

DYNAMIC MATERIALS CORP  
Form 10-Q  
April 29, 2016  
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, 2016

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 84-0608431  
(State of Incorporation or Organization) (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 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 14,385,491 as of April 28, 2016.

---

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 Condensed Consolidated Financial Statements</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets as of March 31, 2016 (unaudited) and December 31, 2015</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015 (unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2016 and 2015 (unaudited)</u>	<u>7</u>
<u>Condensed Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2016 (unaudited)</u>	<u>8</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015 (unaudited)</u>	<u>9</u>
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>10</u>
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
<u>Item 3 Quantitative and Qualitative Disclosure about Market Risk</u>	<u>25</u>
<u>Item 4 Controls and Procedures</u>	<u>25</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	<u>26</u>
<u>Item 1A Risk Factors</u>	<u>26</u>
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>26</u>
<u>Item 3 Defaults Upon Senior Securities</u>	<u>26</u>
<u>Item 4 Mine Safety Disclosures</u>	<u>26</u>
<u>Item 5 Other Information</u>	<u>26</u>
<u>Item 6 Exhibits</u>	<u>26</u>
<u>Signatures</u>	<u>27</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, 2016 (unaudited)	December 31, 2015 (as adjusted)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,595	\$ 6,291
Accounts receivable, net of allowance for doubtful accounts of \$684 and \$974, respectively	32,858	35,798
Inventory, net	36,578	35,449
Prepaid expenses and other	12,302	8,916
Total current assets	87,333	86,454
PROPERTY, PLANT AND EQUIPMENT	109,594	106,523
Less - accumulated depreciation	(50,834 )	(48,524 )
Property, plant and equipment, net	58,760	57,999
GOODWILL, net	17,788	17,190
PURCHASED INTANGIBLE ASSETS, net	19,977	20,418
OTHER ASSETS, net	134	131
TOTAL ASSETS	\$ 183,992	\$ 182,192

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, 2016 (unaudited)	December 31, 2015 (as adjusted)
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 14,212	\$ 14,624
Accrued expenses	3,585	3,972
Accrued anti-dumping duties	6,409	6,374
Dividend payable	288	284
Accrued income taxes	467	2,783
Accrued employee compensation and benefits	2,695	2,465
Customer advances	7,370	2,396
<b>Total current liabilities</b>	<b>35,026</b>	<b>32,898</b>
<b>LINES OF CREDIT</b>	<b>22,867</b>	<b>26,826</b>
<b>DEFERRED TAX LIABILITIES</b>	<b>1,739</b>	<b>2,119</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>2,048</b>	<b>1,928</b>
<b>Total liabilities</b>	<b>61,680</b>	<b>63,771</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
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; 14,385,491 and 14,212,115 shares issued and outstanding, respectively	720	711
Additional paid-in capital	70,985	70,408
Retained earnings	87,066	87,767
Other cumulative comprehensive loss	(36,459 )	(40,465 )
<b>Total stockholders' equity</b>	<b>122,312</b>	<b>118,421</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 183,992</b>	<b>\$ 182,192</b>

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, 2016 AND 2015  
 (Amounts in Thousands, Except Share and Per Share Data)  
 (unaudited)

	Three months ended March 31,	
	2016	2015
NET SALES	\$40,532	\$ 40,819
COST OF PRODUCTS SOLD	30,147	30,116
Gross profit	10,385	10,703
COSTS AND EXPENSES:		
General and administrative expenses	5,448	6,038
Selling and distribution expenses	4,023	4,878
Amortization of purchased intangible assets	999	1,017
Restructuring expenses	—	1,996
Total costs and expenses	10,470	13,929
INCOME (LOSS) FROM OPERATIONS	(85 )	(3,226 )
OTHER INCOME (EXPENSE):		
Other income (expense), net	32	1,124
Interest expense	(164 )	(182 )
Interest income	1	3
INCOME (LOSS) BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	(216 )	(2,281 )
INCOME TAX PROVISION	197	96
NET INCOME (LOSS)	\$(413 )	\$(2,377 )
INCOME (LOSS) PER SHARE		
Basic	\$(0.03 )	\$(0.17 )
Diluted	\$(0.03 )	\$(0.17 )
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	14,129,831	13,822,231
Diluted	14,129,831	13,822,231
DIVIDENDS DECLARED PER COMMON SHARE	\$0.02	\$ 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, 2016 AND 2015

