

DYNAMIC MATERIALS CORP  
Form 10-Q  
May 01, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2009

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

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**DYNAMIC MATERIALS CORPORATION**

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(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 12,851,377 as of April 30, 2009.

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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: 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; 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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(Dollars in Thousands)

	March 31, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,278	\$ 14,360
Accounts receivable, net of allowance for doubtful accounts of \$493 and \$614, respectively	36,545	34,719
Inventories	36,497	35,300
Prepaid expenses and other	2,289	2,956
Related party receivable and loan	2,370	2,611
Current deferred tax assets	1,012	1,103
Total current assets	94,991	91,049
PROPERTY, PLANT AND EQUIPMENT	58,194	58,454
Less - Accumulated depreciation	(18,938)	(17,997)
Property, plant and equipment, net	39,256	40,457
GOODWILL, net	40,176	43,066
PURCHASED INTANGIBLE ASSETS, net	47,773	52,264
DEFERRED TAX ASSETS	535	331
OTHER ASSETS, net	1,372	1,449
INVESTMENT IN JOINT VENTURES	744	970
TOTAL ASSETS	\$ 224,847	\$ 229,586

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, 2009 (unaudited)	December 31, 2008
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 16,863	\$ 15,402
Accrued expenses	4,884	6,605
Accrued income taxes	2,026	846
Accrued employee compensation and benefits	3,866	5,579
Customer advances	1,620	2,685
Related party accounts payable	21	17
Lines of credit - current	1,429	
Current maturities on long-term debt	10,316	14,450
Current portion of capital lease obligations	81	163
Total current liabilities	41,106	45,747
LINES OF CREDIT	2,800	
LONG-TERM DEBT	44,935	46,178
CAPITAL LEASE OBLIGATIONS	315	336
DEFERRED TAX LIABILITIES	15,292	16,833
OTHER LONG-TERM LIABILITIES - RELATED PARTY	318	303
OTHER LONG-TERM LIABILITIES	1,452	1,687
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>		
Total liabilities	106,218	111,084
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.05 par value; 4,000,000 shares authorized; no issued and outstanding shares		
Common stock, \$.05 par value; 25,000,000 shares authorized; 12,851,377 and 12,780,877 shares issued and outstanding, respectively	643	639
Additional paid-in capital	43,137	42,050
Retained earnings	82,958	78,042
Other cumulative comprehensive income (loss)	(8,109)	(2,229)
Total stockholders' equity	118,629	118,502
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 224,847</b>	<b>\$ 229,586</b>

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





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DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(Dollars in Thousands, Except Share Data)

(unaudited)

	Three months ended March 31,	
	2009	2008
NET SALES	\$ 49,759	\$ 58,393
COST OF PRODUCTS SOLD	34,431	40,682
Gross profit	15,328	17,711
COSTS AND EXPENSES:		
General and administrative expenses	3,526	3,119
Selling expenses	2,324	2,841
Amortization expense of purchased intangible assets	1,183	2,361
Total costs and expenses	7,033	8,321
INCOME FROM OPERATIONS	8,295	9,390
OTHER INCOME (EXPENSE):		
Other expense	(117)	(149)
Interest expense	(902)	(1,279)
Interest income	65	239
Equity in earnings (losses) of joint ventures	(49)	16
INCOME BEFORE INCOME TAXES	7,292	8,217
INCOME TAX PROVISION	2,376	2,972
NET INCOME	\$ 4,916	\$ 5,245
INCOME PER SHARE:		
Basic	\$ 0.38	\$ 0.42
Diluted	\$ 0.38	\$ 0.41
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING -		
Basic	12,527,452	12,377,019
Diluted	12,569,879	12,521,736

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



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DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE THREE MONTHS ENDED MARCH 31, 2009

(Amounts in Thousands)

(unaudited)

