

DYNAMIC MATERIALS CORP  
Form 10-Q  
May 02, 2008

**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, 2008

OR

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES  
ACT OF 1934 FOR THE TRANSITION PERIOD  
FROM     TO     .**

Commission file number 0-8328

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**DYNAMIC MATERIALS CORPORATION**

(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

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(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 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a 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 12,602,768 as of April 30, 2008.

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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- Financial Statements, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations and 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 and 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 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; 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 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.

INDEX

PART I - FINANCIAL INFORMATION

<u>Item 1 - Condensed Consolidated Financial Statements</u>	4
<u>Consolidated Balance Sheets as of March 31, 2008 (unaudited) and December 31, 2007</u>	4
<u>Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007 (unaudited)</u>	6
<u>Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2008 (unaudited)</u>	7
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2008 and 2007 (unaudited)</u>	8
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	10
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3 - Quantitative and Qualitative Disclosures about Market Risk</u>	32
<u>Item 4 - Controls and Procedures</u>	32

PART II - OTHER INFORMATION

<u>Item 1 - Legal Proceedings</u>	34
<u>Item 1A - Risk Factors</u>	34
<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 3 - Defaults Upon Senior Securities</u>	34
<u>Item 4 - Submission of Matters to a Vote of Security Holders</u>	34
<u>Item 5 - Other Information</u>	34
<u>Item 6 - Exhibits</u>	34
<u>Signatures</u>	36

## Part I - FINANCIAL INFORMATION

## ITEM 1. Condensed Consolidated Financial Statements

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	March 31, 2008 (unaudited)	December 31, 2007
<u>ASSETS</u>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 17,610	\$ 9,045
Restricted cash		371
Accounts receivable, net of allowance for doubtful accounts of \$493 and \$534, respectively	35,341	39,833
Inventories	44,293	41,628
Prepaid expenses and other	2,371	2,022
Related party receivable and loan	1,245	1,103
Current deferred tax assets	899	728
Total current assets	101,759	94,730
PROPERTY, PLANT AND EQUIPMENT	53,287	49,590
Less - Accumulated depreciation	(15,552)	(14,144)
Property, plant and equipment, net	37,735	35,446
GOODWILL, net	49,620	45,862
PURCHASED INTANGIBLE ASSETS, net	63,925	61,914
DEFERRED TAX ASSETS	84	42
OTHER ASSETS, net	1,618	1,544
INVESTMENT IN JOINT VENTURES	1,474	1,361
<b>TOTAL ASSETS</b>	<b>\$ 256,215</b>	<b>\$ 240,899</b>

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



DYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)

	March 31, 2008 (unaudited)	December 31, 2007
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 19,703	\$ 22,590
Accrued expenses	8,971	8,566
Accrued income taxes	3,286	1,212
Accrued employee compensation and benefits	3,863	5,521
Customer advances	2,563	4,593
Related party accounts payable and loans	351	325
Lines of credit - current	7,265	7,587
Current maturities on long-term debt	8,293	8,035
Current portion of capital lease obligations	417	389
Total current liabilities	54,712	58,818
LINES OF CREDIT	4,741	
LONG-TERM DEBT	62,778	61,530
CAPITAL LEASE OBLIGATIONS	448	521
DEFERRED TAX LIABILITIES	21,046	20,604
OTHER LONG-TERM LIABILITIES	1,234	1,147
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>		
Total liabilities	144,959	142,620
<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; 12,602,768 and 12,433,768 shares issued and outstanding, respectively	630	622
Additional paid-in capital	38,995	38,246
Retained earnings	61,113	55,868
Other cumulative comprehensive income	10,518	3,543
Total stockholders equity	111,256	98,279
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 256,215</b>	<b>\$ 240,899</b>

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





DYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED STATEMENTS OF OPERATIONSFOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007(Dollars in Thousands, Except Share Data)(unaudited)

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
NET SALES	\$ 58,393	\$ 33,094
COST OF PRODUCTS SOLD	40,682	22,243
Gross profit	17,711	10,851
<b>COSTS AND EXPENSES:</b>		
General and administrative expenses	3,119	1,662
Selling expenses	2,841	1,647
Amortization expense of purchased intangible assets	2,361	
Total costs and expenses	8,321	3,309
INCOME FROM OPERATIONS	9,390	7,542
<b>OTHER INCOME (EXPENSE):</b>		
Other expense	(149)	(7)
Interest expense	(1,279)	
Interest income	239	188
Equity in earnings of joint ventures	16	
INCOME BEFORE INCOME TAXES	8,217	7,723
INCOME TAX PROVISION	2,972	2,841
NET INCOME	\$ 5,245	\$ 4,882
<b>INCOME PER SHARE:</b>		
Basic	\$ 0.42	\$ 0.41
Diluted	\$ 0.42	\$ 0.40
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:</b>		
Basic	12,377,019	12,009,577
Diluted	12,557,068	12,222,601

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY  
FOR THE THREE MONTHS ENDED MARCH 31, 2008

(Amounts in Thousands)

(unaudited)

	Common Stock		Additional	Retained	Other	Total	Comprehensive
	Shares	Amount	Paid-In	Earnings	Cumulative		Income
			Capital		Comprehensive		for the Period
					Income		
Balances, December 31, 2007	12,434	\$ 622	\$ 38,246	\$ 55,868	\$ 3,543	\$ 98,279	
Shares issued for stock option exercises	25	1	92			93	
Restricted stock awards	144	7	(7)				
Stock-based compensation			664			664	
Net income				5,245		5,245	5,245
Derivative valuation, net of tax of \$174					(285)	(285)	(285)
Change in cumulative foreign currency translation adjustment					7,260	7,260	7,260
Balances, March 31, 2008	12,603	\$ 630	\$ 38,995	\$ 61,113	\$ 10,518	\$ 111,256	\$ 12,220

