

DYNAMIC MATERIALS CORP
Form 10-Q
April 29, 2010
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

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

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

(Exact name of Registrant as Specified in its Charter)

Delaware
(State of Incorporation or Organization)

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

5405 Spine Road, Boulder, Colorado 80301

(Address of principal executive offices, including zip code)

(303) 665-5700

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(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 12,959,663 as of April 29, 2010.

Table of Contents

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

Table of Contents

INDEX

PART I - FINANCIAL INFORMATION

<u>Item 1</u>	<u>Condensed Consolidated Financial Statements</u>	4
	<u>Consolidated Balance Sheets as of March 31, 2010 (unaudited) and December 31, 2009</u>	4
	<u>Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009 (unaudited)</u>	6
	<u>Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2010 (unaudited)</u>	7
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2010 and 2009 (unaudited)</u>	8
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	10
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosure about Market Risk</u>	35
<u>Item 4</u>	<u>Controls and Procedures</u>	35

PART II - OTHER INFORMATION

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

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

(Dollars in Thousands)

	March 31, 2010 (unaudited)	December 31, 2009
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 18,358	\$ 22,411
Accounts receivable, net of allowance for doubtful accounts of \$325 and \$390, respectively	16,804	25,807
Inventories	35,529	32,501
Prepaid expenses and other	2,225	2,397
Related party receivables and loans	2,614	2,806
Current deferred tax assets	1,693	2,052
Total current assets	77,223	87,974
PROPERTY, PLANT AND EQUIPMENT	64,313	64,944
Less - accumulated depreciation	(23,620)	(22,892)
Property, plant and equipment, net	40,693	42,052
GOODWILL, net	40,366	43,164
PURCHASED INTANGIBLE ASSETS, net	44,938	49,079
DEFERRED TAX ASSETS	689	332
OTHER ASSETS, net	1,067	1,443
INVESTMENT IN JOINT VENTURES	1,376	1,132
TOTAL ASSETS	\$ 206,352	\$ 225,176

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

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)

	March 31, 2010 (unaudited)	December 31, 2009
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 10,980	\$ 9,183
Accrued expenses	3,924	4,808
Dividend payable	518	515
Accrued income taxes	804	1,485
Accrued employee compensation and benefits	2,993	4,048
Customer advances	12,502	6,528
Lines of credit	1,379	1,777
Current maturities on long-term debt	7,558	13,485
Current portion of capital lease obligations	306	306
Total current liabilities	40,964	42,135
LONG-TERM DEBT	23,958	34,120
CAPITAL LEASE OBLIGATIONS	353	436
DEFERRED TAX LIABILITIES	13,516	15,217
OTHER LONG-TERM LIABILITIES	1,120	1,157
Total liabilities	79,911	93,065
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS EQUITY:		
Preferred stock, \$0.05 par value; 4,000,000 shares authorized; no issued and outstanding shares		
Common stock, \$0.05 par value; 25,000,000 shares authorized; 12,959,663 and 12,870,363 shares issued and outstanding, respectively	647	643
Additional paid-in capital	46,870	46,080
Retained earnings	84,118	85,048
Other cumulative comprehensive income (loss)	(5,194)	340
Total stockholders equity	126,441	132,111
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 206,352	\$ 225,176

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

Table of Contents

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

(Dollars in Thousands, Except Share Data)

(unaudited)

	Three months ended March 31,	
	2010	2009
NET SALES	\$ 30,357	\$ 49,759
COST OF PRODUCTS SOLD	23,373	34,431
Gross profit	6,984	15,328
COSTS AND EXPENSES:		
General and administrative expenses	3,145	3,526
Selling expenses	2,321	2,324
Amortization of purchased intangible assets	1,273	1,183
Total costs and expenses	6,739	7,033
INCOME FROM OPERATIONS	245	8,295
OTHER INCOME (EXPENSE):		
Other income (expense), net	129	(117)
Interest expense	(1,144)	(902)
Interest income	35	65
Equity in earnings (loss) of joint ventures	169	(49)
INCOME (LOSS) BEFORE INCOME TAXES	(566)	7,292
INCOME TAX PROVISION (BENEFIT)	(154)	2,376
NET INCOME (LOSS)	\$ (412)	\$ 4,916
INCOME (LOSS) PER SHARE:		
Basic	\$ (0.03)	\$ 0.38
Diluted	\$ (0.03)	\$ 0.38
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	12,690,510	12,527,452
Diluted	12,690,510	12,569,879
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.04	\$

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

Table of Contents

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2010

(Amounts in Thousands)

(unaudited)

	Common Stock		Additional	Retained	Other	Total	Comprehensive
	Shares	Amount	Paid-In	Earnings	Cumulative		Loss
			Capital		Comprehensive		for the Period
					Income/(loss)		
Balances, December 31, 2009	12,870	\$ 643	\$ 46,080	\$ 85,048	\$ 340	\$ 132,111	
Shares issued in connection with stock compensation plans	90	4	(4)				
Excess tax benefit related to stock options			2			2	
Stock-based compensation			792			792	
Dividends				(518)		(518)	
Net loss				(412)		(412)	(412)
Derivative valuation, net of tax of \$99					105	105	105
Change in cumulative foreign currency translation adjustment					(5,639)	(5,639)	(5,639)
Balances, March 31, 2010	12,960	\$ 647	\$ 46,870	\$ 84,118	\$ (5,194)	\$ 126,441	\$ (5,946)

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

Table of Contents

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

(Dollars in Thousands)

(unaudited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (412)	\$ 4,916
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation (including capital lease amortization)	1,154	1,267
Amortization of purchased intangible assets	1,273	1,183
Amortization of capitalized debt issuance costs	369	69
Stock-based compensation	792	798
Deferred income tax benefit	(830)	(605)
Equity in earnings of joint ventures	(169)	49
Change in:		
Accounts receivable, net	8,799	(2,702)
Inventories	(3,837)	(2,721)
Prepaid expenses and other	142	460
Accounts payable	2,123	2,388
Customer advances	6,082	(961)
Accrued expenses and other liabilities	(1,678)	(904)
Net cash provided by operating activities	13,808	3,237
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(764)	(1,170)
Change in other non-current assets	(4)	8
Net cash used in investing activities	(768)	(1,162)