	Common Stock		Additional	Retained	Other	Total	Comprehensive
	Shares	Amount	Paid-In	Earnings	Cumulative		Loss
			Capital		Loss		for the Period
Balances, December 31, 2008	12,781	\$ 639	\$ 42,050	\$ 78,042	\$ (2,229)	\$ 118,502	
Shares issued for stock option exercises	70	4	232			236	
Excess tax benefit related to stock options			57			57	
Stock-based compensation			798			798	
Net income				4,916		4,916	4,916
Derivative valuation adjustment, net of tax of \$22					38	38	38
Change in cumulative foreign currency translation adjustment					(5,918)	(5,918)	(5,918)
Balances, March 31, 2009	12,851	\$ 643	\$ 43,137	\$ 82,958	\$ (8,109)	\$ 118,629	\$ (964)

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(Dollars in Thousands)

(unaudited)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 4,916	\$ 5,245
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation (including capital lease amortization)	1,267	1,113
Amortization of purchased intangible assets	1,183	2,361
Amortization of capitalized debt issuance costs	69	60
Stock-based compensation	798	664
Deferred income tax benefit	(605)	(1,174)
Equity in (earnings) losses of joint ventures	49	(16)
Change in -		
Restricted cash		377
Accounts receivable, net	(2,702)	5,968
Inventories	(2,721)	(670)
Prepaid expenses and other	460	(580)
Accounts payable	2,388	(3,837)
Customer advances	(961)	(2,144)
Accrued expenses and other liabilities	(904)	(118)
Net cash provided by operating activities	3,237	7,249
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	(1,170)	(2,361)
Change in other non-current assets	8	15
Net cash used in investing activities	(1,162)	(2,346)

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(Dollars in Thousands)

	2009	2008
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment on syndicated term loans	(3,862)	
Payment on Nord LB term loans	(233)	(265)
Borrowings on bank lines of credit, net	4,215	3,665
Payment of capital lease obligations	(71)	(105)
Payment of deferred debt issuance costs	(19)	(125)
Change in other long-tem liabilities		16
Net proceeds from issuance of common stock to employees and directors	236	93
Excess tax benefit related to exercise of stock options	57	
<b>Net cash provided by financing activities</b>	<b>323</b>	<b>3,279</b>
<b>EFFECTS OF EXCHANGE RATES ON CASH</b>	<b>(480)</b>	<b>383</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,918</b>	<b>8,565</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the period</b>	<b>14,360</b>	<b>9,045</b>
<b>CASH AND CASH EQUIVALENTS, end of the period</b>	<b>\$ 16,278</b>	<b>\$ 17,610</b>

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

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**DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Dollars 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, 2008. Certain prior year balances in the consolidated financial statements and notes have been reclassified to conform to the 2009 presentation.

**2. SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation

**The 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 entities 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 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.

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Revenue Recognition

Sales of clad metal products and welding services are generally based upon customer specifications set forth in customer purchase orders and require the Company 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

In September 2006, the Financial Accounting Standards Boards ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS 157 ). Although this statement does not require any new fair value measurements, in certain cases its application has changed previous practice in determining fair value. SFAS 157 became effective for the Company beginning January 1, 2008 as it relates to fair value measurements of financial assets and liabilities and non-financial assets and liabilities that are recognized at fair value in its financial statements on a recurring basis (at least annually).

On January 1, 2009, the Company adopted the deferred provisions of SFAS 157 as defined by FASB Staff Position ( FSP ) No. 157-2, *Effective Date of FASB Statement No. 157*, ( FSP No. 157-2 ). FSP No. 157-2 deferred the adoption date for certain non-financial assets and liabilities that are recognized or disclosed at fair value on a non-recurring basis. The adoption in 2009 of SFAS 157 for certain non-financial assets and liabilities did not have any impact on the Company's results of operations or financial position.

SFAS 157 defines fair value 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. It establishes a 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.

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SFAS 157 assigns the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

As discussed in Note 6, the Company uses an interest rate swap agreement to mitigate interest rate risk on portions of its variable rate term loan debt. The 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 does require some management judgment but as of March 31, 2009 and December 31, 2008, 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.