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007(Dollars in Thousands)(unaudited)

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 5,245	\$ 4,882
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation (including capital lease amortization)	1,113	395
Amortization of purchased intangible assets	2,361	
Amortization of capitalized debt issuance costs	60	
Stock-based compensation	664	224
Deferred income tax benefit	(1,174)	(46)
Equity in earnings of joint ventures	(16)	
Change in -		
Restricted cash	377	3,059
Accounts receivable, net	5,968	553
Inventories	(670)	(2,487)
Prepaid expenses and other	(580)	6
Accounts payable	(3,837)	(2,011)
Customer advances	(2,144)	46
Accrued expenses and other liabilities	(118)	212
Net cash provided by operating activities	7,249	4,833
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	(2,361)	(3,257)
Change in other non-current assets	15	
Net cash used in investing activities	(2,346)	(3,257)

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

(Dollars in Thousands)

(unaudited)

	2008	2007
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment on Nord LB term loans	(265)	
Borrowings on bank lines of credit, net	3,665	
Payment of capital lease obligations	(105)	
Payment of deferred debt issuance costs	(125)	
Change in other long-tem liabilities	16	5
Net proceeds from issuance of common stock to employees and directors	93	278
Net cash provided by financing activities	3,279	283
<b>EFFECTS OF EXCHANGE RATES ON CASH</b>	383	34
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	8,565	1,893
CASH AND CASH EQUIVALENTS, beginning of the period	9,045	17,886
CASH AND CASH EQUIVALENTS, end of the period	\$ 17,610	\$ 19,779

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

**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, 2007.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

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

**Foreign Operations and Foreign Exchange Rate Risk**

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

**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 potential loss, the Company will account for such anticipated loss.

**Related Party Transactions**

The Company has related party transactions with its unconsolidated joint ventures, as well as with the minority partner of its consolidated joint venture. A summary of those transactions and balances as of March 31, 2008 and for the three months ended March 31, 2008 is presented below:

	Perfoline	DYNAenergetics RUS	KazDYNAenergetics	Minority Interest Partner	Total
Sales to	33		235	524	792
Interest income from	13				13
Accounts receivable and loan to	559	1	316	369	1,245
Accounts payable and loan from	112			239	351

A summary of related party balances as of December 31, 2007 is presented below:

	Perfoline	DYNAenergetics RUS	KazDYNAenergetics	Minority Interest Partner	Total
Accounts receivable and loan to	523	449	131		1,103
Accounts payable and loan from	120			205	325

**Earnings Per Share**

Basic earnings per share ( EPS ) is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted EPS recognizes the potential dilutive effects of dilutive securities. The following represents a reconciliation of the numerator and denominator used in the calculation of basic and diluted EPS:

	For the three months ended March 31, 2008		
	Income	Shares	Per share Amount
Basic earnings per share:			
Net income	\$ 5,245	12,377,019	\$ 0.42
Dilutive effect of options to purchase common stock		144,717	
Dilutive effect of restricted stock awards		35,332	
Diluted earnings per share:			
Net income	\$ 5,245	12,557,068	\$ 0.42

	For the three months ended March 31, 2007		
	Income	Shares	Per share Amount
Basic earnings per share:			
Net income	\$ 4,882	12,009,577	\$ 0.41
Dilutive effect of options to purchase common stock		209,141	
Dilutive effect of restricted stock awards		3,883	
Diluted earnings per share:			
Net income	\$ 4,882	12,222,601	\$ 0.40

**Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS No. 157 was initially effective for financial statements issued for fiscal years beginning after November 15, 2007. The FASB issued a staff position statement ( FSP ) in February 2008 that deferred the required interpretation date of SFAS 157 for certain assets and liabilities. The adoption of SFAS 157 in the three months ended March 31, 2008 did not have a material impact on the Company's results of operations or financial position.



**In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. This Statement permits entities to measure many financial instruments and certain other items at fair value. This election is made on an instrument-by-instrument basis and is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective for fiscal years beginning after November 15, 2007. The Company did not elect the fair value option for any of its existing financial assets and liabilities during the three months ended March 31, 2008.**

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. Thus, we are required to adopt these Standards on January 1, 2009. Earlier adoption is prohibited. The Company is in the process of determining the effect, if any, the adoption SFAS Nos. 141(R) and 160 will have on its 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. We are currently evaluating the impact of adopting SFAS No. 161 on our consolidated financial statements.

### 3. ACQUISITION

On November 15, 2007, the Company and a newly-formed subsidiary, DYNAenergetics Holding GmbH (the Purchaser), entered into a Purchase, Sale and Assignment Agreement (the Purchase Agreement) with Rolf Rospek, Patrick Xylander, Uwe Gessel, and Oag Beteiligungs-GmbH, a German limited liability company (collectively the Sellers). Pursuant to the terms of the Purchase Agreement, on November 15, 2007 the Purchaser acquired 100% of the issued and outstanding shares of DYNAenergetics Beteiligungs-GmbH and all of the interests in DYNAenergetics GmbH and Co. KG (collectively, DYNAenergetics) from the Sellers.

