DYNAMIC MATERIALS CORP
Form 10-Q
October 30, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

o 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 x No o

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 x No o

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

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

The number of shares of Common Stock outstanding was 13,511,464 as of October 30, 2012.

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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. 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.

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Part I - FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

DYNAMIC MATERIALS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,381	$ 5,276
Accounts receivable, net of allowance for doubtful accounts of $421 and $424, respectively	37,719	36,368
Inventories	49,961	43,218
Prepaid expenses and other	4,239	4,858
Current deferred tax assets	1,615	1,469
Total current assets	104,915	91,189
PROPERTY, PLANT AND EQUIPMENT	85,198	72,914
Less - accumulated depreciation	(35,205)	(31,512)
Property, plant and equipment, net	49,993	41,402
GOODWILL, net	36,637	37,507
PURCHASED INTANGIBLE ASSETS, net	42,701	42,054
DEFERRED TAX ASSETS	977	485
OTHER ASSETS, net	610	789
TOTAL ASSETS	$ 235,833	$ 213,426

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

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DYNAMIC MATERIALS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2012 (unaudited)	December 31, 2011
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 12,281	$ 14,753
Accrued expenses	5,373	5,358
Dividend payable	540	535
Accrued income taxes	557	780
Accrued employee compensation and benefits	5,232	4,666
Customer advances	1,355	1,918
Current debt obligations	67	1,166
Current portion of capital lease obligations	44	66
Current deferred tax liabilities	107	68
Total current liabilities	25,556	29,310
LINES OF CREDIT	43,552	26,462
LONG-TERM DEBT	72	118
CAPITAL LEASE OBLIGATIONS	37	70
DEFERRED TAX LIABILITIES	9,410	10,185
OTHER LONG-TERM LIABILITIES	1,212	1,238
Total liabilities	79,839	67,383
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS EQUITY:		
Preferred stock, $0.05 par value; 4,000,000 shares authorized; no issued and outstanding shares		
Common stock, $0.05 par value; 25,000,000 shares authorized; 13,511,464 and 13,367,169 shares issued and outstanding, respectively	675	668
Additional paid-in capital	58,907	55,983
Retained earnings	105,779	98,565
Other cumulative comprehensive loss	(9,463)	(9,256)
Total Dynamic Materials Corporation s stockholders equity	155,898	145,960
Non-controlling interest	96	83
Total stockholders equity	155,994	146,043
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 235,833	$ 213,426

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, 2012 AND 2011

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

(unaudited)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
NET SALES	$ 50,149	$ 54,890	$ 149,048	$ 154,630
COST OF PRODUCTS SOLD	34,800	40,058	105,383	114,023
Gross profit	15,349	14,832	43,665	40,607
COSTS AND EXPENSES:				
General and administrative expenses	4,668	4,359	13,815	12,227
Selling and distribution expenses	4,011	3,359	12,330	10,997
Amortization of purchased intangible assets	1,520	1,448	4,584	4,324
Total costs and expenses	10,199	9,166	30,729	27,548
INCOME FROM OPERATIONS	5,150	5,666	12,936	13,059
OTHER INCOME (EXPENSE):				
Other income (expense), net	180	(9)	390	(348)
Interest expense	(216)	(326)	(622)	(1,222)
Interest income	16	1	25	4
INCOME BEFORE INCOME TAXES	5,130	5,332	12,729	11,493
INCOME TAX PROVISION	1,373	1,072	3,882	2,637
NET INCOME	3,757	4,260	8,847	8,856
Less: Net income (loss) attributable to non-controlling interest	3	(13)	13	(36)
NET INCOME ATTRIBUTABLE TO DYNAMIC MATERIALS CORPORATION	$ 3,754	$ 4,273	$ 8,834	$ 8,892
INCOME PER SHARE:				
Basic	$ 0.28	$ 0.32	$ 0.65	$ 0.67
Diluted	$ 0.28	$ 0.32	$ 0.65	$ 0.67
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	13,212,246	13,065,397	13,204,086	13,060,009
Diluted	13,216,229	13,072,076	13,208,259	13,069,765

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

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

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DYNAMIC MATERIALS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(Dollars in Thousands)

