

DYNAMIC MATERIALS CORP
Form 10-Q
October 31, 2008
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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 001-14775

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
(Address of principal executive offices, including zip code)

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(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. Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

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

The number of shares of Common Stock outstanding was 12,676,527 as of October 31, 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- Condensed Consolidated Financial Statements; Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations; Item 3 - Quantitative and Qualitative Disclosures About Market Risk; and Part II, Item 1A Risk Factors. We intend the forward-looking statements throughout this quarterly report on Form 10-Q and the information incorporated by reference herein to be covered by the safe harbor provisions for forward-looking statements. Statements contained in this report which are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. All projections 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 phrases of similar meaning. The forward-looking information is based on information available as of the date of this quarterly report and on numerous assumptions and developments that are not within our control. Although we believe that our expectations as expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Factors that could cause actual results to differ materially include, but are not limited to, the following: the ability to obtain new contracts at attractive prices; the size and timing of customer orders and shipment; fluctuations in customer demand; fluctuations in foreign currencies; competitive factors; the timely completion of contracts; the timing and size of expenditures; the timely receipt of government approvals and permits; the price and availability of metal and other raw material; the adequacy of local labor supplies at our facilities; current or future limits on manufacturing capacity at our various operations; the availability and cost of funds; and general economic conditions, both domestic and foreign, impacting our business and the business of the end-market users we serve. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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

(Dollars in Thousands)

	September 30, 2008 (unaudited)	December 31, 2007
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 30,508	\$ 9,045
Restricted cash		371
Accounts receivable, net of allowance for doubtful accounts of \$617 and \$534, respectively	31,031	39,833
Inventories	40,900	41,628
Prepaid expenses and other	4,706	2,022
Related party receivable and loan	1,965	1,103
Current deferred tax assets	1,058	728
Total current assets	110,168	94,730
PROPERTY, PLANT AND EQUIPMENT	56,303	49,590
Less - Accumulated depreciation	(17,594)	(14,144)
Property, plant and equipment, net	38,709	35,446
GOODWILL, net	44,797	45,862
PURCHASED INTANGIBLE ASSETS, net	54,876	61,914
DEFERRED TAX ASSETS	107	42
OTHER ASSETS, net	1,446	1,544
INVESTMENT IN JOINT VENTURES	1,325	1,361
TOTAL ASSETS	\$ 251,428	\$ 240,899

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

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)

	September 30, 2008 (unaudited)	December 31, 2007
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 18,722	\$ 22,590
Accrued expenses	3,502	8,566
Accrued income taxes	993	1,212
Accrued employee compensation and benefits	5,292	5,521
Customer advances	4,780	4,593
Related party accounts payable and loans	520	325
Lines of credit - current	4,785	7,587
Current maturities on long-term debt	7,471	8,035
Current portion of capital lease obligations	382	389
Total current liabilities	46,447	58,818
LINES OF CREDIT	9,536	
LONG-TERM DEBT	60,440	61,530
CAPITAL LEASE OBLIGATIONS	218	521
DEFERRED TAX LIABILITIES	18,040	20,604
OTHER LONG-TERM LIABILITIES	907	1,147
COMMITMENTS AND CONTINGENT LIABILITIES		
Total liabilities	135,588	142,620
STOCKHOLDERS EQUITY:		
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; 12,665,027 and 12,433,768 shares issued and outstanding, respectively	634	622
Additional paid-in capital	40,939	38,246
Retained earnings	72,657	55,868
Other cumulative comprehensive income	1,610	3,543
Total stockholders equity	115,840	98,279
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 251,428	\$ 240,899

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

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED STATEMENTS OF OPERATIONSFOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007(Dollars in Thousands, Except Share Data)(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
NET SALES	\$ 52,380	\$ 42,099	\$ 173,957	\$ 109,964
COST OF PRODUCTS SOLD	35,355	27,807	120,171	72,741
Gross profit	17,025	14,292	53,786	37,223
COSTS AND EXPENSES:				
General and administrative expenses	3,679	1,903	10,612	5,419
Selling expenses	2,611	1,811	8,085	4,913
Amortization expense of purchased intangible assets	1,363		6,188	
Total costs and expenses	7,653	3,714	24,885	10,332
INCOME FROM OPERATIONS	9,372	10,578	28,901	26,891
OTHER INCOME (EXPENSE):				
Other income (expense)	(268)	23	(227)	3
Interest expense	(1,469)	(20)	(4,203)	(20)
Interest income	153	233	477	598
Equity in earnings (losses) of joint ventures	(19)		270	
INCOME BEFORE INCOME TAXES	7,769	10,814	25,218	27,472
INCOME TAX PROVISION	546	3,697	6,535	9,813
NET INCOME	\$ 7,223	\$ 7,117	\$ 18,683	\$ 17,659
INCOME PER SHARE:				
Basic	\$ 0.58	\$ 0.59	\$ 1.50	\$ 1.47
Diluted	\$ 0.57	\$ 0.58	\$ 1.49	\$ 1.44
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	12,463,060	12,094,181	12,426,369	12,039,593
Diluted	12,567,912	12,301,772	12,572,226	12,245,212
ANNUAL DIVIDENDS DECLARED PER COMMON SHARE				
	\$	\$	\$ 0.15	\$ 0.15