DYNAenergetics manufactures clad metal plates and various explosives-related oilfield products and operates under two business segments: Explosive Metalworking and Oilfield Products. The acquisition enhances the Company's ability to address growing worldwide demand for clad metal plates and expands the Company's position in the global explosion welding market. The addition of the Oilfield Products business segment will augment the Company's involvement in specialized explosive manufacturing processes and position the Company within the growing international oil and gas services industry.

As part of the Oilfield Products business segment, the Company has several joint ventures, most of which are unconsolidated and accounted for under the equity method (see Note 4).

The acquisition was valued at \$112,587 and was financed by (i) the payment of \$81,667 in cash, net of cash acquired of \$1,870 and transaction related taxes of \$3,708 (2,530 Euros) due from one of the sellers and withheld by the Purchaser, (ii) the issuance of 251,041 shares of common stock of the Company (valued at \$13,509), and (iii) the assumption of approximately \$11,833



(8,074 Euros) of DYNAenergetics debt. The cash portion of the purchase price was financed using proceeds from the new syndicated credit agreement and existing available cash.

The purchase price of the acquisition was allocated to the Company's tangible and identifiable intangible assets based on their estimated fair values as set forth below. Property, plant and equipment were recorded at fair values based on appraisals performed as of the acquisition date. The preliminary allocation to identifiable intangible assets was based on preliminary valuation data and the estimates and assumptions are subject to change. The excess of the purchase price over the tangible and identifiable intangible assets was recorded as goodwill. The Company is still in the process of analyzing other potential purchase accounting adjustments including compiling remaining acquisition related expenses.

The preliminary allocation of the purchase price to the assets and liabilities of DYNAenergetics is as follows:

Current assets	\$	30,222
Property, plant and equipment		7,845
Intangible assets		62,794
Goodwill		45,871
Investment in joint ventures		1,324
Other assets		11
Total assets acquired		148,067
Current liabilities		14,524
Long term debt		11,833
Deferred tax liabilities		19,850
Other long term liabilities		1,096
Minority interest		10
Total liabilities acquired		47,313
Net assets acquired	\$	100,754

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

	Value	Weighted Average Amortization Period
Core technology	\$ 24,531	20 years
Customer relationships	33,099	9 years
Trademarks / Trade names	2,672	9 years
Order backlog DYNAlat	2,492	Within 1 year
Total intangible assets	\$ 62,794	

The Company acquired Goodwill in the amount of \$45,871 as a result of the acquisition of DYNAenergetics. The amount of goodwill assigned to each reportable segment is as follows:

	<b>Value</b>
Explosive Metalworking	\$ 25,196
Oilfield Products	20,675
Total goodwill	\$ 45,871

Goodwill as of March 31, 2008 amounts to \$49,620 and the change from December 31, 2007 primarily reflects the impact of foreign currency translation.

The following table presents the unaudited, pro-forma combined results of operations for the three months ended March 31, 2007 assuming (i) the acquisition had occurred on January 1, 2007; (ii) pro-forma amortization expense of the purchased intangible assets and (iii) pro-forma interest expense assuming the Company utilized its syndicated credit agreement to finance the acquisition:

	<b>2007</b>
Net sales	\$ 46,064
Income from operations	\$ 7,050
Net income	\$ 3,690
Net income per share:	
Basic	\$ 0.30
Diluted	\$ 0.30

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

#### **4. INVESTMENT IN JOINT VENTURES**

Operating results include the Company's proportionate share of income from joint ventures, which consist of unconsolidated joint ventures 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) 53.5% interest in Perfoline, which is a Russian manufacturer of perforating gun systems; (2) 55% interest in DYNAenergetics RUS which is a Russian trading company that sells the Company's oilfield products and (3) 60% interest in KazDYNAenergetics which is a Kazakhstan trading company that sells the Company's oilfield products. Due to certain minority interest veto rights that effectively require the minority interest shareholders to participate in ordinary course of business decisions, these joint ventures have been accounted for under the equity method instead of being consolidated in these financial statements. Investments in these joint ventures totaled \$1,474 and \$1,361 as of March 31, 2008 and December 31, 2007, respectively.

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Summarized unaudited financial information for the joint ventures accounted for under the equity method as of March 31, 2008 and December 31, 2007 and for the three months ended March 31, 2008 is as follows:

	March 31, 2008	December 31, 2007
Current assets	\$ 4,191	\$ 4,148
Noncurrent assets	713	666
Total assets	\$ 4,904	\$ 4,814
Current liabilities	\$ 946	\$ 1,400
Noncurrent liabilities	1,447	1,048
Equity	2,511	2,366
Total liabilities and equity	\$ 4,904	\$ 4,814
Net sales	\$ 2,203	
Gross profit	\$ 413	
Operating income	\$ 171	
Net loss	\$ (14)	
Equity in earnings of joint ventures	\$ 16	

**5. INVENTORY**

The components of inventory are as follows at March 31, 2008 and December 31, 2007:

	March 31, 2008 (unaudited)	December 31, 2007
Raw materials	\$ 13,545	\$ 13,744
Work-in-process	25,536	23,699
Finished goods	4,614	3,564
Supplies	598	621
	\$ 44,293	\$ 41,628

**6. PURCHASED INTANGIBLE ASSETS**

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

	Gross	Accumulated Amortization	Net
Core technology	\$ 26,446	\$ (496)	\$ 25,950
Customer relationships	35,683	(1,487)	34,196
Trademarks / Trade names	2,880	(162)	2,718
Order backlog DYNAPlat	2,686	(1,625)	1,061
Total intangible assets	\$ 67,695	\$ (3,770)	\$ 63,925



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The following table presents details of our purchased intangible assets, other than goodwill, as of December 31, 2007:

	Gross	Accumulated Amortization	Net
Core technology	\$ 24,653	\$ (154)	\$ 24,499
Customer relationships	33,263	(461)	32,802
Trademarks / Trade names	2,685	(50)	2,635
Order backlog DYNAplat	2,504	(526)	1,978
Total intangible assets	\$ 63,105	\$ (1,191)	\$ 61,914

The increase in the gross value of our purchased intangible assets from December 31, 2007 to March 31, 2008 is due to the impact of foreign currency translation.