Related Party Transactions

The Company has related party transactions with its unconsolidated joint ventures, as well as with the minority shareholder of one of its consolidated joint ventures. A summary of related party balances as of March 31, 2009 and December 31, 2008 is summarized below:

	As of March 31, 2009			As of December 31, 2008		
	Accounts receivable from and loan to	Accounts payable to and loan from	Other long-term loan from	Accounts receivable from and loan to	Accounts payable to and loan from	Other long-term loan from
Perfoline	\$ 461	\$ 16	\$	\$ 449	\$ 17	\$
DYNAenergetics RUS	1,419			1,582		
Minority Interest Partner	490	5	318	580		303
Total	\$ 2,370	\$ 21	\$ 318	\$ 2,611	\$ 17	\$ 303

A summary of those transactions for the three months ended March 31, 2009 and 2008 is summarized below:

	3 months ended March 31, 2009			3 months ended March 31, 2008		
	Sales to	Interest income from		Sales to	Interest income from	
Perfoline	\$ 40	\$ 10	\$	\$ 33	\$ 13	\$
DYNAenergetics RUS	42					
Minority Interest Partner	298			524		
Total	\$ 380	\$ 10	\$	\$ 557	\$ 13	\$

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In 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, and it became effective for the Company beginning January 1, 2009. Under this standard, 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). Under the two-class method required by EITF 03-6-1, 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. This FSP requires retrospective applications for periods prior to the effective date and as a result, all prior period earnings per share data presented herein have been adjusted to conform to these provisions. The Company's adoption of this FSP resulted in a \$.01 per share reduction to the previously reported basic EPS and diluted EPS for the three months ended March 31, 2008.

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

	For the Three Months Ended March 31, 2009			For the Three Months Ended March 31, 2008		
	Income	Shares	EPS	Income	Shares	EPS
Basic earnings per share:						
Net income	\$ 4,916			\$ 5,245		
Less income allocated to RSAs	103			89		
Net income allocated to common stock for EPS calculation						
	\$ 4,813	12,527,452	\$ 0.38	\$ 5,156	12,377,019	\$ 0.42
Adjust shares for Dilutives:						
Stock-based compensation plans		42,427			144,717	
Diluted earnings per share:						
Net income	\$ 4,916			\$ 5,245		
Less income allocated to RSAs	103			88		
Net income allocated to common stock for EPS calculation						
	\$ 4,813	12,569,879	\$ 0.38	\$ 5,157	12,521,736	\$ 0.41

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements*, an amendment of ARB No. 51. These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS Nos. 141(R) and 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. The adoption of these standards in 2009 did not have any impact on the Company's results of operations or financial position.

**In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS 161 requires additional disclosures related to the use of derivative instruments, the accounting for derivatives and how derivatives impact financial statements. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The**

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**adoption of SFAS No. 161 in the first quarter of 2009 did not have any impact on the Company's results of operations or financial position.**

### 3. 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 minority 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 \$744 and \$970 as of March 31, 2009 and December 31, 2008, respectively.

Summarized unaudited financial information for the joint ventures accounted for under the equity method as of March 31, 2009 and December 31, 2008 and for the three months ended March 31, 2009 and 2008 is as follows:

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Current assets	\$ 3,756	\$ 4,667
Noncurrent assets	622	714
Total assets	\$ 4,378	\$ 5,381
Current liabilities	\$ 1,730	\$ 2,064
Noncurrent liabilities	748	830
Equity	1,900	2,487
Total liabilities and equity	\$ 4,378	\$ 5,381

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Net sales	\$ 1,106	\$ 2,203
Operating income	\$ 79	\$ 171
Net loss	\$ (90)	\$ (14)
Equity in earnings (losses) of joint ventures	\$ (49)	\$ 16

Table of Contents**4. INVENTORY**

The components of inventory are as follows at March 31, 2009 and December 31, 2008:

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Raw materials	\$ 12,862	\$ 11,610
Work-in-process	18,536	18,950
Finished goods	4,372	3,903
Supplies	727	837
	<b>\$ 36,497</b>	<b>\$ 35,300</b>