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

Table of Contents

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

(Dollars in Thousands)

(unaudited)

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on syndicated term loans	(15,374)	(3,862)
Payment on Nord LB term loans	(208)	(233)
Borrowings (repayments) on bank lines of credit, net	(441)	4,215
Payment on capital lease obligations	(74)	(71)
Payment of dividends	(515)	
Payment of deferred debt issuance costs		(19)
Net proceeds from issuance of common stock to employees and directors		236
Excess tax benefit related to exercise of stock options	2	57
Net cash provided by (used in) financing activities	(16,610)	323
EFFECTS OF EXCHANGE RATES ON CASH	(483)	(480)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,053)	1,918
CASH AND CASH EQUIVALENTS, beginning of the period	22,411	14,360
CASH AND CASH EQUIVALENTS, end of the period	\$ 18,358	\$ 16,278

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

Table of Contents

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Currency Amounts in Thousands, Except Share and Per Share Data)

(unaudited)

1. BASIS OF PRESENTATION

The information included in the Condensed Consolidated Financial Statements is unaudited but includes all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the interim periods presented. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements that are included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2009. Certain prior year balances in the consolidated financial statements and notes have been reclassified to conform to the 2010 presentation.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Foreign Operations and Foreign Exchange Rate Risk

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

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

Table of Contents

Revenue Recognition

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

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade accounts receivable and payable, and accrued expenses are considered to approximate fair value due to the short-term nature of these instruments. Based upon the 150 basis point increase in our LIBOR/EURIBOR basis borrowing spread negotiated in the October 21, 2009 amendment to our syndicated credit agreement, we believe the fair value of our long-term debt approximates its carrying value at March 31, 2010. The majority of the Company's debt was incurred in connection with the acquisition of DYNAenergetics.

Additionally, the Company has an interest rate swap agreement (see Note 9), which is recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company is required to use an established hierarchy for fair value measurements based upon the inputs to the valuation and the degree to which they are observable or not observable in the market. The three levels in the hierarchy are as follows:

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

- Level 2 Inputs to the valuation include quoted prices in either markets that are not active, or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data.

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

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

The Company's interest rate swap agreement is not exchange listed and is therefore valued with models that use Level 2 inputs. The degree to which the Company's credit worthiness impacts the value requires management judgment but as of March 31, 2010 and December 31, 2009, the impact of this assessment on the overall value of the outstanding interest rate swap was not significant and the Company's valuation of the agreement is classified within Level 2 of the hierarchy.

Table of ContentsRelated Party Transactions

The Company has related party transactions with its unconsolidated joint ventures and the former owners of LRI. We also had transactions in the period of January 1 through March 31 2009 with LRI, who, at the time, was the minority interest partner of one of our consolidated joint ventures. A summary of related party balances as of March 31, 2010 and December 31, 2009 is summarized below:

	As of March 31, 2010	As of December 31, 2009
	Accounts receivable from and loan to	
DYNAenergetics RUS	\$ 2,178	\$ 2,265
Perfoline	436	466
Former owners of LRI		75
Total	\$ 2,614	\$ 2,806

A summary of related party transactions for the three months ended March 31, 2010 and 2009 is summarized below:

	Three Months Ended March 31, 2010		Three Months Ended March 31, 2009	
	Sales to	Interest income from	Sales to	Interest income from
DYNAenergetics RUS	\$ 502	\$	\$ 42	\$
Perfoline	19	10	40	10
Minority Interest Partner			298	
Total	\$ 521	\$ 10	\$ 380	\$ 10

Earnings Per Share

Unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock awards (RSAs), are considered participating securities for purposes of calculating earnings per share (EPS) and require the use of the two class method for calculating EPS. Under this method a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock, as shown in the table below.

Table of Contents

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

	For the Three Months Ended March 31, 2010			For the Three Months Ended March 31, 2009			EPS
	Income	Shares	EPS	Income	Shares	EPS	
Basic earnings per share:							
Net income (loss)	\$ (412)			\$ 4,916			
Less income allocated to RSAs				(103)			
Net income (loss) allocated to common stock for EPS calculation							
	\$ (412)	12,690,510	\$ (0.03)	\$ 4,813	12,527,452	\$ 0.38	
Adjust shares for Dilutives:							
Stock-based compensation plans					42,427		
Diluted earnings per share:							
Net income (loss)	\$ (412)			\$ 4,916			
Less income allocated to RSAs				(103)			
Net income (loss) allocated to common stock for EPS calculation							
	\$ (412)	12,690,510	\$ (0.03)	\$ 4,813	12,569,879	\$ 0.38	

3. ACQUISITIONS**LRI Oil Tools Inc.**

On October 1, 2009, the Company completed its acquisition of LRI Oil Tools Inc. (LRI) which is part of the Oilfield Products business. LRI produces and distributes perforating equipment for use by the oil and gas exploration and production industry. The business had a long-term strategic relationship with the Company's Oilfield Products segment and had served for several years as its sole Canadian distributor.

The acquisition was valued at \$5,946 and was financed by (i) the payment of \$284 in cash, net of cash acquired of \$15, (ii) the issuance of 4,875 shares of common stock of the Company (valued at \$94), and (iii) the assumption of \$5,553 (5,982 Canadian Dollars (CAD)) of LRI's debt. The assumed debt consisted of \$2,676 (2,883 CAD) for a line of credit, \$2,445 (2,634 CAD) for loans with the former owners of LRI and \$432 (465 CAD) for capital lease obligations.