**7. DEBT**

Lines of credit consist of the following at March 31, 2008 and December 31, 2007:

	March 31, 2008 (unaudited)	December 31, 2007
Syndicated credit agreement revolving loan	\$ 4,741	\$
Commerzbank revolving line of credit	1,388	3,225
Commerzbank line of credit	1,580	1,473
Deutsche Bank revolving line of credit	788	680
Nord LB line of credit	3,509	2,209
	12,006	7,587
Less current portion	(7,265)	(7,587)
Long-term lines of credit	\$ 4,741	\$

Long-term debt consists of the following at March 31, 2008 and December 31, 2007:

	March 31, 2008 (unaudited)	December 31, 2007
Syndicated credit agreement term loan	\$ 45,000	\$ 45,000
Syndicated credit agreement Euro term loan	22,120	20,621
Euro term loan - French bank	458	427
Nord LB 3,000 Euro term loan	3,318	3,314
Nord LB 500 Euro term loan	175	203
	71,071	69,565
Less current maturities	(8,293)	(8,035)
Long-term debt	\$ 62,778	\$ 61,530





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, 2008, the Company was in compliance with all financial covenants and other provisions of its debt agreements.

Swap Agreement

On November 15, 2007, the Company entered into an interest swap agreement that effectively converted the LIBOR based variable rate borrowings under the \$45,000 term loan to a fixed rate of 6.34%. The company has designated the swap agreement as an effective cash flow hedge with matched terms in accordance 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 asset or liability. As of March 31, 2008, the fair value of the swap agreement was a liability of \$696. The swap agreement expires on November 16, 2008.

**8. BUSINESS SEGMENTS**

The Company is organized in the following three segments: Explosive Metalworking, Oilfield Products and AMK Welding. The Explosive Metalworking segment uses explosives to perform metal cladding and shock synthesis of industrial diamonds. The most significant product of this group is clad metal which is used in the fabrication of pressure vessels, heat exchangers and transition joints for various industries, including upstream oil and gas, oil refinery, petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and similar industries. The Oilfield Products segment manufactures, markets and sells oilfield perforating equipment and explosives, including detonating cords, detonators, bi-directional boosters and shaped charges, and seismic related explosives and accessories. AMK Welding utilizes a number of welding technologies to weld components for manufacturers of jet engines 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 requires different manufacturing processes and technologies. Segment information is presented for the three months ended March 31, 2008 and 2007 as follows:

	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 (loss) 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

	Explosive Metalworking Group	AMK Welding	Total
For the three months ended March 31, 2007:			
Net sales	\$ 31,495	\$ 1,599	\$ 33,094
Depreciation	\$ 335	\$ 60	\$ 395
Income from operations	\$ 7,502	\$ 264	\$ 7,766
Unallocated amounts:			
Stock-based compensation			(224)
Other expense			(7)
Interest income			188
Consolidated income before income taxes			\$ 7,723

During the three months ended March 31, 2008, sales to one customer represented approximately \$5,974 (10.2%) of total net sales. During the three months ended March 31, 2007, sales to one customer represented approximately \$5,417 (16%) of total net sales.

## 9. COMPREHENSIVE INCOME

The Company's comprehensive income for the three months ended March 31, 2008 and 2007 was as follows:

	Three Months Ended March 31,	
	2008	2007
Net income for the period	\$ 5,245	\$ 4,882
Interest rate swap valuation adjustment, net of tax	(285)	
Foreign currency translation adjustment	7,260	61
Comprehensive income	\$ 12,220	\$ 4,943

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Accumulated other cumulative comprehensive income as of March 31, 2008 and December 31, 2007 consisted of the following:

	<b>March 31, 2008 (unaudited)</b>	<b>December 31, 2007</b>
Currency translation adjustment	\$ 10,950	\$ 3,690
Interest rate swap valuation adjustment, net of tax	(432)	(147)
	\$ 10,518	\$ 3,543

## 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, 2007.

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

### Executive Overview

Historically, our business has been organized into two segments: Explosive Metalworking (which we also refer to as DMC Clad) and AMK Welding. On November 15, 2007, we acquired 100% ownership of a German company, DYNAenergetics. DYNAenergetics operates two distinct businesses which have historically been known as DYNAplat and DYNAwell. DYNAplat is a manufacturer of explosion clad products similar to those manufactured by DMC Clad and its operating results from the date of acquisition are included in our Explosive Metalworking segment. DYNAwell manufactures a number of products for the perforation of oil and gas wells and also distributes a line of seismic products for oil and gas exploration activities. DYNAwell's operating results from the date of acquisition are reported under a new segment that we have named Oilfield Products.

For the three months ended March 31, 2008, Explosive Metalworking accounted for 88% of our net sales and 99% of our income from operations before consideration of stock-based compensation expense, which is not allocated to our business segments. Our AMK Welding and Oilfield Products segments accounted for 4% and 8%, respectively, of our first quarter 2008 net sales.