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

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITYFOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

(Amounts in Thousands)

(unaudited)

	Common Stock		Additional	Retained	Other	Total	Comprehensive
	Shares	Amount	Paid-In	Earnings	Cumulative		Income
			Capital		Income		for the Period
Balances, December 31, 2007	12,434	\$ 622	\$ 38,246	\$ 55,868	\$ 3,543	\$ 98,279	
Shares issued for stock option exercises	74	4	224			228	
Restricted stock awards	153	8	(8)				
Shares issued in connection with the employee stock purchase plan	4		105			105	
Excess tax benefit related to stock options			9			9	
Stock-based compensation			2,363			2,363	
Dividends declared				(1,894)		(1,894)	
Net income				18,683		18,683	18,683
Derivative valuation adjustment, net of tax of \$48					77	77	77
Change in cumulative foreign currency translation adjustment					(2,010)	(2,010)	(2,010)
Balances, September 30, 2008	12,665	\$ 634	\$ 40,939	\$ 72,657	\$ 1,610	\$ 115,840	\$ 16,750

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

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007(Dollars in Thousands)(unaudited)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 18,683	\$ 17,659
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation (including capital lease amortization)	3,621	1,394
Amortization of purchased intangible assets	6,188	
Amortization of capitalized debt issuance costs	210	
Stock-based compensation	2,363	912
Deferred income tax benefit	(2,735)	(239)
Equity in earnings of joint ventures	(270)	
Change in -		
Restricted cash		3,059
Accounts receivable, net	7,631	2,001
Inventories	262	(13,541)
Prepaid expenses and other	(2,549)	(636)
Accounts payable	(3,771)	3,125
Customer advances	218	132
Accrued expenses and other liabilities	(5,046)	(1,065)
Net cash provided by operating activities	24,805	12,801
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(7,325)	(7,347)
Change in other non-current assets	50	(11)
Net cash used in investing activities	(7,275)	(7,358)

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

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007(Dollars in Thousands)(unaudited)

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on bank lines of credit, net	7,247	
Payment on term loan with French bank	(441)	(389)
Payment on Nord LB term loans	(810)	
Payment of capital lease obligations	(308)	
Payment of dividends	(1,894)	(1,821)
Payment of deferred debt issuance costs	(167)	
Net proceeds from issuance of common stock to employees and directors	333	563
Excess tax benefit related to exercise of stock options	9	5
Net cash provided by (used in) financing activities	3,969	(1,642)
EFFECTS OF EXCHANGE RATES ON CASH	(36)	357
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,463	4,158
CASH AND CASH EQUIVALENTS, beginning of the period	9,045	17,886
CASH AND CASH EQUIVALENTS, end of the period	\$ 30,508	\$ 22,044

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

1. BASIS OF PRESENTATION

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

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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 one of its consolidated joint ventures. A summary of those transactions for the three and nine months ended September 30, 2008 is presented below:

	3 months ended September 30, 2008		9 months ended September 30, 2008	
	Sales to	Interest income from	Sales to	Interest income from
Perfoline	\$ 115	\$ 11	\$ 162	\$ 37
DYNAenergetics RUS	1,008		2,145	
Minority Interest Partner	547		1,531	
Total	\$ 1,669	\$ 11	\$ 3,838	\$ 37

A summary of related party balances as of September 30, 2008 and December 31, 2007 is presented below:

	As of September 30, 2008		As of December 31, 2007	
	Accounts receivable and loan to	Accounts payable and loan from	Accounts receivable and loan to	Accounts payable and loan from
Perfoline	\$ 451	\$ 137	\$ 523	\$ 120
DYNAenergetics RUS	660		449	
KazDYNAenergetics			131	
Minority Interest Partner	854	383		205
Total	\$ 1,965	\$ 520	\$ 1,103	\$ 325

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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 September 30, 2008		
	Income	Shares	Per share Amount
Basic earnings per share:			
Net income	\$ 7,223	12,463,060	\$ 0.58
Dilutive effect of options to purchase common stock		93,260	
Dilutive effect of restricted stock awards		11,592	
Diluted earnings per share:			
Net income	\$ 7,223	12,567,912	\$ 0.57

	For the three months ended September 30, 2007		
	Income	Shares	Per share Amount
Basic earnings per share:			
Net income	\$ 7,117	12,094,181	\$ 0.59
Dilutive effect of options to purchase common stock		182,455	
Dilutive effect of restricted stock awards		25,136	
Diluted earnings per share:			
Net income	\$ 7,117	12,301,772	\$ 0.58

	For the nine months ended September 30, 2008		
	Income	Shares	Per share Amount
Basic earnings per share:			
Net income	\$ 18,683	12,426,369	\$ 1.50