

DYNAMIC MATERIALS CORP
Form 10-Q
August 04, 2006

**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 June 30, 2006

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

(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, or a non-accelerated filer.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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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 11,844,235 as of August 3, 2006.

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. 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; 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.

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Part I - FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

DYNAMIC MATERIALS CORPORATION & SUBSIDIARYCONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	June 30, 2006 (unaudited)	December 31, 2005
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 14,010	\$ 5,763
Marketable securities		1,950
Accounts receivable, net of allowance for doubtful accounts of \$369 and \$301, respectively	16,328	15,576
Inventories	13,947	11,869
Prepaid expenses and other	1,442	822
Current portion of other receivables related to discontinued operations	678	
Current deferred tax assets	619	572
Total current assets	47,024	36,552
PROPERTY, PLANT AND EQUIPMENT		
Less - Accumulated depreciation	(10,833) (10,063)
Property, plant and equipment, net	14,694	12,572
GOODWILL, net		
	847	847
DEFERRED TAX ASSETS		
	249	819
OTHER ASSETS, net		
	68	101
OTHER RECEIVABLES RELATED TO DISCONTINUED OPERATIONS		
		681
ASSETS OF DISCONTINUED OPERATIONS		
	720	3,739
TOTAL ASSETS	\$ 63,602	\$ 55,311

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARYCONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)

	June 30, 2006 (unaudited)	December 31, 2005
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 8,977	\$ 7,278
Accrued expenses	1,490	1,615
Accrued income taxes	2,117	979
Accrued employee compensation and benefits	2,034	2,508
Customer advances	1,219	1,885
Related party debt		45
Current maturities on long-term debt	559	528
Total current liabilities	16,396	14,838
LONG-TERM DEBT	1,799	2,221
DEFERRED TAX LIABILITIES	298	195
OTHER LONG-TERM LIABILITIES	246	222
LIABILITIES OF DISCONTINUED OPERATIONS		2,880
COMMITMENTS AND CONTINGENT LIABILITIES		
Total liabilities	18,739	20,356
STOCKHOLDERS EQUITY:		
Preferred stock, \$.05 par value; 4,000,000 shares authorized; no issued and outstanding shares		
Common stock, \$.05 par value; 15,000,000 shares authorized; 11,844,235 and 11,758,920 shares issued and outstanding, respectively	592	588
Additional paid-in capital	20,428	19,778
Retained earnings	22,837	14,104
Other cumulative comprehensive income	1,006	485
Total stockholders equity	44,863	34,955
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 63,602	\$ 55,311

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARYCONSOLIDATED STATEMENTS OF OPERATIONSFOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005(Dollars in Thousands, Except Share Data)(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
NET SALES	\$ 27,754	\$ 18,376	\$ 52,928	\$ 35,886
COST OF PRODUCTS SOLD	17,833	13,161	33,727	26,020
Gross profit	9,921	5,215	19,201	9,866
COSTS AND EXPENSES:				
General and administrative expenses	1,153	898	2,681	1,707
Selling expenses	946	870	2,270	1,995
Total costs and expenses	2,099	1,768	4,951	3,702
INCOME FROM OPERATIONS OF CONTINUING OPERATIONS	7,822	3,447	14,250	6,164
OTHER INCOME (EXPENSE):				
Other income (expense), net	(11)	13	(16)	16
Interest expense	(37)	(82)	(67)	(168)
Interest income	169	16	292	20
INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	7,943	3,394	14,459	6,032
INCOME TAX PROVISION	2,938	1,279	5,317	2,269
INCOME FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS	5,005	2,115	9,142	3,763
DISCONTINUED OPERATIONS:				
Income from discontinued operations, net of tax			1,357	
Income from discontinued operations			1,357	
NET INCOME	\$ 5,005	\$ 2,115	\$ 10,499	\$ 3,763
INCOME PER SHARE - BASIC:				
Continuing operations	\$ 0.42	\$ 0.19	\$ 0.78	\$ 0.35
Discontinued operations			0.11	
Net income	\$ 0.42	\$ 0.19	\$ 0.89	\$ 0.35
INCOME PER SHARE - DILUTED:				
Continuing operations	\$ 0.41	\$ 0.18	\$ 0.75	\$ 0.32
Discontinued operations			0.11	
Net income	\$ 0.41	\$ 0.18	\$ 0.86	\$ 0.32
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING -				
Basic	11,805,610	11,070,932	11,786,957	10,883,636

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Diluted	12,229,189	12,053,338	12,223,268	11,958,696
ANNUAL DIVIDENDS DECLARED PER COMMON SHARE	\$	\$ 0.10	\$ 0.15	\$ 0.10

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2006

(Amounts in Thousands)

(unaudited)

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Income	Total	Comprehensive Income for the Period
Balances, December 31, 2005	11,759	\$ 588	\$ 19,778	\$ 14,104	\$ 485	\$ 34,955	
Shares issued for stock option exercises	84	4	175			179	
Shares issued in connection with the employee stock purchase plan	1		28			28	
Tax benefit related to stock options			94			94	
Stock-based compensation			353			353	
Dividends paid				(1,766)		(1,766)	
Net income				10,499		10,499	10,499
Change in cumulative foreign currency translation adjustment					521	521	521
Balances, June 30, 2006	11,844	592	20,428	22,837	1,006	44,863	11,020