Our net sales for the three months ended March 31, 2008, which include \$15,194 of sales from our recently acquired DYNAenergetics businesses, increased by \$25,299 (76.4%) compared to the first three months of 2007, reflecting year-to-year net sales increases of \$20,149 (64.0%) and \$700 (43.8%) for our Explosive Metalworking and AMK Welding segments, respectively, and a sales contribution of \$4,450 from our new Oilfield Products segment. Income from operations increased by 24.5% to \$9,390 in the first three months of 2008 from \$7,542 in the first three months of 2007, reflecting improvements in Explosive Metalworking's and AMK Welding's operating income of \$2,480 and \$373, respectively, that were partially offset by an operating loss of \$565 that was reported by our Oilfield Products segment and a \$440 increase in stock-based compensation expense. Our net income increased by 7.4% to \$5,245 for the three months ended March 31, 2008 from \$4,882 in the same period of 2007.

### *Net sales*

Explosive Metalworking's net sales 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 demand for our clad metal products in the United States is largely driven by new plant construction and large plant expansion projects, maintenance and retrofit projects at existing chemical processing, petrochemical processing and oil refining facilities also account for a significant portion of total demand. In contrast to the U.S. market,



demand for our clad products in Europe and Asia is more dependent on new construction projects, such as the building of new Purified Terephthalic Acid ( PTA ) plants in different parts of the world, including China, and on sales of electrical transition joints that are used in the aluminum production industry.

Oilfield Products' net sales 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 net sales 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 net sales is derived from a relatively small number of customers; therefore, the failure to complete existing contracts on a timely basis, and 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 favorably on the basis of price.

DMC Clad's business is cyclical since it is linked to its customers' end-market activity. For example, the construction cycle for new manufacturing capacity in the chemical industry has historically been one characterized by significant amplitude. It is driven both by global economic demand growth and capacity utilization. As capacity starts to become tight for various chemicals and prices begin to rise, new manufacturing capacity is added in relatively large incremental amounts.

#### *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*

Our effective income tax rate decreased to 36.2% for the first three months of 2008 from 36.8% for the first three months of 2007. Income tax provisions on the earnings of Nobelclad, Nitro Metall and DYNAenergetics have been provided based upon the respective French, Swedish and German statutory tax rates. Going forward, based upon existing tax regulations and current federal, state and foreign statutory tax rates, we expect our effective tax rate on our consolidated pre-tax income to range between 36% and 37%.

*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 to consist 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. However, since orders may be rescheduled or canceled, and a significant portion of our net sales is derived from a small number of customers, backlog is not necessarily indicative of future sales levels. Moreover, we cannot be sure of when during the future 12-month period we will be able to recognize revenue corresponding to our backlog nor can we be sure that revenues corresponding to our backlog will not fall into periods beyond the 12-month horizon.

Our backlog with respect to the Explosive Metalworking segment increased to approximately \$102,106 at March 31, 2008 from approximately \$100,000 at December 31, 2007.

**Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007***Net sales*

	Three Months Ended March 31,			Change	Percentage Change
	2008	2007			
Net sales	\$ 58,393	\$ 33,094	\$ 25,299	76.4%	

Net sales for the first quarter of 2008 increased 76.4% to \$58,393 from \$33,094 in the first quarter of 2007. Explosive Metalworking sales increased 64.0% to \$51,644 in the three months ended March 31, 2008 (88% of total sales) from \$31,495 in the same period of 2007 (95% of total sales). The significant increase in Explosive Metalworking sales reflects a sales contribution of \$10,744 from the DYNAPlat division of DYNAAergetics and increased sales of \$9,405 from our other DMC Clad divisions which reflect the continued strong economic condition of the industries this business segment serves.

Oilfield Products contributed \$4,450 to first quarter 2008 sales (8% of total sales).

AMK Welding contributed \$2,299 to first quarter 2008 sales (4% of total sales), which represented a 43.8% increase from sales of \$1,599 in the first quarter of 2007 (5% of total sales). The increases in AMK's sales relates principally to increased revenues from H System ground-based gas turbine work.

*Gross profit*



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	Three Months Ended March 31,			Change	Percentage Change		
	2008		2007				
Gross profit	\$	17,711	\$	10,851	\$	6,860	63.2%
Consolidated gross profit margin rate		30.3%		32.8%			

Gross profit increased by 63.2% to \$17,711 for the three months ended March 31, 2008 from \$10,851 for the three months ended March 31, 2007. Our first quarter 2008 consolidated



gross profit margin rate decreased to 30.3% from 32.8% in the first quarter of 2007. The gross profit margin for Explosive Metalworking decreased from 33.1% in the first quarter of 2007 to 30.6% in the first quarter of 2008. The gross profit margin for AMK Welding increased to 36.4% in the first quarter of 2008 from 28.8% in the first quarter of 2007, with this improvement being largely attributable to the 43.8% increase in AMK's sales volume as discussed above. Oilfield Products reported a gross margin of 25.3% on its first quarter 2008 sales of \$4,450, which is considered to be within the range of normal for this business.



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The decreased first quarter 2008 gross margin rate for Explosive Metalworking relates primarily to a higher proportion of sales by our European operations in the first quarter of 2008 than in the first quarter of 2007 as a result of the DYNAenergetics acquisition. As mentioned above, the DYNAplat division of DYNAenegetics reported first quarter 2008 sales of \$10,744. Gross margins for our European operations, including those of the DYNAplat division, are generally lower than those reported by our U.S. Operation. Additionally, the acquired order backlog of DYNAplat included certain orders that were booked at lower than customary margin levels for DYNAplat and that shipped during the first quarter of 2008. While we expect an upward trend in our reported gross margins during the remainder of 2008, future quarterly gross margin rates for our Explosive Metalworking segment are expected to fluctuate based upon anticipated fluctuations in quarterly sales volume and product mix.