(unaudited)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net income including non-controlling interest	$ 3,757	$ 4,260	$ 8,847	$ 8,856
Change in cumulative foreign currency translation adjustment	3,049	(7,241)	(207)	2,120
Total comprehensive income (loss)	6,806	(2,981)	8,640	10,976
Comprehensive income (loss) attributable to non-controlling interest	6	(10)	13	(102)
Comprehensive income (loss) attributable to Dynamic Materials Corporation	$ 6,800	$ (2,971)	$ 8,627	$ 11,078

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, 2012

(Amounts in Thousands)

(unaudited)

	Dynamic Materials Corporation Stockholders						
	Common Stock		Additional Paid-In	Retained	Other Cumulative Comprehensive	Non-Controlling	
	Shares	Amount	Capital	Earnings	Loss	Interest	Total
Balances, December 31, 2011	13,367	$ 668	$ 55,983	$ 98,565	$ (9,256)	$ 83	$ 146,043
Net income				8,834		13	8,847
Change in cumulative foreign currency translation adjustment					(207)		(207)
Shares issued in connection with stock compensation plans	144	7	91				98
Tax impact of stock-based compensation			(5)				(5)
Stock-based compensation			2,838				2,838
Dividends declared				(1,620)			(1,620)
Balances, September 30, 2012	13,511	$ 675	$ 58,907	$ 105,779	$ (9,463)	$ 96	$ 155,994

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, 2012 AND 2011

(Dollars in Thousands)

(unaudited)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,847	$ 8,856
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation (including capital lease amortization)	4,121	4,183
Amortization of purchased intangible assets	4,584	4,324
Amortization of deferred debt issuance costs	96	261
Stock-based compensation	2,838	2,535
Deferred income tax benefit	(763)	(1,904)
(Gain) loss on disposal of property, plant and equipment	(32)	69
Change in:		
Accounts receivable, net	(588)	(7,311)
Inventories	(4,565)	(11,267)
Prepaid expenses and other	635	(1,210)
Accounts payable	(2,458)	680
Customer advances	(554)	1,278
Accrued expenses and other liabilities	316	1,764
Net cash provided by operating activities	12,477	2,258
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(10,526)	(4,364)
Acquisition of TRX Industries	(10,294)	
Change in other non-current assets	152	20
Net cash used in investing activities	(20,668)	(4,344)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on bank lines of credit, net	17,087	3,999
Payment on loans with former owners of LRI	(1,157)	
Payment on Nord LB term loans		(633)
Payment on capital lease obligations	(53)	(233)
Payment of dividends	(1,614)	(1,596)
Contribution from non-controlling stockholder		42
Net proceeds from issuance of common stock to employees and directors	98	99
Tax impact of stock-based compensation	(5)	(109)
Net cash provided by financing activities	14,356	1,569
EFFECTS OF EXCHANGE RATES ON CASH	(60)	61
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,105	(456)

CASH AND CASH EQUIVALENTS, beginning of the period		5,276		4,572
CASH AND CASH EQUIVALENTS, end of the period	$	11,381	$	4,116

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

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

(unaudited)

1. BASIS OF PRESENTATION

The information included in the condensed consolidated financial statements is unaudited but includes all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the financial statements that are included in our Annual Report filed on Form 10-K for the year ended December 31, 2011.

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.

2. SIGNIFICANT ACCOUNTING POLICIES

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 19% to 33%) on earnings that have been permanently reinvested.

Earnings Per Share

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

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

	For the Three Months Ended September 30, 2012			For the Three Months Ended September 30, 2011		
	Income	Shares	EPS	Income	Shares	EPS
Basic earnings per share:						
Net income attributable to DMC	$ 3,754			$ 4,273		
Less income allocated to RSAs	(83)			(92)		
Net income allocated to common stock for EPS calculation	$ 3,671	13,212,246	$ 0.28	$ 4,181	13,065,397	$ 0.32
Adjust shares for dilutives:						
Stock-based compensation plans		3,983			6,679	
Diluted earnings per share:						
Net income attributable to DMC	$ 3,754			$ 4,273		
Less income allocated to RSAs	(83)			(92)		
Net income allocated to common stock for EPS calculation	$ 3,671	13,216,229	$ 0.28	$ 4,181	13,072,076	$ 0.32

