activity in 2016 relates to adjustments to severance for headcount reductions, lease termination costs in Austin, Texas, and scrapping equipment after relocation of perforating gun manufacturing

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in Germany. Restructuring activity in 2015 relates to the closure of a number of distribution centers in North America and Colombia and the closure of a perforating gun manufacturing facility and distribution center in Edmonton, Alberta.

**Operating loss** The increase in operating loss compared with 2015 primarily due to lower gross profit percentage and higher general and administrative expenses partially offset by lower selling and distribution expenses.

**Adjusted EBITDA** The increase compared with 2015 is primarily due to a higher restructuring and depreciation expenses compared with the same period in the prior year. See explanation of the use of Adjusted EBITDA under "Consolidated Results of Operations." The following is a reconciliation of the most directly comparable GAAP measure to Adjusted EBITDA.

|                                       | Three months<br>ended September<br>30, |          |
|---------------------------------------|--|----------|
|                                       | 2016                                   | 2015     |
| Operating loss                        | \$(977 )                               | \$(655 ) |
| Adjustments:                          |  |          |
| Restructuring                         | 373                                    | 237      |
| Depreciation                          | 849                                    | 625      |
| Amortization of purchased intangibles | 914                                    | 912      |
| Adjusted EBITDA                       | \$1,159                                | \$1,119  |

Nine months ended September 30, 2016 compared with nine months ended September 30, 2015

|   | Nine months ended<br>September 30, |          |           |          |
|---|------------------------------------|----------|-----------|----------|
|   | 2016                               | 2015     | \$ change | % change |
| Net sales                                   | \$50,028                           | \$58,369 | \$(8,341) | (14 )%   |
| Gross profit                                | 15,187                             | 20,711   | (5,524 )  | (27 )%   |
| Gross profit percentage                     | 30.4 %                             | 35.5 %   |           |          |
| <b>COSTS AND EXPENSES:</b>                  |                                    |          |           |          |
| General and administrative expenses         | 6,510                              | 6,807    | (297 )    | (4 )%    |
| Selling and distribution expenses           | 7,771                              | 10,122   | (2,351 )  | (23 )%   |
| Amortization of purchased intangible assets | 2,737                              | 2,751    | (14 )     | (1 )%    |
| Restructuring expenses                      | 1,128                              | 1,231    | (103 )    | (8 )%    |
| Operating loss                              | (2,959 )                           | (201 )   | (2,758 )  | (1,372)% |
| Adjusted EBITDA                             | \$3,216                            | \$5,647  | \$(2,431) | (43 )%   |

**Net sales** The decrease compared with 2015 primarily is due to the extended downturn in DynaEnergetics' end markets.

**Gross profit** The decrease in gross profit and gross profit percentage compared with 2015 primarily was due to lower selling prices and higher research and development expenses partially offset by favorable product mix.

**General and administrative expenses** The decrease compared with 2015 primarily was due to headcount reductions associated with previously announced restructuring programs partially offset by higher outside legal costs.

**Selling and distribution expenses** The decrease compared with 2015 was principally due to lower outside sales agents commission expense driven by sales volume in territories in which our segments do not have a captive sales force,

lower bad debt expense, and lower salaries and wages including the impact of closing distribution centers in 2015.

Restructuring expense DynaEnergetics restructuring in 2016 relates to severance for headcount reductions in Troisdorf, Germany and Austin, Texas and lease termination costs in Austin. Restructuring activity in 2015 relates to the closure of a number of distribution centers in North America and Colombia and the closure of a perforating gun manufacturing facility and distribution center in Edmonton, Alberta.

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Operating loss The higher operating loss compared with 2015 primarily due to lower sales volume partially offset by lower general and administrative and selling and distribution expenses.

Adjusted EBITDA The decrease compared with 2015 is primarily due to an operating loss in 2016 compared with operating income in prior year. See explanation of the use of Adjusted EBITDA under "Consolidated Results of Operations." The following is a reconciliation of the most directly comparable GAAP measure to Adjusted EBITDA.

|                                       | Nine months<br>ended September<br>30, |          |
|---------------------------------------|---------------------------------------|----------|
|                                       | 2016                                  | 2015     |
| Operating loss                        | \$(2,959)                             | \$(201 ) |
| Adjustments:                          |                                       |          |
| Restructuring                         | 1,128                                 | 1,231    |
| Depreciation                          | 2,310                                 | 1,866    |
| Amortization of purchased intangibles | 2,737                                 | 2,751    |
| Adjusted EBITDA                       | \$3,216                               | \$5,647  |

## 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 interest service, dividend payments, 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; (iii) selling products at attractive margins; and (iv) continue to implement cost-effective internal processes, our ability to meet cash requirements through operating activities could be impacted. Additionally, continued challenging conditions in our core energy markets could impact our ability to meet cash requirements through operating activities. Furthermore, any restriction on the availability of borrowings under our credit facilities could negatively affect our ability to meet future cash requirements.

## Debt facilities

We have a a five-year \$75,000 syndicated credit agreement ("credit facility"), which allows for revolving loans of \$65,000 in US dollars and \$10,000 in alternate currencies as well as a \$100,000 accordion feature to increase the commitments in any of the loan classes subject to approval by applicable lenders. We also 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.