Table of Contents

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

Current assets	\$	5,430
Property, plant and equipment		2,191
Intangible assets		1,117
Deferred tax assets		298
Other assets		1
Total assets acquired		9,037
Line of credit		2,676
Other current liabilities		2,448
Long term debt		2,877
Deferred tax liabilities		643
Total liabilities acquired		8,644
Net assets acquired	\$	393

The Company acquired identifiable finite-lived intangible assets as a result of the acquisition of LRI. The finite-lived intangible assets acquired are classified and valued as follows:

		Value	Weighted Average Amortization Period
Core technology	\$	347	15 years
Customer relationships		770	15 years
Total intangible assets	\$	1,117	

Table of Contents

The following table presents the pro-forma combined results of operations for the three months ended March 31, 2009 assuming (i) the acquisition had occurred on January 1, 2009; (ii) pro-forma amortization expense of the purchased intangible assets; (iii) pro-forma depreciation expense of the appraised value of the property, plant and equipment; and (iv) reduction of interest expense assuming the Company paid down LRI's debt by 2,200 CAD (1,200 CAD for the loans to former owners of LRI and 1,000 CAD for the line of credit) immediately following the acquisition:

	2009	
Net sales	\$	52,060
Income from operations	\$	8,131
Net income	\$	4,735
Net income per share:		
Basic	\$	0.37
Diluted	\$	0.37

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

Austin Explosives

On March 3, 2010, the Company entered into a definitive agreement to acquire the assets of Texas-based Austin Explosives Company, which has been a long-time distributor of DYNAenergetics shaped charges. The purchase price for Austin's assets is \$7.0 million, \$3.5 million of which is payable in cash and the balance of which is payable in shares of the Company's stock, cash or a combination of both, at our election. The acquisition is expected to close during the second quarter of 2010.

4. INVESTMENT IN JOINT VENTURES

Operating results include the Company's proportionate share of income from unconsolidated joint ventures, which are accounted for under the equity method. These investments (all of which resulted from the acquisition of DYNAenergetics and pertain to the Company's Oilfield Products business segment) include the following: (1) 65.19% interest in Perfoline, which is a Russian manufacturer of perforating gun systems and (2) 55% interest in DYNAenergetics RUS which is a Russian trading company that sells the Company's oilfield products. Due to certain noncontrolling interest veto rights that allow the minority interest shareholders to participate in ordinary course of business decisions, these joint ventures have been accounted for under the equity method instead of being consolidated in these financial statements. Investments in these joint ventures totaled \$1,376 and \$1,132 as of March 31, 2010 and December 31, 2009, respectively.

Table of Contents

Summarized unaudited financial information for the joint ventures accounted for under the equity method as of March 31, 2010 and December 31, 2009 and for the three months ended March 31, 2010 and 2009 is as follows:

	March 31, 2010		December 31, 2009	
Current assets	\$	5,137	\$	5,350
Noncurrent assets		666		655
Total assets	\$	5,803	\$	6,005
Current liabilities	\$	2,388	\$	2,892
Noncurrent liabilities		473		555
Equity		2,942		2,558
Total liabilities and equity	\$	5,803	\$	6,005

	Three Months Ended March 31,			
	2010		2009	
Net sales	\$	1,734	\$	1,106
Gross Profit	\$	416	\$	270
Operating income	\$	170	\$	79
Net income (loss)	\$	310	\$	(90)
Equity in earnings (losses) of joint ventures	\$	169	\$	(49)

5. INVENTORY

The components of inventory are as follows at March 31, 2010 and December 31, 2009:

	March 31, 2010		December 31, 2009	
Raw materials	\$	11,014	\$	10,321
Work-in-process		18,053		15,963
Finished goods		5,617		5,526
Supplies		845		691
	\$	35,529	\$	32,501

Table of Contents**6. GOODWILL**

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

	Explosive Metalworking Group	Oilfield Products	Total
Goodwill balance at December 31, 2009	\$ 24,577	\$ 18,587	\$ 43,164
Adjustment due to recognition of tax benefit of tax amortization of certain goodwill	(85)	(121)	(206)
Adjustment due to exchange rate differences	(1,454)	(1,138)	(2,592)
Goodwill balance at March 31, 2010	\$ 23,038	\$ 17,328	\$ 40,366

7. PURCHASED INTANGIBLE ASSETS

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

	Gross	Accumulated Amortization	Net
Core technology	\$ 22,887	\$ (2,686)	\$ 20,201
Customer relationships	31,202	(8,047)	23,155
Trademarks / Trade names	2,453	(871)	1,582
Total intangible assets	\$ 56,542	\$ (11,604)	\$ 44,938

The following table presents details of our purchased intangible assets, other than goodwill, as of December 31, 2009:

	Gross	Accumulated Amortization	Net
Core technology	\$ 24,347	\$ (2,555)	\$ 21,792
Customer relationships	33,161	(7,657)	25,504
Trademarks / Trade names	2,613	(830)	1,783
Total intangible assets	\$ 60,121	\$ (11,042)	\$ 49,079

The decrease in the gross value of our purchased intangible assets from December 31, 2009 to March 31, 2010 is due solely to the impact of foreign currency translation.

Table of Contents**8. CUSTOMER ADVANCES**

On occasion, customers make advance payments prior to the shipment of their orders in order to help finance the Company's inventory investment on large orders or to keep credit limits at acceptable levels. As of March 31, 2010 and December 31, 2009, customer advances totaled \$12,502 and \$6,528 respectively, with \$10,258 of the March 31 balance relating to two large orders which are scheduled to ship during the remaining three quarters of 2010.