	For the Nine Months Ended September 30, 2012			For the Nine Months Ended September 30, 2011		
	Income	Shares	EPS	Income	Shares	EPS
Basic earnings per share:						
Net income attributable to DMC	$ 8,834			$ 8,892		
Less income allocated to RSAs	(196)			(192)		
Net income allocated to common stock for EPS calculation	$ 8,638	13,204,086	$ 0.65	$ 8,700	13,060,009	$ 0.67
Adjust shares for dilutives:						
Stock-based compensation plans		4,173			9,756	
Diluted earnings per share:						
Net income attributable to DMC	$ 8,834			$ 8,892		
Less income allocated to RSAs	(196)			(192)		
Net income allocated to common stock for EPS calculation	$ 8,638	13,208,259	$ 0.65	$ 8,700	13,069,765	$ 0.67

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued an accounting standard which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendment is to be applied retrospectively and is effective for fiscal years, and interim periods

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within those years, beginning after December 15, 2011. Other than revised disclosures, this update did not have a material impact on our financial statements.

3. ACQUISITIONS

TRX Industries

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

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

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

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

4. INVENTORY

The components of inventory are as follows at September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Raw materials	$ 15,152	$ 15,526
Work-in-process	14,811	10,511
Finished goods	18,627	15,947
Supplies	1,371	1,234
	$ 49,961	$ 43,218

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5. GOODWILL

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

	Explosive Metalworking	Oilfield Products	Total
Goodwill balance at December 31, 2011	$ 21,637	$ 15,870	$ 37,507
Adjustment due to recognition of tax benefit of tax amortization of certain goodwill	(240)	(362)	(602)
Adjustment due to exchange rate differences	(151)	(117)	(268)
Goodwill balance at September 30, 2012	$ 21,246	$ 15,391	$ 36,637

6. PURCHASED INTANGIBLE ASSETS

The following table presents details of our purchased intangible assets, other than goodwill, as of September 30, 2012:

	Gross	Accumulated Amortization	Net
Core technology	$ 21,897	$ (5,321)	$ 16,576
Customer relationships	43,450	(18,271)	25,179
Trademarks / Trade names	2,343	(1,397)	946
Total intangible assets	$ 67,690	$ (24,989)	$ 42,701

The following table presents details of our purchased intangible assets, other than goodwill, as of December 31, 2011:

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

The change in the gross value of our purchased intangible assets from December 31, 2011 to September 30, 2012 reflects the additional intangible assets associated with the acquisition of TRX and the impact of foreign currency translation adjustments.

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7. CUSTOMER ADVANCES

On occasion, we require customers to make advance payments prior to the shipment of their orders in order to help finance our inventory investment on large orders or to keep customers credit limits at acceptable levels. As of September 30, 2012 and December 31, 2011, customer advances totaled $1,355 and $1,918, respectively, and originated from several customers.

8. DEBT

Lines of credit consisted of the following at September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Syndicated credit agreement:		
U.S. Dollar revolving loan	$ 32,900	$ 20,247
Euro revolving loan	9,127	6,215
Canadian Dollar revolving loan	1,525	
Commerzbank line of credit	2	
Nord LB line of credit		13
	43,554	26,475
Less current portion	(2)	(13)
Long-term lines of credit	$ 43,552	$ 26,462

Long-term debt consisted of the following at September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Loans with former owners of LRI	$ 137	$ 1,271
Less current maturities	(65)	(1,153)
Long-term debt	$ 72	$ 118

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, 2012, we were in compliance with all financial covenants and other provisions of our debt agreements.

9. BUSINESS SEGMENTS

Our business is organized in the following three segments: Explosive Metalworking, Oilfield Products, and AMK Welding. The Explosive Metalworking segment uses explosives to perform metal cladding and shock synthesis of industrial diamonds. The most significant product of this group is clad metal which is used in the fabrication of pressure vessels, heat exchangers, and transition joints for various industries, including upstream oil and gas, oil refinery, petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration,

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and similar industries. The Oilfield Products segment manufactures, markets and sells oilfield perforating equipment and explosives, including detonating cords, detonators, bi-directional boosters and shaped charges, and seismic related explosives and accessories. AMK Welding utilizes a number of welding technologies to weld components for manufacturers of jet engine and ground-based turbines.