As of September 30, 2016, U.S. dollar revolving loans of \$15,250 were outstanding under our credit facility. While we had approximately \$59,750 of available revolving credit loan capacity as of September 30, 2016 under our various credit facilities, future borrowings are subject to compliance with financial covenants that could significantly limit such availability.

There are two significant financial covenants under our credit facility, the leverage ratio and debt service coverage ratio requirements. The leverage ratio is defined in the credit facility as Consolidated Funded Indebtedness at the balance sheet date as compared to Consolidated EBITDA, which is defined as earnings before provisions for income taxes, interest expense, depreciation and amortization, extraordinary, non-recurring charges and other non-cash

charges, for the previous twelve months. For the nine months ended September 30, 2016 and the year ended December 31, 2015, Consolidated EBITDA approximated the “Adjusted EBITDA” that we reported for the respective periods. Under our credit facility, the maximum leverage ratio permitted by our credit facility during the third quarter was 3.25 to 1.0. As of October 1, 2016, the maximum leverage ratio permitted under the the credit facility is 3.0 to 1.0.

The debt service coverage ratio, as defined in the credit facility, means, for any period, the ratio of Consolidated EBITDA less the sum of cash dividends, cash income taxes and capital expenditures to Debt Service Charges. Consolidated EBITDA is defined above and Debt Service Charges equals the sum of cash interest expense and scheduled principal payments of Consolidated Funded Indebtedness. Under our credit facility, the minimum debt service coverage ratio permitted by our credit facility is 1.35 to 1.0.



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Our existing loan agreements include various covenants and restrictions, certain of which relate to the payment of dividends or other distributions to stockholders, redemption of capital stock, incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets, and maintenance of specified financial ratios. As of September 30, 2016, we were in compliance with all financial covenants and other provisions of our debt agreements.

### Other contractual obligations and commitments

Our long-term debt balance decreased to \$15,250 at September 30, 2016 from \$27,500 at December 31, 2015. Our other contractual obligations and commitments have not materially changed since December 31, 2015.

### Cash flows from operating activities

Net cash provided by operating activities was \$17,839 for the nine months ended September 30, 2016. This compares to net cash used in operating activities of \$6,414 for the same period in 2015. The year-over-year increase in operating cash flows of \$24,253 primarily was driven by a \$25,522 decrease in net working capital. We experienced favorable net working capital changes of \$11,584 in the nine months ended September 30, 2016 compared with unfavorable changes in net working capital of \$13,938 in the same period of 2015. Favorable changes in working capital for the nine months ended September 30, 2016 included a \$10,480 decrease in accounts receivable due to lower sales and the timing of collections, a \$3,400 reduction in inventory, and a \$1,037 increase in accrued expenses. These favorable changes in working capital partially were offset by a \$3,166 decrease in accounts payable from a decline in purchases and a \$347 increase in prepaid expenses.

Net cash used in operating activities was \$6,414 for the nine months ended September 30, 2015. We experienced unfavorable net working capital changes of \$13,938 in the 2015 period, including an increase in inventories, prepaid expenses, and receivables of \$3,908, \$1,523, and \$220, respectively, and decreases of \$1,271 in customer advances and \$3,742 in accounts payable. The increase in net working capital was driven by a ramp up of inventory associated with a new product introduction in DynaEnergetics, cash payments related to restructuring activities and a decrease in customer advances in NobelClad.

### Cash flows from investing activities

Net cash flows used in investing activities for the nine months ended September 30, 2016 were \$4,008 primarily due to capital expenditures.

Net cash flows used in investing activities for the nine months ended September 30, 2015 totaled \$4,690 primarily due to capital expenditures.

### Cash flows from financing activities

Net cash flows used in financing activities for the nine months ended September 30, 2016 totaled \$12,945, which included net repayments on bank lines of credit of \$12,250 and payment of quarterly dividends of \$861.

Net cash flows provided by financing activities for the nine months ended September 30, 2015 totaled \$10,965, which included net borrowings on bank lines of credit of \$13,446, payment of quarterly dividends of \$1,692, and payment of deferred debt issuance costs of \$1,042.

### Payment of Dividends

On August 30, 2016, our board of directors declared a quarterly cash dividend of \$0.02 per share which was paid on October 15, 2016. The dividend totaled \$290 and was payable to shareholders of record as of September 30, 2016. We also paid quarterly cash dividends of \$0.02 per share in the first and second quarters of 2016 and 0.04 per share in the first three quarters of 2015.

We may continue to pay quarterly dividends in the future subject to capital availability and periodic determinations that cash dividends are in compliance with our debt covenants and are in the best interests of our stockholders, but we cannot assure you that such payments will continue. Future dividends may be affected by, among other items, our views on potential future capital requirements, future business prospects, debt covenant compliance, changes in federal income tax laws, or any other factors that our board of directors deems relevant. Any decision to pay cash dividends is and will continue to be at the discretion of our Board of Directors.