9. DEBT

Lines of credit consisted of the following at March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
HSBC line of credit	\$ 1,379	\$ 1,774
Commerzbank line of credit		3
	\$ 1,379	\$ 1,777

Long-term debt consists of the following at March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
Syndicated credit agreement term loan	\$ 28,998	\$ 31,005
Syndicated credit agreement Euro term loan		13,826
Nord LB 3,000 Euro term loan	1,211	1,505
Loans with former owners of LRI	1,307	1,269
	31,516	47,605
Less current maturities	(7,558)	(13,485)
Long-term debt	\$ 23,958	\$ 34,120

In March of 2010, the Company made required prepayments of principal under the U.S. Dollar and Euro term loans in the amounts of \$2,007 and 626 Euros (\$868), respectively, from excess cash flow generated in 2009. Additionally, the Company made a March payment of 9,020 Euros (\$12,498) to retire the remaining principal balance outstanding under the Euro term loan, which was scheduled to mature on November 16, 2012.

Loan Covenants and Restrictions

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

The Company's existing loan agreements include various covenants and restrictions, certain of which relate to the incurrence of additional indebtedness; mortgaging, pledging or disposition of major assets; limits on capital expenditures; and maintenance of specified financial ratios. As of March 31, 2010, the Company was in compliance with all financial covenants and other provisions of its debt agreements.

Swap Agreement

On November 17, 2008, the Company entered into a two-year interest rate swap agreement with an initial notional amount of \$40,500 (decreasing to \$33,750 in November 2009) that

Table of Contents

effectively converted the LIBOR based variable rate US borrowings under the syndicated credit agreement to a fixed rate of 4.87% (6.37% effective October 21, 2009 due to an amendment in the Company's syndicated credit facility and the Company's current leverage ratio). The Company had designated the swap agreement as an effective cash flow hedge with matched terms and, as a result, changes in the fair value of the swap agreement were recorded in other comprehensive income with the offset as a swap agreement asset or liability. During March 2009 and March 2010, the Company made repayments of \$2,744 and \$2,007, respectively, on its variable rate US borrowings and in both cases elected to de-designate the related portion of the cash flow hedge. These principal payments were required under the terms of the Company's syndicated credit facility since certain annually calculated cash flow measures were met. Settlements and changes in the fair value related to the de-designated portion of the cash flow hedge are recorded as realized and unrealized gains/losses on swap agreement within other income in the Company's statement of operations. The Company recorded an immaterial loss of less than \$100 during 2009 and less than \$25 during the quarter ended March 31, 2010.

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

	March 31, 2010		December 31, 2009	
	Balance sheet location	Fair value	Balance sheet location	Fair value
Interest rate swap liability	Accrued expenses	\$ 640	Accrued expenses	\$ 820

10. BUSINESS SEGMENTS

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

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

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Table of Contents

Segment information is presented for the three months ended March 31, 2010 and 2009 as follows:

	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the three months ended March 31, 2010:				
Net sales	\$ 21,306	\$ 7,006	\$ 2,045	\$ 30,357
Depreciation and amortization	\$ 1,367	\$ 945	\$ 115	\$ 2,427
Income (loss) from operations	\$ 1,217	\$ (404)	\$ 224	\$ 1,037
Equity in earnings of joint ventures	\$	\$ 169	\$	\$ 169
Unallocated amounts:				
Stock-based compensation				(792)
Other income				129
Interest expense				(1,144)
Interest income				35
Consolidated loss before income taxes			\$	(566)

	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the three months ended March 31, 2009:				
Net sales	\$ 43,472	\$ 4,034	\$ 2,253	\$ 49,759
Depreciation and amortization	\$ 1,488	\$ 848	\$ 114	\$ 2,450
Income (loss) from operations	\$ 9,412	\$ (694)	\$ 375	\$ 9,093
Equity in losses of joint ventures	\$	\$ (49)	\$	\$ (49)
Unallocated amounts:				
Stock-based compensation				(798)
Other expense				(117)
Interest expense				(902)
Interest income				65
Consolidated income before income taxes			\$	7,292

During the three months ended March 31, 2010 and 2009, no sales to any one customer accounted for more than 10% of total net sales.

11. COMPREHENSIVE LOSS

The Company's comprehensive loss for the three months ended March 31, 2010 and 2009 was as follows:

	Three Months Ended March 31,			
	2010		2009	
Net income (loss) for the period	\$	(412)	\$	4,916
Interest rate swap valuation adjustment, net of tax		105		38

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Foreign currency translation adjustment	(5,639)	(5,918)
Comprehensive loss	\$ (5,946)	\$ (964)

Table of Contents

Other cumulative comprehensive income (loss) as of March 31, 2010 and December 31, 2009 consisted of the following:

	March 31, 2010	December 31, 2009
Currency translation adjustment	\$ (4,845)	\$ 794
Interest rate swap valuation adjustment, net of tax of \$201 and \$299, respectively	(349)	(454)
	\$ (5,194)	\$ 340

Table of Contents

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

The following discussion should be read in conjunction with our historical consolidated financial statements and notes, as well as the selected historical consolidated financial data that are included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2009.

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

Executive Overview

Our business is organized into three segments: Explosive Metalworking, Oilfield Products, and AMK Welding. For the three months ended March 31, 2010, Explosive Metalworking accounted for 70% of our net sales and 117% of our income from operations before consideration of stock-based compensation expense, which is not allocated to our business segments. Our Oilfield Products and AMK Welding segments accounted for 23% and 7%, respectively, of our first quarter 2010 net sales.

Our net sales for the three months ended March 31, 2010 decreased by \$19,402 (39.0%) compared to the same period of 2009, reflecting year-to-year net sales decreases of \$22,166 (51.0%) and \$208 (9.2%) for our Explosive Metalworking and AMK Welding segments, respectively, which were partially offset by a sales increase of \$2,972 (73.7%) for Oilfield Products. Excluding incremental sales of \$2,816 from our October 1, 2009 acquisition of LRI, our Oilfield Products segment reported a modest first quarter 2010 net sales increase of \$156 or 3.9%. Our consolidated income from operations decreased to \$245 in the three months ended March 31, 2010 from \$8,295 in the same period of 2009. This \$8,050 decrease reflects declines in Explosive Metalworking's and AMK Welding's operating income of \$8,195 and \$151, respectively, which were slightly offset by a \$290 decrease in the operating loss reported by our Oilfield Products segment and a \$6 decrease in stock-based compensation expense. We recorded a net loss of \$412 for the three months ended March 31, 2010 compared to net income of \$4,916 for the same period of 2009.

