

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

---

**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**

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

(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.

---

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
COSTS AND EXPENSES:		
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
OTHER INCOME (EXPENSE):		
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
INCOME PER SHARE:		
Basic	\$ 0.42	\$ 0.41
Diluted	\$ 0.42	\$ 0.40
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
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
					&nbs