**5. PURCHASED INTANGIBLE ASSETS**

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

	<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Core technology	\$ 22,108	\$ (1,520)	\$ 20,588
Customer relationships	29,830	(4,558)	25,272
Trademarks / Trade names	2,408	(495)	1,913
Total intangible assets	<b>\$ 54,346</b>	<b>\$ (6,573)</b>	<b>\$ 47,773</b>

The following table presents details of our purchased intangible assets, other than goodwill, as of December 31, 2008:

	<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Core technology	\$ 23,596	\$ (1,327)	\$ 22,269
Customer relationships	31,837	(3,980)	27,857
Trademarks / Trade names	2,570	(432)	2,138
Total intangible assets	<b>\$ 58,003</b>	<b>\$ (5,739)</b>	<b>\$ 52,264</b>

The decrease in the gross value of our purchased intangible assets from December 31, 2008 to March 31, 2009 is due to the impact of foreign currency translation. The decrease in goodwill from \$43,066 at December 31, 2008 to \$40,176 at March 31, 2009 is also due to the impact of foreign currency translation.



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Lines of credit consist of the following at March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Syndicated credit agreement revolving loan	\$ 2,800	\$
Commerzbank line of credit	428	
Nord LB line of credit	1,001	
	4,229	
Less current portion	(1,429)	
Long-term lines of credit	\$ 2,800	\$

Long-term debt consists of the following at March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Syndicated credit agreement term loan	\$ 37,756	\$ 40,500
Syndicated credit agreement Euro term loan	15,514	17,763
Nord LB 3,000 Euro term loan	1,981	2,326
Nord LB 500 Euro term loan		39
	55,251	60,628
Less current maturities	(10,316)	(14,450)
Long-term debt	\$ 44,935	\$ 46,178

Loan Covenants and Restrictions

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, 2009, 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 that effectively converted the LIBOR based variable rate US borrowings under the \$45,000 term loan to a fixed rate of 4.87% (4.62% effective April 1, 2009 due to an improvement in the Company's leverage ratio). The Company has designated the swap agreement as an effective cash flow hedge with matched terms in accordance



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with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and as a result, changes in the fair value of the swap agreement are recorded in other comprehensive income with the offset as a swap agreement asset or liability.

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

Interest rate swap liability	March 31, 2009		December 31, 2008	
	Balance sheet location	Fair value	Balance sheet location	Fair value
Current portion	Accrued expenses	\$ 874	Accrued expenses	\$ 759
Long-term portion	Other long-term liabilities	472	Other long-term liabilities	647
		\$ 1,346		\$ 1,406

## 7. 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 products of this group are clad metal plates which are used by customers in the fabrication of pressure vessels, heat exchangers and other equipment for various industries, including upstream oil and gas, oil refinery, petrochemicals, alternative energy, hydrometallurgy, power generation, industrial refrigeration, and similar industries and internally to produce transition joints for use in the aluminum production and shipbuilding 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.

Segment information is presented for the three months ended March 31, 2009 and 2008 as follows:

	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 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



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	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the three months ended March 31, 2008:				
Net sales	\$ 51,644	\$ 4,450	\$ 2,299	\$ 58,393
Depreciation and amortization	\$ 2,384	\$ 982	\$ 108	\$ 3,474
Income from operations	\$ 9,982	\$ (565)	\$ 637	\$ 10,054
Equity in earnings of joint ventures	\$	\$ 16	\$	\$ 16
Unallocated amounts:				
Stock-based compensation				(664)
Other expense				(149)
Interest expense				(1,279)
Interest income				239
Consolidated income before income taxes			\$	8,217

During the three months ended March 31, 2009, no sales to any one customer accounted for more than 10% of total net sales. During the three months ended March 31, 2008, sales to one customer represented \$5,974 (10.2%) of total net sales.