Impact of Current Economic Situation on the Company

The Company was only minimally impacted in 2008 by the global economic slowdown. However, during 2009 and the first quarter of 2010, we experienced a significant slowdown in Explosive Metalworking sales to some of the markets we serve. The explosion-welded clad plate market is dependent upon sales of products for use by customers in a number of heavy industries, including oil and gas, alternative energy, chemicals and petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, and industrial refrigeration. These industries tend to be cyclical in nature and the current worldwide economic downturn has affected many of these markets. Despite the slowdown we have already seen in certain sectors, including chemical, petrochemical and hydrometallurgy, quoting activity in other end markets remains relatively healthy, and we continue to track an extensive list of projects. While timing of new order inflow remains difficult to predict, we believe that our Explosive Metalworking segment is well-positioned to benefit as global economic conditions improve.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

As a result of our Explosive Metalworking backlog decreasing from \$97,247 at December 31, 2008 to \$49,584 at December 31, 2009 and relatively low booking activity during the first quarter of 2010 which led to only a slight increase in our backlog to \$51,417 at March 31, 2010,

Table of Contents

we believe that our 2010 consolidated net sales could decline by as much as 5% from consolidated net sales that we reported in 2009. However, if booking activity for both our Explosive Metalworking and Oilfield Products business segments improves during the middle quarters of 2010, our 2010 consolidated net sales could approach those of 2009. In light of the slowdown in order inflow that we have experienced, we continue to manage expenses carefully. Despite the significant sales and net income declines that we reported in the first quarter of 2010, we generated cash flow from operations of \$13,808 and expect to generate positive cash flow from operations for the full year 2010.

Net sales

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

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

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

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

Gross profit and cost of products sold

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

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

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

Table of Contents*Income taxes*

Our effective income tax rate decreased to 27.2% for the three months ended March 31, 2010 from 32.6% for the same period of 2009. Based upon existing tax regulations and current federal, state and foreign statutory tax rates, an expected reduction in our 2010 consolidated pre-tax income from that reported in 2009, and the amount of our projected 2010 consolidated pre-tax income that we expect to be generated by our U.S. and foreign operations, respectively, we expect our blended effective tax rate for 2010 to range between 25% and 28%. Our full year 2009 effective tax rate was 33.9% and, subsequent to 2010, we expect that our blended effective tax rate will return to a normalized level of 33% to 35%.

Backlog

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

Our backlog with respect to the Explosive Metalworking segment increased slightly to \$51,417 at March 31, 2010 from \$49,584 at December 31, 2009 but was well below the backlog of \$97,247 that we reported at December 31, 2008. In light of the slowdown in order inflow and decrease in backlog that we have experienced, we are currently anticipating that our consolidated net sales for fiscal 2010 will be in a range of flat to down 5% from the consolidated net sales that we reported in 2009.

Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009*Net sales*

	Three Months Ended March 31,				Percentage Change
	2010	2009	Change		
Net sales	\$ 30,357	\$ 49,759	\$ (19,402)		(39.0)%

Net sales for the first quarter of 2010 decreased 39.0% to \$30,357 from \$49,759 for the first quarter of 2009. Explosive Metalworking sales decreased 51.0% to \$21,306 for the three months ended March 31, 2010 (70% of total sales) from \$43,472 for the same period of 2009 (87% of total sales). The decrease in Explosive Metalworking sales reflects a business slowdown in several of the industries that this business segment serves.

Oilfield Products contributed \$7,006 to first quarter 2010 sales (23% of total sales), which represents a 73.7% increase from sales of \$4,034 for the first quarter of 2009 (8% of total sales). Excluding incremental sales of \$2,816 from our October 1, 2009 acquisition of LRI, the first quarter

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

2010 sales increase for Oilfield Products was \$156 or 3.9%.

AMK Welding contributed \$2,045 to first quarter 2010 sales (7% of total sales), which represents a 9.2% decrease from sales of \$2,253 for the first quarter of 2009 (5% of total sales).

Table of Contents

Gross profit

	Three Months Ended March 31,				Percentage Change
	2010	2009	Change		
Gross profit	\$ 6,984	\$ 15,328	\$ (8,344)		(54.4)%
Consolidated gross profit margin rate	23.0%	30.8%			

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Gross profit decreased by 54.4% to \$6,984 for the three months ended March 31, 2010 from \$15,328 for the three months ended March 31, 2009. Our first quarter 2010 consolidated gross profit margin rate decreased to 23.0% from 30.8% for the first quarter of 2009.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

The gross profit margin rate for Explosive Metalworking decreased from 31.8% for the first quarter of 2009 to 21.9% for the first quarter of 2010. This 31.3% decrease in the Explosive Metalworking gross margin rate relates almost entirely to our European cladding operations where the gross margin rate for the quarter was 81% lower than the gross margin rate reported for the first quarter of 2009 on a year-to-year sales decline of 48%. The significant year-to-year decline in our European gross margin performance is attributable to negative changes in product mix as well as less favorable absorption of fixed manufacturing overhead expenses resulting from the 48% sales decline. Our U.S. clad division reported only a slightly lower gross margin rate (35.2% vs. 36.1%) for the first quarter of 2010 versus the comparable period of 2009 despite a 53% drop in sales. The strong first quarter 2010 gross margin performance by our U.S. clad division reflects the positive impact of a sizeable order that shipped during the quarter and that involved customer-supplied metal. U.S. gross margin rates are expected to be substantially lower during the remaining three quarters of 2010 than the rate reported in the first quarter. Historically, gross margins for our European explosion welding divisions have been lower than those reported by our U.S. division due to less efficient fixed manufacturing cost structures associated with our smaller European facilities. While we have taken steps to reduce fixed manufacturing overhead costs at all of our facilities, the benefit of these actions on our 2010 gross margin performance will likely be offset by the expected continuation of a very competitive pricing environment. As has been the case historically, we expect to see continued fluctuations in Explosive Metalworking's quarterly gross margin rates throughout 2010 that result from anticipated fluctuations in quarterly sales volume and changes in product mix. Based upon the reported first quarter gross margin rate, the composition of our March 31, 2010 backlog and the current competitive pricing environment, we expect full year 2010 gross margins to be in the range of 22% to 24%.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Oilfield Products reported a gross profit margin rate of 27.5% for the first quarter of 2010 compared to a gross profit margin rate of 24.7% for the first quarter of 2009. The increase in Oilfield Products' 2010 gross margin relates principally to favorable changes in product/customer mix. While the acquisition of LRI, which now operates under the name DYNAenergetics Canada, added \$2,816 to first quarter 2010 sales, the gross margin rate reported for these Canadian sales was somewhat lower than the gross margin reported by this segment's European operations. We currently expect Oilfield Products to report gross margins in the range of 28% to 30% for the full year 2010.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