#### Critical Accounting Policies

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Our critical accounting policies have not changed from those reported in our Annual Report filed on Form 10-K for the year ended December 31, 2015.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no events that materially affect our quantitative and qualitative disclosure about market risk from that reported in our Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM 4. Controls and Procedures

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, a material weakness in our controls over deferred income tax accounting was identified during the course of the 2014 external audit of the accounts and related controls. As a result of the significance of the accounting errors resulting from the deficient controls, we restated 2012 and 2013 financial statements included in our Form 10-K for the year ended December 31, 2014.

In 2015, we took steps to remediate the material weakness, including:

• Hired a new Global Tax Director.

• Engaged third-party tax advisors to assist with designing and implementing processes and procedures to compile, reconcile and review income tax accounts.

• Provided income tax training and development to tax personnel.

Although we implemented new processes and procedures in 2015, we concluded that the material weakness was not remediated as of December 31, 2015 as the existing controls were not in place for an adequate period of time to ensure proper operation and additional controls are required to be implemented for our income tax accounting. During the remainder of 2016, the Company will continue the internal control process and documentation improvements and testing related to deferred income tax and related income tax expense accounts in order to conclude on the remediation efforts.

The remediation efforts are subject to ongoing senior management review, as well as Audit Committee oversight. Although we plan to complete this remediation process as quickly as possible, we cannot at this time estimate how long it will take and our initiatives may not prove to be successful in remediating this material weakness. Management believes the already implemented actions, along with any additional controls will effectively remediate the material weakness. As we continue to evaluate and work to improve our internal control over financial reporting, management may execute additional measures to address potential control deficiencies or modify the remediation plan described above. Management will continue to review and make necessary changes to the overall design of our internal controls.

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

As of September 30, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and

operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on that evaluation, which includes the material weakness identified at December 31, 2014 and not remediated as of December 31, 2015 as discussed above, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level. There have been no other changes in our internal controls during the quarter ended September 30, 2016 or in other factors that could materially affect our internal controls over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls will prevent all errors and all fraud. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. As a result of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, our disclosure

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controls and procedures are designed to provide reasonable, not absolute, assurance that the disclosure controls and procedures are met.

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## Part II - OTHER INFORMATION

## Item 1. Legal Proceedings

On September 22, 2015, GeoDynamics, Inc., a US-based oil and gas perforating equipment manufacturer based in Fort Worth, TX, filed a patent and trademark infringement action against DynaEnergetics US, Inc., (“DynaEnergetics”), a wholly owned subsidiary of DMC, in the United States District Court for the Eastern District of Texas (“District Court”) regarding alleged infringement of US Patent No. 9,080,431 granted on July 14, 2015 (“the ‘431 patent”) and a related US trademark for REACTIVE, alleging that DynaEnergetics’ US sales of DPEX® shaped charges infringe the ‘431 patent and the trademark. Motions for summary judgment are due by December 2, 2016, and DynaEnergetics expects to file more than one summary judgment motion. On July 1, 2016, GeoDynamics filed a second patent infringement action against DynaEnergetics in District Court alleging infringement of US Patent No. 8,544,563 (“the ‘563 patent”), also based on DynaEnergetics’ US sales of DPEX™ shaped charges. On September 20, 2016, DynaEnergetics instituted an Inter Parties Review (IPR) against the ‘563 patent at the U.S. Patent and Trademark Office (“USPTO”), requesting that the ‘563 patent be declared invalid by the USPTO. GEODynamics is seeking, among other things, compensatory damages and injunctive relief from further infringement in both actions. We believe that the claims are meritless and that we have substantial legal and factual defenses to the claims and allegations contained in the complaints. At this time, no assessment can be made as to the likely outcome of these actions or whether the outcome will be material to us.

## Item 1A. Risk Factors

There have been no significant changes in the risk factors identified as being attendant to our business in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

In connection with the vesting of Company restricted common stock under the 2006 Stock Incentive Plan (“2006 Plan”), we retain shares of common stock at the election of the recipients of such awards in satisfaction of withholding tax obligations. These shares are held as treasury shares by the Company.

|                                  | Total<br>number of<br>shares<br>purchased<br>(1) (2) | Average<br>price<br>paid per<br>share |
|----------------------------------|--|---------------------------------------|
| July 1 to July 31, 2016          | —  | —                                     |
| August 1 to August 31, 2016      | 370  | \$ 11.41                              |
| September 1 to September 30 2016 | —  | —                                     |
| Total                            | 370  | \$ 11.41                              |

(1) All shares purchased in 2016 were to offset tax withholding obligations that occur upon the vesting of restricted common stock under the terms of the 2006 Plan.

(2) As of September 30, 2016, the maximum number of shares that may yet be purchased would not exceed the employees’ portion of taxes withheld on unvested shares (381,491 shares).

## Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6.

Exhibits

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

101 The following materials from the Quarterly Report on Form 10-Q of Dynamic Materials Corporation, for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statement of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.\*

\* 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.



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SIGNATURES

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

DYNAMIC MATERIALS CORPORATION  
(Registrant)

Date: October 27,  
2016

/s/ Michael Kuta

Michael Kuta, Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)