(Amounts in Thousands)

(unaudited)

	Three months ended March 31,	
	2016	2015
Net loss	\$(413 )	\$(2,377 )
Change in cumulative foreign currency translation adjustment	4,006	(10,717 )
Total comprehensive income (loss)	\$3,593	\$(13,094)

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, 2016

(Amounts in Thousands, Except Share Data)

(unaudited)

	Common Stock		Additional	Retained	Other	
	Shares	Amount	Paid-In	Earnings	Cumulative	Total
			Capital		Loss	
Balances, December 31, 2015	14,212,115	\$ 711	\$70,408	\$87,767	\$ (40,465 )	\$118,421
Net loss	—	—	—	(413 )	—	(413 )
Change in cumulative foreign currency translation adjustment	—	—	—	—	4,006	4,006
Shares issued in connection with stock compensation plans	173,376	9	(9 )	—	—	—
Stock-based compensation	—	—	586	—	—	586
Dividends declared	—	—	—	(288 )	—	(288 )
Balances, March 31, 2016	14,385,491	\$ 720	\$70,985	\$87,066	\$ (36,459 )	\$122,312

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, 2016 AND 2015  
 (Amounts in Thousands)  
 (unaudited)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$(413 )	\$(2,377 )
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation (including capital lease amortization)	1,514	1,655
Amortization of purchased intangible assets	999	1,017
Amortization of deferred debt issuance costs	41	73
Stock-based compensation	586	724
Excess tax benefit from stock-based compensation	—	(23 )
Deferred income tax provision (benefit)	(290 )	(311 )
Gain on disposal of property, plant and equipment	(11 )	—
Restructuring charges	—	1,996
Change in:		
Accounts receivable, net	3,612	3,979
Inventory, net	(325 )	(4,933 )
Prepaid expenses and other	(3,047 )	(618 )
Accounts payable	(927 )	(2,122 )
Customer advances	4,878	(1,301 )
Accrued expenses and other liabilities	(2,812 )	(1,591 )
Net cash provided by (used in) operating activities	3,805	(3,832 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	(435 )	(891 )
Proceeds on sale of property, plant and equipment	20	—
Net cash used in investing activities	(415 )	(891 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings (repayments) on bank lines of credit, net	(3,998 )	10,142
Payment on capital lease obligations	(2 )	(1 )
Payment of dividends	(284 )	(559 )
Payment of deferred debt issuance costs	—	(868 )
Net proceeds from issuance of common stock to employees and directors	—	10
Excess tax benefit from stock-based compensation	—	23
Net cash provided by (used in) financing activities	(4,284 )	8,747
<b>EFFECTS OF EXCHANGE RATES ON CASH</b>	198	(485 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(696 )	3,539
<b>CASH AND CASH EQUIVALENTS, beginning of the period</b>	6,291	9,400
<b>CASH AND CASH EQUIVALENTS, end of the period</b>	\$5,595	\$12,939

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



Table of Contents

DYNAMIC MATERIALS CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Amounts 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 our Annual Report filed on Form 10-K for the year ended December 31, 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Dynamic Materials Corporation ("DMC") and its controlled subsidiaries. Only subsidiaries in which controlling interests are maintained are consolidated. All significant intercompany accounts, profits, and transactions have been eliminated in consolidation.

Income Taxes

The effective tax rate for each of the periods reported differs from the U.S. statutory rate due primarily to favorable foreign permanent differences, variation in contribution to consolidated pre-tax income from each jurisdiction for the respective periods and differences between the U.S. and foreign tax rates (which range from 20% to 35%) on earnings that have been permanently reinvested.

We recognize deferred tax assets and liabilities for the expected future income tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. The deferred income tax impact of tax credits are recognized as an immediate adjustment to income tax expense. We recognize deferred tax assets for the expected future effects of all deductible temporary differences to the extent we believe these assets will more likely than not be realized. We record a valuation allowance when, based on current circumstances, it is more likely than not that all or a portion of the deferred tax assets will not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, recent financial operations and their associated valuation allowances, if any.

We recognize the tax benefits from uncertain tax positions only when it is more likely than not, based on the technical merits of the position; the tax position will be sustained upon examination, including the resolution of any related appeals or litigation. The tax benefits recognized in the consolidated financial statements from such a position are measured as the largest benefit that is more likely than not of being realized upon ultimate resolution. We recognize interest and penalties related to uncertain tax positions in operating expense.