*General and administrative expenses*





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	Three Months Ended March 31,			Change	Percentage Change		
	2008		2007				
General & administrative expenses	\$	3,119	\$	1,662	\$	1,457	87.7%
Percentage of net sales		5.3%		5.0%			

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General and administrative expenses increased by \$1,457, or 87.7%, to \$3,119 in the first quarter of 2008 from \$1,662 in the first quarter of 2007. Excluding \$892 of incremental general and administrative expenses that resulted from the DYNAenergetics acquisition, our general and administrative expenses increased by \$565 or 34.0%. This increase reflects a \$272 increase in stock-based compensation, a \$136 increase in legal and consulting expenses and an impact of \$113 from annual salary adjustments and staffing changes. As a percentage of net sales, general and administrative expenses increased to 5.3% in the first quarter of 2008 from 5.0% in the first quarter of 2007.

### *Selling expenses*

	Three Months Ended			Change	Percentage Change
	March 31,				
	2008	2007			
Selling expenses	\$ 2,841	\$ 1,647	\$ 1,194		72.5%
Percentage of net sales	4.9%	5.0%			

Selling expenses, which include sales commissions of \$313 in 2008 and \$423 in 2007, increased by 72.5% to \$2,841 in the first quarter of 2008 from \$1,647 in the first quarter of 2007. Excluding \$855 of incremental selling expenses that resulted from the DYNAenergetics

acquisition, our selling expenses increased by \$339 or 20.6%. This increase reflects an increase in stock-based compensation expense of \$124 and an impact of \$98 from annual salary adjustments and staffing changes. As a percentage of net sales, selling expenses decreased to 4.9% in the first quarter of 2008 from 5.0% in the first quarter of 2007.

#### *Amortization expenses*

	Three Months Ended March 31,			Change	Percentage Change
	2008	2007			
Amortization expense of purchased intangible assets	\$ 2,361	\$		\$ 2,361	NA
Percentage of net sales	4.0%	0.0%			

Amortization expense relates entirely to the amortization of values assigned to intangible assets in connection with the November 15, 2007 acquisition of DYNAenergetics. Amortization expense for the three months ended March 31, 2008 includes \$1,006, \$940, \$313 and \$102 relating to values assigned to order backlog, customer relationships, core technology and trademarks/trade names, respectively. Based upon the preliminary purchase price allocation and current foreign exchange rates, we expect amortization expense for 2008 to approximate \$7,700.

#### *Income from operations*

	Three Months Ended March 31,			Change	Percentage Change
	2008	2007			
Income from operations	\$ 9,390	\$ 7,542		\$ 1,848	24.5%

Income from operations increased by 24.5% to \$9,390 in the first quarter of 2008 from \$7,542 in the first quarter of 2007. Explosive Metalworking reported income from operations of \$9,982 in the first quarter of 2008 as compared to \$7,502 in the first quarter of 2007. This 33.1% increase is largely attributable to the 64.0% sales increase as discussed above.

Oilfield Products reported a loss from operations of \$565 for the first three months of 2008.

AMK Welding reported income from operations of \$637 for the three months ended March 31, 2008 as compared to \$264 for the same period of 2007. This significant increase is attributable to the \$700, or 43.8%, increase in sales as discussed above.

Income from operations for the three months ended March 31, 2008 and 2007 includes \$664 and \$224, respectively, of stock-based compensation expense. This expense is not allocated to our business segments and thus is not included in the above first quarter operating income totals for Explosive Metalworking, Oilfield Products and AMK Welding.



*Interest income (expense), net*

	Three Months Ended March 31,			Change	Percentage Change
	2008	2007			
Interest income (expense), net	\$ (1,040)	\$ 188	\$ (1,228)	NM	

We recorded net interest expense of \$1,040 in the first three months of 2008 compared to net interest income of \$188 in the same time period of 2007. During the first three months of 2007, we were in a positive cash position and earned interest on investment of excess cash balances. In connection with acquisition of DYNAenergetics, we borrowed approximately \$65,000 under our new \$100,000 five-year credit facility, assumed approximately \$12,000 of DYNAenergetics debt outstanding as of the acquisition date, and used approximately \$16,000 of our existing cash balances to finance the acquisition. As a result of this new indebtedness and a decrease in our cash position, we reported a significant amount of interest expense during the first three months of 2008.

*Income tax provision*

	Three Months Ended March 31,			Change	Percentage Change
	2008	2007			
Income tax provision	\$ 2,972	\$ 2,841	\$ 131	4.6%	
Effective tax rate	36.2%	36.8%			

We recorded an income tax provision of \$2,972 in the first quarter of 2008 compared to \$2,841 in the first quarter of 2007. The effective tax rate decreased to 36.2% in the first quarter of 2008 from 36.8% in the first quarter of 2007. The income tax provisions for the three months ended March 31, 2008 and 2007 include \$2,951 and \$2,102, respectively, related to U.S. taxes, with the remainder relating to foreign taxes associated with the operations of Nobelclad and its Swedish subsidiary, Nitro Metall, as well as the newly acquired DYNAenergetics division.