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARYCONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005(Dollars in Thousands)(unaudited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 10,499	\$ 3,763
Adjustments to reconcile net income to net cash provided by operating activities -		
Income from discontinued operations, net of tax	(1,357)	
Depreciation	639	710
Amortization	6	7
Amortization of capitalized debt issuance costs	14	26
Stock-based compensation	353	
Provision for deferred income taxes	656	(10)
Tax benefit related to exercise of stock options		2,294
Change in -		
Accounts receivable, net	(373)	(415)
Inventories	(1,618)	(3,376)
Prepaid expenses and other	(427)	(1,620)
Accounts payable	1,432	1,978
Accrued expenses and other liabilities	(1,487)	(198)
Net cash provided by operating activities	8,337	3,159
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(2,561)	(1,376)
Sale of marketable securities	1,950	
Loan to related party	(1,206)	
Repayment on loan to related party	1,206	
Change in other non-current assets	147	148
Payment received on other receivables related to discontinued operations	3	874
Cash flows provided by investing activities of discontinued operations	2,197	
Net cash flows provided by (used in) investing activities	1,736	(354)

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARYCONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005(Dollars in Thousands)(unaudited)

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on bank lines of credit, net		(3,208)
Borrowings / (repayments) on related party lines of credit, net	(47)	259)
Payment on SNPE, Inc. term loan		(667)
Payment on industrial development revenue bond	(90)	(490)
Payment on term loan with French bank	(356)	(373)
Payment of dividends	(1,766)	
Change in other long-tem liabilities	15	32
Net proceeds from issuance of common stock to employees and directors	207	1,181
Tax benefit related to exercise of stock options	94	
Net cash flows used in financing activities	(1,943)	(3,266)
EFFECTS OF EXCHANGE RATES ON CASH	117	(119)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,247	(580)
CASH AND CASH EQUIVALENTS, beginning of the period	5,763	2,404
CASH AND CASH EQUIVALENTS, end of the period	\$ 14,010	\$ 1,824

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

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, 2005.

On May 15, 2006, SNPE, Inc., the Company's former majority stockholder, sold in an underwritten public offering 5,926,982 shares of the Company's common stock, which represented all shares held by SNPE, Inc. Following the sale, four members of the Company's board of directors, each of whom had represented SNPE, Inc., resigned from the board. All transaction expenses were paid by SNPE, Inc.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of the Company and a subsidiary in which it has a greater than 50% 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 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. Any non-conformance issues are resolved before the product is shipped and billed. 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, we provide currently for such anticipated loss.

Loan to Related Party

Nobelclad Europe, S.A. (Nobelclad) had a Euro-denominated cash management agreement with SNPE, the parent company of SNPE, Inc., the Company's former majority stockholder, which provided for loans to or from either party of up to approximately \$3,400, based on the December 31, 2005 exchange rates. Amounts outstanding under this agreement bore interest at EURIBOR plus 1.5% annually. Due to Nobelclad's excess cash position during the first quarter of 2006, it began advancing cash to SNPE through this intercompany cash agreement. At March 31, 2006, these advances to SNPE totaled 1,003 Euros (\$1,211). The interest rate earned on these advances exceeded the interest rate that Nobelclad could earn on excess cash and cash equivalents held at its local bank. The agreement allowed Nobelclad to request repayment on the advances at any time. The balance outstanding at March 31, 2006 was repaid in full in April 2006.

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 June 30, 2006		
	Net Income	Shares	Per share Amount
Basic earnings per share	\$ 5,005	11,805,610	\$ 0.42
Dilutive effect of options to purchase common stock		423,579	
Dilutive earnings per share	\$ 5,005	12,229,189	\$ 0.41

For the three months ended June 30, 2005

	Net Income	Shares	Per share Amount
Basic earnings per share	\$ 2,115	11,070,932	\$ 0.19
Dilutive effect of options to purchase common stock		679,110	
Dilutive effect of convertible subordinated note, net of tax	10	303,296	
Dilutive earnings per share	\$ 2,125	12,053,338	\$ 0.18

For the six months ended June 30, 2006

	Net Income	Shares	Per share Amount
Basic earnings per share	\$ 10,499	11,786,957	\$ 0.89
Dilutive effect of options to purchase common stock		436,311	
Dilutive earnings per share	\$ 10,499	12,223,268	\$ 0.86

For the six months ended June 30, 2005

	Net Income	Shares	Per share Amount
Basic earnings per share	\$ 3,763	10,883,636	\$ 0.35
Dilutive effect of options to purchase common stock		723,678	
Dilutive effect of convertible subordinated note, net of tax	23	351,382	
Dilutive earnings per share	\$ 3,786	11,958,696	\$ 0.32

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which is a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). SFAS 123R requires measurement of all employee stock-based compensation awards using a fair-value method and the recording of such expense in the consolidated financial statements. In addition, the adoption of SFAS 123R requires additional accounting related to the income tax effects and disclosure regarding the cash flow effects resulting from share-based payment arrangements. In January 2005, the SEC issued Staff Accounting Bulletin No. 107, which provides supplemental implementation guidance for SFAS 123R. We selected the Black-Scholes option-pricing model as the most appropriate fair-value method for our awards and will recognize compensation cost on a straight-line basis over our awards' vesting periods. We adopted SFAS 123R in the first quarter of 2006. See Note 3 for further detail.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB No. 109 (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions. FIN 48 seeks to harmonize certain accounting practices associated with the recognition and measurement of income taxes. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company ha