Earnings Per Share

Unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock awards ("RSAs"), are considered participating securities for purposes of calculating earnings per share ("EPS") and require the use of the two class method for calculating EPS. Under this method, a portion of net income is

allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock, as shown in the table below.

Computation and reconciliation of earnings per common share are as follows:

10

---

Table of Contents

	Three months ended March 31,	
	2016	2015
Numerator:		
Loss from continuing operations	\$ (413 )	\$ (2,377 )
Less income allocated to RSAs	—	—
Net loss allocated to common stock for EPS calculation	(413 )	(2,377 )
Denominator:		
Weighted average common shares outstanding - basic	14,129,833	13,822,231
Dilutive stock-based compensation plans	—	—
Weighted average common shares outstanding - diluted	14,129,833	13,822,231
Net income (loss) allocated to common stock for EPS calculation:		
Basic	\$ (0.03)	\$ (0.17 )
Diluted	\$ (0.03)	\$ (0.17 )

## Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, trade accounts receivable and payable, accrued expenses and lines of credit approximate their fair value.

## Recently Adopted Accounting Standards

In November 2015, the FASB issued an accounting standards update which requires that deferred tax liabilities and assets be classified as noncurrent in the statement of financial position based on an analysis of each taxpaying component within a jurisdiction. This ASU would be effective for the Company December 1, 2017, however the Company has elected to early adopt prospectively beginning with the year ended December 31, 2015, as is permitted under the standard.

In April 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standards update to revise the presentation of debt issuance costs. Under this pronouncement, entities will present debt issuance costs in their balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the deferred debt issuance costs will continue to be included in interest expense. The new accounting guidance represents a change in accounting principle and is required to be adopted retrospectively in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Accordingly, the Company applied the guidance and reclassified the prior period amount of \$674 of debt issuance costs from other assets, net to lines of credit in the balance sheet as of December 31, 2015. Because the application of this guidance affects classification only, such reclassifications did not have a material effect on the Company's consolidated financial position or results of operations.

## Recent Accounting Pronouncements

In March 2016, the FASB issued a new accounting pronouncement related to accounting for share-based payments. The pronouncement intends to simplify the accounting for share-based payment transactions, including income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. This pronouncement is effective for reporting periods beginning after December 15, 2016. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding the financial reporting of leasing transactions. This new standard requires a lessee to record assets and liabilities on the balance sheet for the rights and obligations arising from leases with terms of more than 12 months. The Company is required to adopt the new standard on January 1, 2019 using a modified retrospective approach. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

In July 2015, the FASB issued an accounting standards update to simplify the measurement of inventory and changes the measurement from lower of cost or market to lower of cost and net realizable value. This pronouncement is effective for reporting

Table of Contents

periods beginning after December 15, 2016. We currently are evaluating the potential impact the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

In May 2014, the FASB issued an accounting standards update to clarify the principles of recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and IFRS. The pronouncement is effective for reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We currently are evaluating the potential impact the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

### 3. INVENTORIES

Inventories are stated at the lower-of-cost (first-in, first-out) or market value. Cost elements included in inventory are material, labor, subcontract costs, and manufacturing overhead. As necessary, we record provisions and maintain reserves for excess, slow moving and obsolete inventory. To determine reserve amounts, we regularly review inventory quantities on hand and values, and compare them to estimates of future product demand, market conditions, production requirements and technological developments.

Inventories consist of the following at March 31, 2016 and December 31, 2015 and include reserves of \$3,217 and \$3,682, respectively:

	March 31, December 31,	
	2016	2015
Raw materials	\$ 13,408	\$ 14,513
Work-in-process	8,427	8,112
Finished goods	14,262	12,320
Supplies	481	504
	\$ 36,578	\$ 35,449



Table of Contents

## 4. GOODWILL

The changes to the carrying amount of goodwill during the period are summarized below:

	NobelClad
Goodwill balance at December 31, 2015	\$ 17,190
Adjustment due to recognition of tax benefit of tax amortization of certain goodwill	(35 )
Adjustment due to exchange rate differences	633
Goodwill balance at March 31, 2016	\$ 17,788

## 5. PURCHASED INTANGIBLE ASSETS

The following table presents details of our purchased intangible assets, other than goodwill, as of March 31, 2016:

