

DYNAMIC MATERIALS CORP
Form 10-Q
April 28, 2015
Table of Contents

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, 2015

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)

5405 Spine Road, Boulder, Colorado 80301

(Address of principal executive offices, including zip code)

(303) 665-5700

(Registrant's telephone number, including area code)

84-0608431

(I.R.S. Employer Identification No.)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-Q

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 14,141,943 as of April 28, 2015.

Table of Contents

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains “forward-looking statements” within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. In particular, we direct your attention to Part I, Item 1- Condensed Consolidated Financial Statements; Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations; Item 3 - Quantitative and Qualitative Disclosures About Market Risk; and Part II, Item 1A — Risk Factors. We intend the forward-looking statements throughout this quarterly report on Form 10-Q and the information incorporated by reference herein to be covered by the safe harbor provisions for forward-looking statements. Statements contained in this report which are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. All projections, guidance and other statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as “may,” “believe,” “plan,” “anticipate,” “estimate,” “expect,” “intend,” and other phrases of similar meaning. The forward-looking information is based on information available as of the date of this quarterly report and on numerous assumptions and developments that are not within our control. Although we believe that our expectations as expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Factors that could cause actual results to differ materially include, but are not limited to, the following: changes in global economic conditions; the ability to obtain new contracts at attractive prices; the size and timing of customer orders and shipment; our ability to realize sales from our backlog; fluctuations in customer demand; fluctuations in foreign currencies; competitive factors; the timely completion of contracts; the timing and size of expenditures; the timely receipt of government approvals and permits; the price and availability of metal and other raw material; the adequacy of local labor supplies at our facilities; current or future limits on manufacturing capacity at our various operations; our ability to successfully integrate acquired businesses; 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

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1</u>	<u>4</u>
<u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2015 (unaudited) and December 31, 2014</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014 (unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2015 and 2014 (unaudited)</u>	<u>7</u>
<u>Condensed Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2015 (unaudited)</u>	<u>8</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014 (unaudited)</u>	<u>9</u>
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>10</u>
<u>Item 2</u>	<u>18</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 3</u>	<u>26</u>
<u>Quantitative and Qualitative Disclosure about Market Risk</u>	
<u>Item 4</u>	<u>26</u>
<u>Controls and Procedures</u>	
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1</u>	<u>28</u>
<u>Legal Proceedings</u>	
<u>Item 1A</u>	<u>28</u>
<u>Risk Factors</u>	
<u>Item 2</u>	<u>28</u>
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 3</u>	<u>28</u>
<u>Defaults Upon Senior Securities</u>	
<u>Item 4</u>	<u>28</u>
<u>Mine Safety Disclosures</u>	
<u>Item 5</u>	<u>28</u>
<u>Other Information</u>	
<u>Item 6</u>	<u>28</u>
<u>Exhibits</u>	
<u>Signatures</u>	<u>29</u>

Table of Contents

Part I - FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

DYNAMIC MATERIALS CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Amounts in Thousands, Except Share and Per Share Data)

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$12,939	\$9,400
Accounts receivable, net of allowance for doubtful accounts of \$975 and \$542, respectively	29,920	35,501
Inventory, net	42,888	40,101
Prepaid expenses and other	6,349	6,123
Current deferred tax assets	3,618	3,971
Total current assets	95,714	95,096
PROPERTY, PLANT AND EQUIPMENT	106,061	109,733
Less - accumulated depreciation	(45,644	) (45,898)
Property, plant and equipment, net	60,417	63,835
GOODWILL, net	29,139	32,762
PURCHASED INTANGIBLE ASSETS, net	23,567	26,734
DEFERRED TAX ASSETS	1,125	587
OTHER ASSETS, net	1,114	315
TOTAL ASSETS	\$211,076	\$219,329

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

Table of Contents

DYNAMIC MATERIALS CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Amounts in Thousands, Except Share and Per Share Data)