**Liquidity and Capital Resources**

We have historically financed our operations from a combination of internally generated cash flow, revolving credit borrowings, various long-term debt arrangements and the issuance of common stock. Prior to the November 15, 2007 acquisition of DYNAenergetics, we had no outstanding borrowings under our \$10,000 revolving credit facility with a U.S. bank and term debt outstanding of 290 Euros (approximately \$458) under a term loan with a French bank. In connection with the acquisition of DYNAenergetics, we terminated our \$10,000 revolving credit facility and entered into a five-year syndicated credit agreement. The credit agreement, which provides for term loans of \$45,000 and 14,000 Euros and revolving loans of \$25,000 and 7,000 Euros, is through a syndicate of seven banks. The credit facility in the approximate amount of \$100,000 expires on November 16, 2012. As of March 31, 2008, term loans of \$45,000 and 14,000 Euros (\$22,120) and revolving loans of 3,000 Euros (\$4,741) were outstanding under the new credit facility. Additionally, we have assumed outstanding debt obligations of DYNAenergetics, including lines of credit loans and term loans with outstanding amounts of \$7,265 and \$3,493, respectively, as of March 31, 2008.

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

*Debt and other contractual obligations and commitments*

**Our existing loan agreements include various covenants and restrictions, certain of which relate to the payment of dividends or other distributions to stockholders, redemption of capital stock, incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets and maintenance of specified financial ratios. As of March 31, 2008, we were in compliance with all financial covenants and other provisions of our debt agreements.**

The Company's principal cash flows related to debt obligations and other contractual obligations and commitments have not materially changed since December 31, 2007.

*Cash flows from operating activities*

Net cash flows provided by operating activities for the first quarter of 2008 totaled \$7,249. Significant sources of operating cash flow included net income of \$5,245, non-cash depreciation and amortization expense of \$3,534 and stock-based compensation of \$664. These sources of operating cash flow were partially offset by a deferred income tax benefit of \$1,174 and net negative changes in various components of working capital in the amount of \$1,004. Net negative changes in working capital included increases in inventories and prepaid expenses of \$670 and \$580, respectively, and decreases in accounts payable and customer advances of \$3,837 and \$2,144, respectively. These negative changes in working capital were partially offset by decreases in restricted cash and accounts receivable of \$377 and \$5,968, respectively.

Net cash flows provided by operating activities for the first quarter of 2007 totaled \$4,833. Significant sources of operating cash flow included net income of \$4,882, non-cash depreciation and amortization expense of \$395 and stock-based compensation of \$224. These sources of operating cash flow were partially offset by net negative changes in various components of working capital in the amount of \$622. Net negative changes in working capital included increases in inventories of \$2,487 and decreases in accounts payable of \$2,011. These negative changes in working capital were largely offset by decreases in restricted cash and accounts receivable of \$3,059 and \$553, respectively.

*Cash flows from investing activities*

Net cash flows used by investing activities for the first quarter of 2008 totaled \$2,346 and consisted almost entirely of capital expenditures.

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Net cash flows used by investing activities for the first quarter of 2007 totaled \$3,257 and consisted entirely of capital expenditures.

*Cash flows from financing activities*

Net cash flows provided by financing activities for the first quarter of 2008 were \$3,279, which consisted primarily of net borrowings on bank lines of credit of \$3,665 and \$93 in net proceeds from the issuance of common stock relating to the exercise of stock options. These sources of cash flow were partially offset by a \$265 principal payment on a Nord LB term loan, payments of deferred debt issuance costs of \$125 and payment on capital lease obligations of \$105.

Net cash flows provided by financing activities for the first quarter of 2007 were \$283, which consisted primarily of net proceeds from the issuance of common stock relating to the exercise of stock options.

*Payment of Dividends*

We paid annual dividends in 2007 and may continue to pay annual dividends in the future subject to capital availability and periodic determinations that cash dividends are in the best interests of our stockholders, but we cannot assure you that such payments will continue. Future dividends may be affected by, among other items, our views on potential future capital requirements, future business prospects, changes in federal income tax law and any other factors that our board of directors deems relevant. Any decision to pay cash dividends is and will continue to be at the discretion of the board of directors.

**Critical Accounting Policies**

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

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

*Revenue recognition*

**Sales of clad metal products and welding services are generally based upon customer specifications set forth in customer purchase orders and require us to provide certifications relative to metals used, services performed and the results of any non-destructive testing**



that the customer has requested be performed. All issues of conformity of the product to specifications are resolved before the product is shipped and billed. Products related to the oilfield products segment, which include detonating cords, detonators, bi-directional boosters and shaped charges, as well as, seismic related explosives and accessories, are standard in nature. In all cases, revenue is recognized only when all four of the following criteria have been satisfied: persuasive evidence of

**an arrangement exists; the price is fixed or determinable; delivery has occurred; and collection is reasonably assured. For contracts that require multiple shipments, revenue is recorded only for the units included in each individual shipment. If, as a contract proceeds toward completion, projected total cost on an individual contract indicates a potential loss, the Company will account for such anticipated loss.**

#### *Asset impairments*

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

#### *Business Combinations*

We accounted for our business acquisition in accordance with the provisions of SFAS No. 141, Business Combinations, using the purchase method of accounting. We allocated the total cost of the acquisition to the underlying net assets based on their respective estimated fair values. As part of this allocation process, we identified and attributed values and estimated lives to the intangible assets acquired. These determinations involved significant estimates and assumptions regarding multiple, highly subjective variables, including those with respect to future cash flows, discount rates, asset lives, and the use of different valuation models and therefore require considerable judgment. Our estimates and assumptions were based, in part, on the availability of listed market prices or other transparent market data. These determinations affect the amount of amortization expense recognized in future periods. We based our fair value estimates on assumptions we believe to be reasonable but are inherently uncertain.