	Gross	Accumulated Amortization	Net
Core technology	\$ 19,298	\$ (8,141 )	\$ 11,157
Customer relationships	38,012	(29,451 )	8,561
Trademarks / Trade names	2,070	(1,811 )	259
Total intangible assets	\$ 59,380	\$ (39,403 )	\$ 19,977

The following table presents details of our purchased intangible assets, other than goodwill, as of December 31, 2015:

	Gross	Accumulated Amortization	Net
Core technology	\$ 18,524	\$ (7,528 )	\$ 10,996
Customer relationships	36,830	(27,701 )	9,129
Trademarks / Trade names	1,988	(1,695 )	293
Total intangible assets	\$ 57,342	\$ (36,924 )	\$ 20,418

The change in the gross value of our purchased intangible assets from December 31, 2015 to March 31, 2016 was due to foreign currency translation. Accumulated amortization for the period ended March 31, 2016 includes an adjustment due to recognition of tax benefit of tax amortization previously applied to certain goodwill related to the DynaEnergetics reporting unit. After the goodwill was written off at December 31, 2015, the tax amortization reduces other noncurrent intangible assets related to the historical acquisition.

## 6. CUSTOMER ADVANCES

On occasion, we require customers to make advance payments prior to the shipment of goods in order to help finance our inventory investment on large orders or to keep customers' credit limits at acceptable levels. As of March 31, 2016 and December 31, 2015, customer advances totaled \$7,370 and \$2,396, respectively, and originated from several customers.

Table of Contents

## 7. DEBT

Lines of credit consisted of the following at March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015 (as adjusted)
Syndicated credit agreement:		
U.S. Dollar revolving loan	\$ 23,500	\$ 27,500
Euro revolving loan	—	—
Long-term lines of credit	23,500	27,500
Less: debt issuance costs	633	674
Lines of credit	\$ 22,867	\$ 26,826

## Syndicated Credit Agreement

We have a a five-year \$75,000 syndicated credit agreement (“credit facility”), which allows for revolving loans of \$65,000 in US dollars and \$10,000 in alternate currencies as well as a \$100,000 accordion feature to increase the commitments in any of the loan classes subject to approval by applicable lenders. We also maintain a line of credit with a German bank for certain European operations. This line of credit provides a borrowing capacity of €4,000, of which €1,917 is available.

Borrowings under the \$65,000 revolving loan can be in the form of Alternate Base Rate loans (“ABR” borrowings are based on the greater of adjusted Prime rates, adjusted CD rates, or adjusted Federal Funds rates) or one, two, three, or six month London Interbank Offered Rate (“LIBOR”) loans. ABR loans bear interest at the defined ABR rate plus an applicable margin (varying from 0.25% to 1.50%) and LIBOR loans bear interest at the applicable LIBOR rate plus an applicable margin (varying from 1.25% to 2.75%).

Borrowings under the \$10,000 Alternate Currency revolving loans can be in Canadian Dollars, Euros, Pounds Sterling and any other currency that is freely transferable and convertible to U.S. Dollars. Alternative currency borrowings denominated in Canadian Dollars shall be comprised of Canadian Dealer Offered Rate (“CDOR”) Loans or Canadian Prime Loans, at our option, and bear interest at the CDOR rate plus applicable margin (varying from 1.25% to 2.75%) or the applicable Canadian Prime Rate plus an applicable margin (varying from 0.25% to 1.50%), respectively. Alternative currency borrowings denominated in Euros shall be comprised of Euro Interbank Offered Rate (“EURIBOR”) loans and bear interest at the EURIBOR rate plus an applicable margin (varying from 1.25% to 2.75%). Alternative currency borrowings denominated in any other alternate currency shall be comprised of Eurocurrency loans and bear interest at the LIBOR rate plus an applicable margin (varying from 1.25% to 2.75%).

## Loan Covenants and Restrictions

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, 2016, we were in compliance with all financial covenants and other provisions of our debt agreements.

## 8. BUSINESS SEGMENTS

Our business is organized into two segments: NobelClad and DynaEnergetics. NobelClad's revenues are generated principally from cladding two dissimilar metals together using an explosion-welding process to form plates or transition joints. The clad plates and transition joints are sold to customers that fabricate industrial equipment for various industries, including oil and gas, petrochemicals, alternative energy, hydrometallurgy, aluminum production, shipbuilding, power generation and industrial refrigeration. DynaEnergetics 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.