The gross profit margin rate for AMK Welding decreased to 22.5% for the first quarter of 2010 from 26.1% for the first quarter of 2009. The decrease in AMK Welding's gross margin relates principally to the 9.2% sales decrease discussed above and resultant less efficient absorption of fixed manufacturing overhead expenses. AMK Welding sales and gross margins for the full year 2010 are expected to be comparable to the \$9,038 and 27.0%, respectively, reported in 2009.

Table of Contents

General and administrative expenses

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

	Three Months Ended				Change	Percentage Change
	March 31,					
	2010	2009	2010	2009		
General & administrative expenses	\$ 3,145	\$ 3,526	\$ 3,145	\$ 3,526	\$(381)	(10.8)%
Percentage of net sales	10.4%	7.1%	10.4%	7.1%		

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

General and administrative expenses decreased by \$381, or 10.8%, to \$3,145 in the first quarter of 2010 from \$3,526 in the first quarter of 2009. Excluding incremental general and administrative expenses of \$175 that resulted from the LRI acquisition, our general and administrative expenses decreased by \$556 or 15.8%. This decrease includes a \$254 decrease in accrued incentive compensation, a decrease of \$42 in legal, audit and consulting expenses, and a net decrease of \$260 in all other expenses categories that reflects the impact of tight controls over discretionary spending. As a percentage of net sales, general and administrative expenses increased to 10.4% in the first quarter of 2010 from 7.1% in the first quarter of 2009.

Selling expenses

	Three Months Ended March 31,			Change	Percentage Change	
	2010		2009			
Selling expenses	\$	2,321	\$	2,324	\$ (3)	(0.1)%
Percentage of net sales		7.6%		4.7%		

Selling expenses, which include sales commissions of \$266 in the first quarter of 2010 and \$383 in the first quarter of 2009, decreased by 0.1% to \$2,321 in the first quarter of 2010 from \$2,324 in the first quarter of 2009. Excluding incremental selling expenses of \$482 that resulted from the LRI acquisition, our selling expenses decreased by \$485 or 20.9%. This \$485 decrease in our selling expenses includes decreased selling expenses of \$172 and \$313 at our European and U.S. divisions, respectively. The decrease in European selling expenses relates principally to staff reductions within our European explosion welding facilities and lower sales commissions. The \$313 decrease in our U.S. selling expenses reflects decreased sales commissions of \$142, an \$88 decrease in bad debt expense, an \$88 decrease in accrued incentive compensation and a net increase of \$5 in other spending categories. As a percentage of net sales, selling expenses increased to 7.6% in the first quarter of 2010 from 4.7% in the first quarter of 2009.

Amortization expenses

	Three Months Ended March 31,			Change	Percentage Change	
	2010		2009			
Amortization expense of purchased intangible assets	\$	1,273	\$	1,183	\$ 90	7.6%
Percentage of net sales		4.2%		2.4%		

Amortization expense relates entirely to the amortization of values assigned to intangible assets in connection with the November 15, 2007 acquisition of DYNAenergetics and our October 1, 2009 acquisition of LRI. Amortization expense for the three months ended March 31, 2010

Table of Contents

includes \$883, \$296 and \$94 relating to values assigned to customer relationships, core technology and trademarks/trade names, respectively. Amortization expense for the three months ended March 31, 2009 includes \$820, \$274 and \$89 relating to values assigned to customer relationships, core technology and trademarks/trade names, respectively. Amortization expense (as measured in Euros) associated with the DYNAenergetics acquisition is expected to approximate 3,603 in 2010, and 2010 amortization expense (as measured in Canadian dollars) associated with the LRI acquisition is expected to approximate 80 CAD.

Operating income

	Three Months Ended March 31,			Change	Percentage Change
	2010	2009			
Operating income	\$ 245	\$ 8,295	\$ (8,050)	(97.0)%	

Income from operations (operating income) decreased by \$8,050 to \$245 in the first quarter of 2010 from \$8,295 in the first quarter of 2009.

Explosive Metalworking reported operating income of \$1,217 in the first quarter of 2010 compared to \$9,412 in the first quarter of 2009. This 87.1% decrease in Explosive Metalworking operating income is largely attributable to the 51.0% decrease in net sales and the 31.1% decline in gross margin rate as discussed above.

Oilfield Products reported an operating loss of \$404 for the first quarter of 2010 as compared to an operating loss of \$694 for the first quarter of 2009.

AMK Welding reported operating income of \$224 for the three months ended March 31, 2010 as compared to \$375 for the same period of 2009.

Operating income for the three months ended March 31, 2010 and 2009 includes \$792 and \$798, respectively, of stock-based compensation. This expense is not allocated to our business segments and thus is not included in the above first quarter operating income or loss totals for Explosive Metalworking, Oilfield Products and AMK Welding.