## 8. COMPREHENSIVE INCOME

The Company's comprehensive income for the three months ended March 31, 2009 and 2008 was as follows:

	Three Months Ended March 31,	
	2009	2008
Net income for the period	\$4,916	\$5,245
Interest rate swap valuation adjustment, net of tax	38	(285)
Foreign currency translation adjustment	(5,918)	7,260
Comprehensive income (loss)	\$(964)	\$12,220

Accumulated other cumulative comprehensive (loss) as of March 31, 2009 and December 31, 2008 consisted of the following:

	March 31, 2009	December 31, 2008
Currency translation adjustment	\$ (7,261)	\$ (1,343)
Interest rate swap valuation adjustment, net of tax of \$498 and \$520, respectively	(848)	(886)
	\$ (8,109)	\$ (2,229)



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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 the Company's Annual Report filed on Form 10-K for the year ended December 31, 2008.

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

**Executive Overview**

Our business is organized into three segments: Explosive Metalworking, Oilfield Products, and AMK Welding. For the three months ended March 31, 2009, Explosive Metalworking accounted for 87% of our net sales and 104% of our income from continuing 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 8% and 5%, respectively, of our first quarter 2009 net sales.

Our net sales for the three months ended March 31, 2009 decreased by \$8,634 (14.8%) compared to the first three months of 2008, reflecting year-to-year net sales decreases of \$8,172 (15.8%), \$416 (9.3%), and \$46 (2.0%) for our Explosive Metalworking, Oilfield Products, and AMK Welding segments, respectively. The sales decrease of approximately \$8.6 million includes a sales volume decrease of approximately \$5.0 million and an unfavorable foreign exchange translation adjustment of approximately \$3.6 million on our European sales relating to the increased value of the U.S. dollar against the Euro. Income from operations decreased by 11.7% to \$8,295 in the first three months of 2009 from \$9,390 in the first three months of 2008, reflecting declines in Explosive Metalworking's, Oilfield Products', and AMK Welding's operating income of \$570, \$129, and \$262, respectively, and a \$134 increase in stock-based compensation expense. Our net income decreased by 6.3% to \$4,916 for the three months ended March 31, 2009 from \$5,245 in the same period of 2008.

*Impact of Current Economic Situation on the Company*

The Company was only minimally impacted in 2008 by the global economic slow down. During the Fourth Quarter of 2008, our sales decreased slightly from historic levels. As a result of the decline in our Explosive Metalworking backlog from \$97,247 at December 31, 2008 to \$74,174 at March 31, 2009, we now expect our net consolidated sales in 2009 to decrease approximately 17% to 23% (previous guidance was for a decrease of 12% to 20%) from the amount we achieved in 2008. In light of the slow down in order inflow that we are experiencing, we have deferred some of our previous planned capital expenditures and are continuing to carefully manage expenses. We generated cash flow from operations of \$3,237 during the first quarter of 2009 and expect to generate positive cash flow from operations during the remaining three quarters of 2009. As of March 31, 2009, we had over \$16,000 in cash and cash equivalents as well as approximately \$38,000 of borrowing capacity available under our existing credit facilities.

*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

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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 products on time, and competing aggressively on the basis of price.

*Gross profit and cost of products sold*

Cost of products sold for Explosive Metalworking include 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 include 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.

*Income taxes*



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Our effective income tax rate decreased to 32.6% for the first three months of 2009 from 36.2% for the same period of 2008. Income tax provisions on the earnings of Nobelclad, Nitro Metall, DYNAenergetics and our German and Luxembourg holding companies have been provided based upon the respective French, Swedish, German and Luxembourg statutory tax rates. Going forward, based upon existing tax regulations and current federal, state and foreign statutory tax rates, we expect our full year 2009 effective tax rate on our projected consolidated pre-tax income to range between 30% and 32%.

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*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 decreased to \$74,174 at March 31, 2009 from \$97,247 at December 31, 2007. As a result of this significant decline in backlog that reflects a slow down in new order inflow during the first quarter of 2009, we are now forecasting that our consolidated net sales for fiscal 2009 will decline between 17% and 23% from those reported in fiscal 2008. This anticipated sales decline is attributable to uncertainty associated with current global economic conditions, the slow down we have already seen in the chemical, petrochemical, and hydrometallurgy sectors, and the difficulty in predicting the timing of large orders that we continue to quote.

**Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008**

*Net sales*

**Three Months Ended  
March 31,**

**Percentage**