#### *Goodwill*

In accordance with SFAS No. 142, we test goodwill for impairment on a reporting unit level as defined by reference to SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information on at least an annual basis. A reporting unit is a group of businesses (i) for which discrete financial information is available and (ii) that have similar economic characteristics. We test goodwill for impairment using the following two-step approach:

We first determine the fair value of each reporting unit. If the fair value of a reporting unit is less than its carrying value, this is an indicator that the goodwill assigned to that reporting unit might be impaired, which requires performance of the second step. We determine the fair value of our reporting units based on projected future discounted cash flows, which, in turn, are based on our views of uncertain variables such as growth rates, anticipated future economic conditions and the appropriate discount rates relative to risk and estimates of residual values.

In the second step, we allocate the fair value of the reporting unit to the assets and liabilities of the reporting unit as if it had just been acquired in a business combination and as if the purchase price was equivalent to the fair value of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. We then compare that

implied fair value of the reporting unit's goodwill to the

carrying value of that goodwill. If the implied fair value is less than the carrying value we recognize an impairment loss for the excess.

The use of different estimates or assumptions within our discounted cash flow model when determining the fair value of our reporting units or using a methodology other than a discounted cash flow model could result in different values for reporting units and could result in an impairment charge.

#### *Intangible assets subject to amortization*

An intangible asset that is subject to amortization is reviewed when impairment indicators are present in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We compare the expected undiscounted future operating cash flows associated with finite-lived assets to their respective carrying values to determine if the asset is fully recoverable. If the expected future operating cash flows are not sufficient to recover the carrying value, we estimate the fair value of the asset. Impairment is recognized when the carrying amount of the asset is not recoverable and when the carrying value exceeds fair value. The projected cash flows require several assumptions related to, among other things, relevant market factors, revenue growth, if any, and operating margins. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

#### *Impact of foreign currency exchange rate risks*

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

#### *Income taxes*

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ( SFAS 109 ), which requires the recognition of deferred tax assets and deferred tax liabilities for the expected future income tax consequences of transactions that have been included in our financial statements but not our tax returns. Deferred tax assets and liabilities are determined based on the temporary differences between the Consolidated Financial Statement basis and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. We routinely evaluate deferred tax assets to determine if they will, more likely than not, be recovered from future projected taxable income and; if not, we record an appropriate valuation allowance.



During 2005, we completed an analysis of prior year tax credits and related items. As a result of the analysis, we filed amended federal and state income tax returns. The amended state returns reported additional net operating losses and credits above the amounts we had previously recorded in our books and records. In assessing these additional losses and credits, we determined that the utilization of a portion of these did not meet the more likely than not criteria, due to potential changes in the states in which we have income tax nexus. Thus, we recorded a net valuation allowance of approximately \$177 against the deferred tax assets during 2005. As of March 31, 2008, the balance of this allowance is \$111.

#### *Stock-Based Compensation Expense*

We account for stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ( SFAS 123R ). Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is estimated at the grant date based on the value of the award and is recognized as expense ratably over the requisite service period of the award. The fair value of restricted stock awards is based on the fair value of the Company's stock on the date of grant. Determining the appropriate fair value model and calculating the fair value of stock options at the grant date requires judgment, including estimating stock price volatility, forfeiture rates and expected option life.

#### **Recent Accounting Pronouncements**

**In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS No. 157 was initially effective for financial statements issued for fiscal years beginning after November 15, 2007. The FASB issued a staff position statement ( FSP ) in February 2008 that deferred the required interpretation date of SFAS 157 for certain assets and liabilities. The adoption of SFAS 157 in the three months ended March 31, 2008 did not have a material impact on the Company's results of operations or financial position.**

**In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. This Statement permits entities to measure many financial instruments and certain other items at fair value. This election is made on an instrument-by-instrument basis and is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective for fiscal years beginning after November 15, 2007. The Company did not elect the fair value option for any of its existing financial assets and liabilities during the three months ended March 31, 2008.**

**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. Thus, we are required to adopt these Standards on January 1, 2009. Earlier adoption is prohibited. The Company is in the process of determining the effect, if any, the adoption SFAS Nos. 141(R) and 160 will have on its 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. We are currently evaluating the impact of adopting SFAS No. 161 on our consolidated financial statements.**

**ITEM 3. Quantitative and Qualitative Disclosure about Market Risk**

There have been no events that materially affect our quantitative and qualitative disclosure about market risk from that reported in our Annual Report on Form 10-K for the year ended December 31, 2007.

**ITEM 4. Controls and Procedures**

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

As of March 31, 2008, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. There have been no changes in the Company's internal controls during the quarter ended March 31, 2008 or in other factors that could materially affect the Company's internal controls over financial reporting.

Management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of DYNAenergetics, which is included in the March 2008 consolidated financial statements of Dynamic Materials Corporation and constituted \$154 million and \$3 million of total and net assets, respectively, as of March 31, 2008 and \$15.2 million and \$1.9 million of revenues and net loss, respectively, for the quarter then ended.

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





or fraud may occur and not be detected. Accordingly, the Company's disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the disclosure controls and procedures are met.

**Part II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

Our 2007 Annual Report on Form 10-K includes a detailed discussion of our risk factors. The information presented below updates and should be read in conjunction with the risk factors and information disclosed in our Form 10-K.

**Our backlog figures may not accurately predict future sales.**

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

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6.**

**Exhibits**

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

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

**SIGNATURES**

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

**DYNAMIC MATERIALS CORPORATION**  
(Registrant)

Date: May 2, 2008

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