The accounting policies of all the segments are the same as those described in the summary of significant accounting policies included herein and in our Annual Report on Form 10-K for the year ended December 31, 2011. 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, 2012 and 2011 as follows:

	Explosive Metalworking	Oilfield Products	AMK Welding	Total
For the three months ended September 30, 2012:				
Net sales	$ 29,771	$ 18,044	$ 2,334	$ 50,149
Depreciation and amortization	$ 1,357	$ 1,417	$ 138	$ 2,912
Income from operations	$ 5,451	$ 1,139	$ 386	$ 6,976
Unallocated amounts:				
Corporate expenses				(923)
Stock-based compensation				(903)
Other income				180
Interest expense				(216)
Interest income				16
Consolidated income before income taxes				$ 5,130

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

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	Explosive Metalworking	Oilfield Products	AMK Welding	Total
For the nine months ended September 30, 2012:				
Net sales	$ 84,680	$ 57,941	$ 6,427	$ 149,048
Depreciation and amortization	$ 4,137	$ 4,181	$ 387	$ 8,705
Income from operations	$ 13,138	$ 4,886	$ 463	$ 18,487
Unallocated amounts:				
Corporate expenses				(2,713)
Stock-based compensation				(2,838)
Other income				390
Interest expense				(622)
Interest income				25
Consolidated income before income taxes				$ 12,729

	Explosive Metalworking	Oilfield Products	AMK Welding	Total
For the nine months ended September 30, 2011:				
Net sales	$ 95,221	$ 51,563	$ 7,846	$ 154,630
Depreciation and amortization	$ 4,419	$ 3,709	$ 379	$ 8,507
Income from operations	$ 11,758	$ 3,964	$ 1,742	$ 17,464
Unallocated amounts:				
Corporate expenses				(1,870)
Stock-based compensation				(2,535)
Other expense				(348)
Interest expense				(1,222)
Interest income				4
Consolidated income before income taxes				$ 11,493

During the three and nine months ended September 30, 2012, no one customer accounted for more than 10% of total net sales. During the three and nine months ended September 30, 2011, no one customer accounted for more than 10% of total net sales.

10. SUBSEQUENT EVENT

On October 8, 2012, the Board of Directors appointed Kevin T. Longe as President and Chief Executive Officer of DMC effective March 1, 2013. Mr. Longe will succeed Yvon Cariou, who will retire after serving as DMC s President and Chief Executive Officer since 2000. As result of Mr. Cariou s planned retirement on March 1, 2013 and in accordance with the terms of underlying restricted stock award agreements, vesting will be accelerated to his retirement date on 33,666 shares of restricted stock awards granted in 2011 and 2012 that were scheduled to vest between January 2014 and January 2016. This accelerated vesting will result in the accelerated recognition of $618 in stock-based compensation expense over the next five months, with $364 and $254 of this expense being recognized in the fourth quarter of 2012 and first quarter of 2013, respectively.

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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, 2011.

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 (which we also refer to as DMC Nobelclad), Oilfield Products and AMK Welding. For the nine months ended September 30, 2012, Explosive Metalworking accounted for 57% of our net sales and 71% of our income from operations before consideration of unallocated corporate expenses and stock-based compensation expense, which are not allocated to our business segments. Our Oilfield Products segment accounted for 39% and of 26% of our year-to-date 2012 net sales and income from operations, respectively, while the AMK Welding segment accounted for 4% of net sales and 3% of our income from operations for year-to-date 2012.

Our consolidated net sales for the nine months ended September 30, 2012 decreased by $5,582, or 3.6%, compared to the same period of 2011. The year-to-year consolidated net sales decrease reflects sales decreases of $10,541 (11.1%) for our Explosive Metalworking segment and $1,419 (18.1%) for our AMK Welding segment, which were partially offset by a sales increase in our Oilfield Products segment of $6,378 (12.4%). As a result of an improvement in our consolidated gross margin rate to 29.3% in 2012 from 26.3% in 2011, our year-to-date consolidated gross profit increased by $3,058, or 7.5%, despite the 3.6% drop in our consolidated net sales. This increase in gross profit was offset by a $3,181, or 11.6%, increase in our total operating expenses, resulting in a slight decrease in our consolidated income from operations to $12,936 for the nine months ended September 30, 2012 from $13,059 in the same period of 2011. This $123 decrease reflects increases of $1,380 and $922 in the operating income reported by our Explosive Metalworking and Oilfield Products segments, respectively, which were partially offset by a decrease in AMK Welding s operating income of $1,279 and a net increase in aggregate unallocated corporate expenses and stock-based compensation expense of $1,146. Reported consolidated operating income for the nine month periods ended September 30, 2012 and 2011 includes amortization expense of $4,584 and $4,324, respectively, relating to purchased intangible assets associated with several acquisitions executed between November of 2007 and January of 2012. We reported net income of $8,834 for year-to-date 2012 compared to $8,892 for the same period of 2011.