	March 31, 2015 (unaudited)	December 31, 2014
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$12,006	\$14,076
Accrued expenses	6,180	5,638
Dividend payable	566	559
Accrued income taxes	2,757	3,770
Accrued employee compensation and benefits	4,466	4,582
Customer advances	1,968	3,510
Current deferred tax liabilities	321	373
 Total current liabilities	 28,264	 32,508
 LINES OF CREDIT	 32,355	 22,782
 DEFERRED TAX LIABILITIES	 6,285	 7,003
 OTHER LONG-TERM LIABILITIES	 1,854	 2,121
 Total liabilities	 68,758	 64,414
 COMMITMENTS AND CONTINGENT LIABILITIES		
 STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.05 par value; 4,000,000 shares authorized; no issued and outstanding shares	—	—
Common stock, \$0.05 par value; 25,000,000 shares authorized; 14,146,109 and 13,997,076 shares issued and outstanding, respectively	707	700
Additional paid-in capital	68,144	67,088
Retained earnings	110,780	113,723
Other cumulative comprehensive loss	(37,313	) (26,596)
 Total stockholders' equity	 142,318	 154,915
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$211,076	 \$219,329

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

Table of Contents

DYNAMIC MATERIALS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014
 (Amounts in Thousands, Except Share and Per Share Data)
 (unaudited)

	Three months ended March	
	31,	
	2015	2014
NET SALES	\$40,819	\$46,769
COST OF PRODUCTS SOLD	30,116	32,055
Gross profit	10,703	14,714
COSTS AND EXPENSES:		
General and administrative expenses	6,038	5,792
Selling and distribution expenses	4,878	4,223
Amortization of purchased intangible assets	1,017	1,616
Restructuring expenses	1,996	—
Total costs and expenses	13,929	11,631
INCOME (LOSS) FROM OPERATIONS	(3,226	) 3,083
OTHER INCOME (EXPENSE):		
Other income (expense), net	1,124	(435)
Interest expense	(182	) (109)
Interest income	3	5
INCOME (LOSS) BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	(2,281	) 2,544
INCOME TAX PROVISION	96	741
INCOME (LOSS) FROM CONTINUING OPERATIONS	(2,377	) 1,803
DISCONTINUED OPERATIONS:		
Loss from operations of discontinued operations, net of tax	—	(316)
NET INCOME (LOSS)	\$(2,377	) \$1,487
INCOME (LOSS) PER SHARE - BASIC:		
Continuing operations	\$(0.17	) \$0.13
Discontinued operations	\$—	\$(0.02)
Net income	\$(0.17	) \$0.11
INCOME (LOSS) PER SHARE - DILUTED:		
Continuing operations	\$(0.17	) \$0.13
Discontinued operations	\$—	\$(0.02)
Net income	\$(0.17	) \$0.11
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	13,822,231	13,644,239
Diluted	13,822,231	13,649,953
DIVIDENDS DECLARED PER COMMON SHARE	\$0.04	\$0.04

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

Table of Contents

DYNAMIC MATERIALS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(Amounts in Thousands)

(unaudited)

	Three months ended March	
	31,	
	2015	2014
Net income (loss)	\$(2,377	) \$1,487
Change in cumulative foreign currency translation adjustment	(10,717	) (2,454)
Total comprehensive loss	\$(13,094	) \$(967)

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

7

Table of Contents

DYNAMIC MATERIALS CORPORATION
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 FOR THE THREE MONTHS ENDED MARCH 31, 2015

(Amounts in Thousands, Except Share Data)

(unaudited)

	Common Stock		Additional	Retained	Other	Cumulative
	Shares	Amount	Paid-In	Earnings	Loss	Total
Balances, December 31, 2014	13,997,076	\$ 700	\$67,088	\$113,723	\$ (26,596)	\$154,915
Net loss	—	—	—	(2,377)	—	(2,377)
Change in cumulative foreign currency translation adjustment	—	—	—	—	(10,717)	(10,717)
Shares issued in connection with stock compensation plans	149,033	7	3	—	—	10
Tax impact of stock-based compensation	—	—	(184)	—	—	(184)
Stock-based compensation	—	—	1,237	—	—	1,237
Dividends declared	—	—	—	(566)	—	(566)
Balances, March 31, 2015	14,146,109	\$707	\$68,144	\$110,780	\$ (37,313)	\$142,318

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

Table of Contents

DYNAMIC MATERIALS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014
 (Amounts in Thousands)
 (unaudited)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$(2,377	) \$1,487
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	—	316
Depreciation (including capital lease amortization)	1,655	1,624
Amortization of purchased intangible assets	1,017	1,616
Amortization of deferred debt issuance costs	73	25
Stock-based compensation	724	717
Excess tax benefit from stock-based compensation	(23	) (26
Deferred income tax provision (benefit)	(311	) 670
Restructuring and impairment charges	1,	