Interest income (expense), net

	Three Months Ended March 31,			Change	Percentage Change
	2010	2009			
Interest income (expense), net	\$ (1,109)	\$ (837)	\$ (272)	32.5%	

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

We recorded net interest expense of \$1,109 in the three months ended March 31, 2010 compared to net interest expense of \$837 in the same time period of 2009. Interest expense for the first quarter of 2010 included a non-recurring, non-cash charge of \$251 related to the write-off of unamortized debt issuance costs associated with the March prepayment of the Euro term loan in the amount of \$12,498 (9,020 Euros) under our bank syndicate credit facility. This Euro term loan was scheduled to mature on November 16, 2012.

Table of Contents*Income tax provision (benefit)*

	Three Months Ended March 31,		Change	Percentage Change
	2010	2009		
Income tax provision (benefit)	\$ (154)	\$ 2,376	\$ (2,530)	(106.5)%
Effective tax rate	27.2%	32.6%		

We recorded an income tax benefit of \$154 in the first quarter of 2010 compared to an income tax provision of \$2,376 in the first quarter of 2009. The effective tax rate decreased to 27.2% in the first quarter of 2010 from 32.6% in the same period of 2009. Our consolidated income tax benefit of \$154 for the three months ended March 31, 2010 and consolidated income tax provision of \$2,376 for the three months ended March 31, 2009 included provisions of \$386 and \$2,122, respectively, related to U.S. taxes, with the remainder of the consolidated income tax benefit or provision relating to foreign taxes and foreign tax benefits associated with the operations of Nobelclad, Nitro Metall, Dynaplat, DYNAenergetics, DYNAenergetics Canada, and our German and Luxembourg holding companies. Our blended effective tax rate for 2010 is expected to range from 25% to 28% based on projected consolidated pre-tax income.

Adjusted EBITDA

	Three Months Ended March 31,		Change	Percentage Change
	2010	2009		
Adjusted EBITDA	\$ 3,464	\$ 11,543	\$ (8,079)	(70.0)%

Adjusted EBITDA is a non-GAAP measure that we use as an indicator of the ongoing operating performance and the cash generating ability of the Company. The following is a reconciliation of the most directly comparable GAAP measure to Adjusted EBITDA.

	Three Months Ended March 31,	
	2010	2009
Income from operations	\$ 245	\$ 8,295
Adjustments:		
Stock-based compensation	792	798
Depreciation	1,154	1,267
Amortization of purchased intangibles	1,273	1,183
Adjusted EBITDA	\$ 3,464	\$ 11,543

Adjusted EBITDA decreased by 70.0% to \$3,464 in 2010 from \$11,543 in 2009 primarily due to the \$8,050 decrease in operating income.

Liquidity and Capital Resources

We have historically financed our operations from a combination of internally generated cash flow, revolving credit borrowings, various long-term debt arrangements, and the issuance of common stock. In connection with the acquisition of DYNAenergetics, we entered into a five-year syndicated credit agreement. The credit agreement, which provided term loans of \$45,000 and

Table of Contents

14,000 Euros and revolving credit loan availability of \$25,000 and 7,000 Euros, is through a syndicate of seven banks.

There are two significant financial covenants under our credit facility, the leverage ratio and fixed charge 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 year ended December 31, 2009 and three months ended March 31, 2010, Consolidated EBITDA approximated the Adjusted EBITDA that we reported for the respective periods. As of December 31, 2009, the maximum leverage ratio permitted by our credit facility was 2.0 to 1.0. The actual leverage ratio as of December 31, 2009 was 1.69 to 1.0. The maximum leverage ratio permitted as of March 31, June 30, September 30 and December 31, 2010 is 2.25 to 1.0, 2.25 to 1.0, 2.0 to 1.0 and 1.5 to 1.0, respectively. The actual leverage ratio as of March 31, 2010 was 1.52 to 1.0.

The fixed charge ratio, as defined in the credit facility, means, for any period, the ratio of Earnings Available for Fixed Charges to Fixed Charges. Earnings Available for Fixed Charges equals Consolidated EBITDA plus lease expenses minus cash income taxes and non-financed capital expenditures. Fixed Charges equals the sum of cash interest expense, lease expense, scheduled principal payments and cash dividends. As of December 31, 2009, the minimum fixed charge ratio permitted by our credit facility was 1.1 to 1.0. The actual fixed charge ratio as of December 31, 2009 was 1.31 to 1.0. The minimum fixed charge coverage ratio permitted for the twelve month periods ending March 31, June 30, September 30 and December 31, 2010 is 0.8 to 1.0, 0.8 to 1.0, 1.0 to 1.0 and 1.0 to 1.0, respectively. The actual fixed charge ratio as of March 31, 2010 was 1.04 to 1.0.

As a result of the slowdown in our business during 2009 which has continued into the early part of 2010, we were concerned about our ability to comply with financial covenants as of March 31, 2010 and subsequent quarters of 2010. In an effort to alleviate this concern and remain in compliance with financial covenants as of March 31, 2010 and in future periods, we made a March prepayment of the remaining principal balance due under our bank syndicate Euro term loan in the amount of \$12,498 (9,020 Euros) and, on April 19, 2010, amended the credit agreement to exclude scheduled principal payments under the Euro term loan from fixed charge coverage ratio computations for March 31, 2010 and forward.

In connection with the October 1, 2009 acquisition of LRI, we assumed outstanding debt obligations including line of credit loans, loans with the former owners and capital lease obligations in the amounts of \$2,676 (2,883 CAD), \$2,445 (2,634 CAD) and \$432 (465 CAD), respectively.

As of March 31, 2010, a U.S. Dollar term loan of \$28,998 was outstanding under our syndicated credit agreement, \$1,211 was outstanding under term loan obligations of DYNAenergetics and \$1,307 was outstanding under loan agreements with the former owners of LRI. We had no outstanding revolving credit borrowings under our syndicated credit agreement or under our separate DYNAenergetics line of credit agreements with German banks. We had \$1,379 outstanding under the line of credit assumed with the acquisition of LRI. While we had approximately \$44,118 of unutilized revolving credit loan capacity as of March 31, 2010 under our various credit facilities, future borrowings are subject to compliance with financial covenants that could significantly limit availability.