Impact of Current Economic Situation on the Company

We were only minimally impacted in 2008 by the global economic slowdown. However, during 2009 and 2010, we experienced a significant slowdown in Explosive Metalworking sales to some of the markets we serve. The explosion-welded clad plate market is dependent upon sales of products for use by customers in a number of heavy industries, including oil and gas, chemicals and petrochemicals, aluminum production, power generation, shipbuilding, industrial refrigeration, alternative energy and hydrometallurgy. These industries tend to be cyclical in nature and the current worldwide economic downturn has affected many of these markets. While certain sectors continue to be slow, including alternative energy, hydrometallurgy and power generation, quoting

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activity in other end markets remains healthy, and we continue to track an extensive list of projects. While timing of new order inflow remains difficult to predict, our Explosive Metalworking segment benefited from the modest improvement in 2011 and early 2012 of some of the industries it supplies and we believe that it is well-positioned to further benefit as global economic conditions improve.

As a result of acquisitions made during 2009 and 2010 and strong organic sales growth beginning in the third quarter of 2010, our Oilfield Products segment has grown into a second core business for us, generating 35% of our consolidated net sales in 2011 and 39% of our year-to-date 2012 consolidated net sales as compared to only 13% of our consolidated net sales in 2009.

Our Explosive Metalworking backlog increased from $44,564 at December 31, 2011 to $56,625 at June 30, 2012 and then decreased to $48,360 at September 30, 2012. While third quarter 2012 Explosive Metalworking sales met our expectations, we had anticipated somewhat stronger third quarter bookings than we realized. As a result, we now expect full year 2012 Explosive Metalworking sales to be down by 9% to 10% from the $126,199 in net sales that this segment reported in 2011. We also experienced a slowdown in Oilfield Products sales during the third quarter of 2012, particularly in North America where the near-term outlook remains uncertain. Based upon the September 30, 2012 Explosive Metalworking backlog and lower than previously expected third quarter 2012 and fourth quarter 2012 projected sales for our Oilfield Products business segment, we currently expect that our 2012 consolidated net sales will be 3% to 4% lower than the $208,891 in consolidated net sales that we reported in 2011.

Net sales

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

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

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

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

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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.

Backlog

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

Our backlog with respect to the Explosive Metalworking segment increased to $48,360 at September 30, 2012 from $44,564 at December 31, 2011. Our September 30, 2011 backlog was $47,123.

Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011

Net sales

	Three Months Ended September 30,			
	2012	**2011**	**Change**	**Percentage Change**
Net sales	$ 50,149	$ 54,890	$ (4,741)	(8.6)%

	Nine Months Ended September 30,			
	2012	**2011**	**Change**	**Percentage Change**

Net sales	$	149,048	$	154,630	$	(5,582)	(3.6)%

Net sales for the third quarter of 2012 decreased 8.6% to $50,149 from $54,890 for the third quarter of 2011. Explosive Metalworking sales decreased 10.9% to $29,771 for the three months ended September 30, 2012 (59% of total sales) from $33,396 for the same period of 2011 (61% of total sales). Since our Explosive Metalworking backlog of $56,625 as of June 30, 2012 was slightly higher than the June 30, 2011 backlog of $54,026, the $3,625 decrease in third quarter 2012 sales relates principally to timing differences with respect to when orders enter our backlog and the subsequent shipment of these orders.

Oilfield Products contributed $18,044 to third quarter 2012 sales (36% of total sales), which represents a 4.0% decline from sales of $18,790 for the third quarter of 2011 (34% of total sales).

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After adjusting for incremental sales of $1,007 from the January 3, 2012 acquisition of TRX Industries, third quarter sales decreased by $1,753 or 9.3%. This decrease is principally attributable to a decline in rig count in both the United States and Canada since the end of the second quarter which negatively affected our North American sales.

AMK Welding contributed $2,334 to third quarter 2012 sales (5% of total sales), compared to sales of $2,704 for the third quarter of 2011 (5% of total sales), a sales decrease of $370 or 13.7%. This decrease reflects a $457, or 24.2%, decline in ground power sales that is attributable to a customer s decision to discontinue new production work on a ground turbine platform that has accounted for a major portion of AMK s historical ground power revenues. We believe that AMK can replace this lost revenue stream over time by developing new business opportunities with both existing and new customers in the aircraft engine, ground turbine, and oil and gas industries.

Net sales for the nine months ended September 30, 2012 decreased to $149,048 compared to $154,630 for the same period of 2011. Explosive Metalworking sales decreased 11.1% to $84,680 for the nine months ended September 30, 2012 (57% of total sales) from $95,221 for the same period of 2011 (62% of total sales). Our beginning of the year Explosive Metalworking backlog decreased to $44,564 at the beginning of 2012 from $56,539 at the beginning of 2011. The $10,541 decrease in year-to-date 2012 sales follows this $11,975 decrease in beginning of the year backlogs.

Oilfield Products contributed $57,941 to year-to-date 2012 sales (39% of total sales), which represents a 12.4% increase from sales of $51,563 for year-to-date 2011 (33% of total sales). This sales increase reflects incremental sales of $4,763 from the January 3, 2012 acquisition of TRX Industries and generally strong demand for our perforating products, particularly in the United States during the first six months of 2012, before North American demand weakened in the third quarter as further described above.

AMK Welding contributed $6,427 to year-to-date 2012 sales (4% of total sales), compared to sales of $7,846 for the same period of 2011 (5% of total sales), a sales decrease of $1,419 or 18.1%. This decrease reflects a $1,783, or 30.6%, decline in ground power sales that is attributable to a customer s decision to discontinue new production work on a ground turbine platform as discussed above.

Gross profit

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Change	Percentage Change
Gross profit	$ 15,349	$ 14,832	$ 517	3.5%
Consolidated gross profit margin rate	30.6%	27.0%		

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Change	Percentage Change
Gross profit	$ 43,665	$ 40,607	$ 3,058	7.5%
Consolidated gross profit margin rate	29.3%	26.3%		

Despite the 8.6% decrease in third quarter 2012 sales as discussed above, our third quarter 2012 gross profit increased by 3.5% to $15,349 from $14,832 for the three months ended September 30, 2011. Our third quarter 2012 consolidated gross profit margin rate increased by 13.3% to 30.6% from 27.0% for the third quarter of 2011. For the nine months ended September 30, 2012, gross profit increased by 7.5% to $43,665 from $40,607 for the same period of 2011.

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Our year-to-date consolidated gross profit margin rate increased by 11.4% to 29.3% in 2012 from 26.3% for the nine months ended September 30, 2011.

The gross profit margin for Explosive Metalworking increased from 22.6% in the third quarter of 2011 to 29.7% in the third quarter of 2012, an increase of 31.5%. For the nine-month period, our gross profit margin for this segment increased by 23.2% to 27.2% in 2012 from 22.1% in 2011. The significant improvement in our year-to-date 2012 gross profit margin rate relates to favorable changes in product mix as compared to the first nine months of 2011 combined with an improved pricing environment. As has been the case historically, we expect to see continued fluctuations in Explosive Metalworking s quarterly gross margin rates in the future that result from fluctuations in quarterly sales volume and changes in product mix.

Oilfield Products gross profit margin decreased slightly to 33.0% in the third quarter of 2012 from 34.5% in the third quarter of 2011. Oilfield Products reported a gross profit margin of 33.9% for the nine months ended September 30, 2012 compared to a gross profit margin of 33.4% for the same period of 2011. The decline in the third quarter gross margin rate reflects a combination of unfavorable changes in product/customer mix and a more competitive pricing environment in North America associated with the declining in drilling activity discussed above. The modest increase in Oilfield Products gross margin for the nine-month period of 2012 relates principally to favorable changes in product/customer mix.

The gross profit margin for AMK Welding decreased to 26.5% in the third quarter of 2012 from 31.5% in the third quarter of 2011. The gross profit margin for AMK Welding decreased to 18.9% for the nine-month period of 2012 from 31.9% for the same period of 2011. Since the majority of AMK s manufacturing costs are fixed in nature, the decreases in AMK s third quarter and year-to-date sales had a significant, depressing effect on 2012 gross margin performance.

Based upon the expected contribution to 2012 consolidated net sales by each of our three business segments, we expect our consolidated full year 2012 gross margin to be in a range of 29% to 30%.