Table of Contents

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

Debt and other contractual obligations and commitments

Our existing loan agreements include various covenants and restrictions, certain of which relate to the payment of dividends or other distributions to stockholders, redemption of capital stock, incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets, and maintenance of specified financial ratios. As of March 31, 2010, we were in compliance with all financial covenants and other provisions of our debt agreements.

Other than the unscheduled \$12,498 (9,020 Euros) prepayment of the remaining principal balance on our bank syndicate Euro term loan, the Company's principal cash flows related to debt obligations and other contractual obligations and commitments have not materially changed since December 31, 2009.

Cash flows from operating activities

Net cash flows provided by operating activities for the first quarter of 2010 totaled \$13,808. Significant sources of operating cash flow included non-cash depreciation and amortization expense of \$2,795 and stock-based compensation of \$792 and net positive changes in various components of working capital in the amount of \$11,631. These sources of operating cash flow were partially offset by a net loss of \$412 and a deferred income tax benefit of \$830. Net positive changes in working capital included decreases in accounts receivable of \$8,799 and increases in accounts payable and customer advances of \$2,123 and \$6,082, respectively. These positive changes in working capital were partially offset by increases in inventory of \$3,837 and a decrease in accrued expenses of \$1,678.

Net cash flows provided by operating activities for the first quarter of 2009 totaled \$3,237. Significant sources of operating cash flow included net income of \$4,916, non-cash depreciation and amortization expense of \$2,519 and stock-based compensation of \$798. These sources of operating cash flow were partially offset by a deferred income tax benefit of \$605 and net negative changes in various components of working capital in the amount of \$4,440. Net negative changes in working capital included increases in accounts receivable and inventories of \$2,702 and \$2,721, respectively, and decreases in customer advances and accrued expenses of \$961 and \$904, respectively. These negative changes in working capital were partially offset by decreases in prepaid expenses of \$460 and an increase in accounts payable of \$2,388.

Cash flows from investing activities

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

Net cash flows used by investing activities for the first quarter of 2010 and 2009 totaled \$768 \$1,162, respectively, and consisted almost entirely of capital expenditures.

Table of Contents

Cash flows from financing activities

Net cash flows used in financing activities for the first quarter of 2010 were \$16,610, which included \$2,876 in required prepayments of term loans under our syndicated credit agreement from excess cash flow that we generated in fiscal year 2009, \$12,498 to prepay the remaining principal balance of our Euro term loan under our syndicated credit agreement, \$441 of net repayments on bank lines of credit, \$208 in principal payments on Nord LB term loans, payment of quarterly dividends of \$515 and payment on capital lease obligations of \$74.

Net cash flows provided by financing activities for the first quarter of 2009 were \$323, which consisted primarily of net borrowings on bank lines of credit of \$4,215 and \$236 in net proceeds from the issuance of common stock relating to the exercise of stock options. These sources of cash flow were almost entirely offset by \$3,862 in required prepayments of term loans under our syndicated credit agreement from excess cash flow that we generated in fiscal year 2008, \$233 in principal payments on Nord LB term loans, payments of deferred debt issuance costs of \$19 and payment on capital lease obligations of \$71.

Payment of Dividends

On March 11, 2010, our board of directors declared a quarterly cash dividend of \$.04 per share which was paid on April 15, 2010. The dividend totaled \$518 and was payable to shareholders of record as of March 31, 2010.

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

Critical Accounting Policies

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

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

Table of Contents

Revenue recognition

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

Asset impairments

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

Business Combinations

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

Goodwill and Other Intangible Assets

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

follows:

Table of Contents

Goodwill

We test goodwill for impairment on a reporting unit level on at least an annual basis. A reporting unit is a group of businesses (i) for which discrete financial information is available and (ii) that have similar economic characteristics. We test goodwill for impairment using the following two-step approach:

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

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

Our impairment testing in the fourth quarter of 2009 did not result in a determination that any of our goodwill was impaired. The fair value of the Oilfield Products reporting unit was \$74.2 million at December 31, 2009 compared to its carrying value of \$63.6 million. A discount rate of 17% was utilized in the income approach component of the model used to measure fair value. A future impairment is possible and could occur if (i) the unit's operating results underperform what we have estimated or (ii) additional volatility of the capital markets or other factors should cause us to raise the percent discount rate utilized in our discounted cash flow analysis or decrease the multiples utilized in our market-based analysis. The use of different estimates or assumptions within our discounted cash flow model when determining the fair value of our reporting units or using methodologies other than as described above could result in different values for reporting units and could result in an impairment charge.

Table of Contents

Intangible assets subject to amortization

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

Impact of foreign currency exchange rate risks

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

Income taxes

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

Stock-Based Compensation Expense

We are required to account for stock-based compensation under fair value recognition provisions. The stock-based compensation cost is estimated at the grant date based on the value of the award and is recognized as expense ratably over the requisite service period of the award. The fair value of restricted stock awards is based on the fair value of the Company's stock on the date of grant. Determining the appropriate fair value model and calculating the fair value of stock options at the grant date requires judgment, including estimating stock price volatility, forfeiture rates, and expected option life.

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no events that materially affect our quantitative and qualitative disclosure about market risk from that reported in our Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 4. Controls and Procedures

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

As of March 31, 2010, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level. There have been no changes in the Company's internal controls during the quarter ended March 31, 2010 or in other factors that could materially affect the Company's internal controls over financial reporting.

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

Table of Contents

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

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, 2009.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Removed and Reserved

None.

Item 5. Other Information

None.

Item 6.

Exhibits

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

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

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

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

Table of Contents

SIGNATURES

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

DYNAMIC MATERIALS CORPORATION
(Registrant)

Date: April 29, 2010

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