General and administrative expenses

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Change	Percentage Change
General and administrative expenses	$ 4,668	$ 4,359	$ 309	7.1%
Percentage of net sales	9.3%	7.9%		

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Change	Percentage Change
General and administrative expenses	$ 13,815	$ 12,227	$ 1,588	13.0%
Percentage of net sales	9.3%	7.9%		

General and administrative expenses increased by $309, or 7.1%, to $4,668 for the three months ended September 30, 2012 from $4,359 for the same period of 2011. This increase includes increases of $178 in salaries and accrued incentive compensation and a net increase of $131 in all other expense categories. As a percentage of net sales, general and administrative expenses increased to 9.3% in the third quarter of 2012 from 7.9% in the third quarter of 2011.

General and administrative expenses increased by $1,588, or 13.0%, to $13,815 for the nine months ended September 30, 2012 from $12,227 for the same period of 2011. This increase includes increases of $921 in salaries and accrued incentive compensation, an increase in outside

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professional service fees of $119, an increase of $215 in stock-based compensation, and a net increase of $333 in all other expense categories. As a percentage of net sales, general and administrative expenses increased to 9.3% for the nine months ended September 30, 2012 from 7.9% in the same period of 2011.

Selling and distribution expenses

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Change	Percentage Change
Selling and distribution expenses	$ 4,011	$ 3,359	$ 652	19.4%
Percentage of net sales	8.0%	6.1%		

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Change	Percentage Change
Selling and distribution expenses	$ 12,330	$ 10,997	$ 1,333	12.1%
Percentage of net sales	8.3%	7.1%		

Our selling and distribution expenses, which include sales commissions of $281 in the third quarter of 2012 and $222 in the third quarter of 2011, increased by 19.4% to $4,011 in the third quarter of 2012 from $3,359 in the third quarter of 2011. The increase in our selling and distribution expenses includes increased selling and distribution expenses of $422 and $230 at our U.S. divisions and foreign divisions, respectively.

The $422 increase in our U.S. selling and distribution expenses reflects an aggregate increase of $148 in salaries, accrued incentive compensation and commission expense and a net increase of $274 in all other expense categories. The $230 increase in our foreign divisions selling and distribution expenses reflects an increase of $80 in salary and commission expense and a net increase of $150 in all other spending categories. As a percentage of net sales, selling and distribution expenses increased to 8.0% in the third quarter of 2012 from 6.1% in the third quarter of 2011.

Our selling and distribution expenses, which include sales commissions of $1,151 and $1,343 for the nine months ended September 30, 2012 and 2011, respectively increased by 12.1% to $12,330 for the first nine months of 2012 from $10,997 in the same period of 2011. The increase in our selling and distribution expenses includes increased selling and distribution expenses of $459 at our U.S. divisions and $874 at our foreign divisions.

The $459 increase in our U.S. selling and distribution expenses reflects a decrease in commission expense of $348 that was offset by an increase in salaries and accrued incentive compensation of $255 and a net increase in all other spending categories of $552. The $874 increase in our foreign divisions selling and distribution expenses reflects increases of $402 in salary expense and $155 in commission expense along with a net increase of $317 in all other spending categories. As a percentage of net sales, selling and distribution expenses increased to 8.3% for the nine months ended September 30, 2012 from 7.1% for the nine months ended September 30, 2011.

Our consolidated selling and distribution expenses for the three months ended September 30, 2012 include $1,736 and $2,078, respectively, for our Explosive Metalworking and Oilfield Products business segments. For the nine months ended September 30, 2012 our consolidated selling and distribution expenses include $4,972 and $6,772, respectively, for our Explosive Metalworking and Oilfield Products business segments. The higher level of selling and distribution expenses for our Oilfield Products segment relative to its contribution to our

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consolidated net sales reflects the need, particularly in North America, to maintain a number of strategically located distribution centers that are in close proximity to areas which contain a large concentration of oilfields and enjoy a high volume of related oil and gas drilling activities.

Amortization expense

	Three Months Ended September 30, 2012	2011	Change	Percentage Change
Amortization of purchased intangible assets	$ 1,520	$ 1,448	$ 72	5.0%
Percentage of net sales	3.0%	2.6%		

	Nine Months Ended September 30, 2012	2011	Change	Percentage Change
Amortization of purchased intangible assets	$ 4,584	$ 4,324	$ 260	6.0%
Percentage of net sales	3.1%	2.8%		

Amortization expense relates to the amortization of values assigned to intangible assets in connection with our prior year acquisitions of DYNAenergetics, LRI, the two Russian joint ventures, Austin Explosives and our January 3, 2012 acquisition of TRX Industries. The $72 increase in third quarter 2012 amortization expenses reflects $224 in new amortization expense associated with the TRX acquisition that was partially offset by favorable foreign currency translation effects. Amortization expense for the three months ended September 30, 2012 includes $1,207, $268, and $45 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively. Amortization expense for the three months ended September 30, 2011 includes $1,094, $303 and $51 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively.

Amortization expense for the nine months ended September 30, 2012 includes $3,623, $823, and $138 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively. Amortization expense for the nine months ended September 30, 2011 includes $3,270, $902 and $152 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively.

Amortization expense (as measured in Euros) associated with the DYNAenergetics acquisition and the acquisition of the two Russian joint ventures is expected to approximate 3,490 and 232, respectively, in 2012. Our 2012 amortization expense associated with the June 2010 Austin Explosives acquisition and the January 2012 acquisition of TRX Industries is expected to approximate $435 and $895, respectively, and our 2012 amortization expense (as measured in Canadian dollars) associated with the LRI acquisition is expected to approximate 80 CAD.

Operating income

	Three Months Ended September 30, 2012	2011	Change	Percentage Change

Operating income	$	5,150	$	5,666	$	(516)	(9.1)%

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	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011		Change	Percentage Change
Operating income	$	12,936	$	13,059	$ (123)	(0.9)%

Income from operations (operating income) decreased by 9.1% to $5,150 in the third quarter of 2012 from $5,666 in the third quarter of 2011. For the nine months ended September 30, 2012, operating income decreased by 0.9% to $12,936 from $13,059 for the same period of 2011.

Explosive Metalworking reported operating income of $5,451 in the third quarter of 2012 compared to $4,599 in the third quarter of 2011. This 18.5% increase is largely attributable to the 31.5% increase in the gross margin rate discussed above. Operating results of Explosive Metalworking for the three months ended September 30, 2012 and 2011 include $500 and $565, respectively, of amortization expense of purchased intangible assets. Explosive Metalworking reported operating income of $13,138 for the nine months ended September 30, 2012 as compared to $11,758 for the nine months ended September 30, 2011. This 11.7% increase is largely attributable to the 23.2% increase in the gross margin rate as discussed above. Operating results of Explosive Metalworking for the nine months ended September 30, 2012 and 2011 include $1,536 and $1,685, respectively, of amortization expense of purchased intangible assets.

Oilfield Products reported operating income of $1,139 in the third quarter of 2012 compared to $1,881 in the third quarter of 2011. The decrease in third quarter operating income reflects a $533 decrease in gross profit, which is attributable to a 4.0% sales decline and a 4.4% decrease in gross margin rate, and a $209, or 4.5%, increase in total operating expenses. For the nine-month period of 2012, Oilfield Products reported operating income of $4,886 compared to $3,964 for the same period of 2011. The increase in year-to-date operating income for our Oilfield Products segment is principally attributable to the sales increase of $6,378, or 12.4%, as discussed above and a corresponding $2,374 increase in gross profit. This gross profit increase was partially offset by an increase of $1,452, or 10.9%, in total operating expenses. Operating results of Oilfield Products for the three months ended September 30, 2012 and 2011 include $1,020 and $883, respectively, of amortization expense of purchased intangible assets. Operating results of Oilfield Products for the nine months ended September 30, 2012 and 2011 include $3,048 and $2,639, respectively, of amortization expense of purchased intangible assets.

AMK Welding reported operating income of $386 in the third quarter of 2012, a decrease of $186 from the $572 of operating income that it reported in the third quarter of 2011. AMK Welding reported operating income of $463 for the nine months ended September 30, 2012 compared to $1,742 for the same period of 2011. The decline in AMK s operating income for the three and nine months ended September 30, 2012 is principally attributable to the $370 and $1,419 sales decline and resultant decrease in gross profit as discussed above.

Our consolidated operating income for the three months ended September 30, 2012 and 2011 includes $923 and $514, respectively, of unallocated corporate expenses and $903 and $872, respectively, of stock-based compensation expense. For the nine months ended September 30, 2012 and 2011, consolidated operating income includes $2,713 and $1,870, respectively, of unallocated corporate expenses and $2,838 and $2,535, respectively, of stock-based compensation expense. These expenses are not allocated to our business segments and thus are not included in the above third quarter and year-to-date operating income totals for our Explosive Metalworking, Oilfield Products, and AMK Welding business segments.

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Other income (expense), net

Three Months Ended