The accounting policies of all of the segments are the same as those described in the summary of significant accounting policies included herein and in our Annual Report on Form 10-K for the year ended December 31, 2015. Our reportable segments

Table of Contents

are separately managed strategic business units that offer different products and services. Each segment's products are marketed to different customer types and require different manufacturing processes and technologies. Segment information is presented for the three months ended March 31, 2016 and 2015 as follows:

	Three months ended March 31,	
	2016	2015
Net sales:		
NobelClad	\$25,052	\$23,944
DynaEnergetics	15,480	16,875

Consolidated net sales \$40,532 \$40,819

	Three months ended March 31,	
	2016	2015
Income before income taxes:		
NobelClad	\$1,508	\$1,821
DynaEnergetics	920	(794 )
Segment operating income	2,428	1,027
Unallocated corporate expenses	(1,927 )	(3,016 )
Stock-based compensation	(586 )	(1,237 )
Other income (expense)	32	1,124
Interest expense	(164 )	(182 )
Interest income	1	3
Income (loss) before income taxes and discontinued operations	\$(216 )	\$(2,281)

	Three months ended March 31,	
	2016	2015
Depreciation and amortization:		
NobelClad	\$932	\$1,157
DynaEnergetics	1,581	1,515
Segment depreciation and amortization	\$2,513	\$2,672

During the three months ended March 31, 2016 and 2015, no one customer accounted for more than 10% of total net sales.

Table of Contents

## 9. RESTRUCTURING

During 2015, we executed several programs to enhance operating efficiencies across our businesses, including closing distribution and production centers, consolidating manufacturing to more cost-effective locations, and reducing corporate headcount.

## NobelClad Restructuring

NobelClad shifted the majority of clad metal plate production from facilities in Rivesaltes, France and Würgendorf, Germany to its manufacturing facility in Liebenscheid, Germany.

## DynaEnergetics Restructuring

In the first quarter of 2015, we launched several initiatives to enhance DynaEnergetics' operational efficiencies and align its production and distribution resources with the anticipated demands of the market. In January 2015, we closed two North American distribution centers. In February 2015, we announced the closure of a perforating gun manufacturing facility and distribution center in Edmonton, Alberta. North America perforating gun manufacturing was consolidated at DynaEnergetics existing gun facility in Whitney, Texas. We also are exiting several other distribution centers in Texas and Colombia, and the Colombia market is now served directly from our existing facilities in Texas. Two centralized distribution centers replaced the distribution centers closed.

## Corporate Restructuring

In the first quarter of 2015, we restructured our corporate office by eliminating certain positions, and incurred restructuring charges associated with severance and acceleration of unvested stock awards.

Total restructuring and impairment charges incurred for these programs are as follows and are reported in the "restructuring expenses" line item in our consolidated statement of operations:

	Three months ended March 31, 2015					
	Severance	Asset Impairment	Contract Termination Costs	Equipment Moving Costs	Other Exit Costs	Total
NobelClad	\$ 39	\$ —	\$ 11	\$ —	\$ 4	\$ 54
DynaEnergetics	146	202	—	32	2	382
Corporate	1,560	—	—	—	—	1,560
<b>Total</b>	<b>\$ 1,745</b>	<b>\$ 202</b>	<b>\$ 11</b>	<b>\$ 32</b>	<b>\$ 6</b>	<b>\$ 1,996</b>

During the three months ended March 31, 2016, the changes to the restructuring liability associated with these programs is summarized below:

	December 31, 2015	Expense	Payments	Other Adjustments	Balance at March 31, 2016
Severance	\$ 452	\$	—\$ (365 )	\$ 13	\$ 100
Contract termination costs	282	—	(51 )	(14 )	217
Equipment moving costs	—	—	—	—	—
Other exit costs	—	—	—	—	—
<b>Total</b>	<b>\$ 734</b>	<b>\$</b>	<b>—\$ (416 )</b>	<b>\$ (1 )</b>	<b>\$ 317</b>



Table of Contents

10. COMMITMENTS AND CONTINGENCIES

Contingent Liabilities

The Company records an accrual for contingent liabilities when a loss is both probable and reasonably estimable. If some amount within a range of loss appears to be a better estimate than any other amount within the range, that amount is accrued. When no amount within a range of loss appears to be a better estimate than any other amount, the lowest amount in the range is accrued.

In June 2015, U.S. Customs and Border Protection (“U.S. Customs”) sent us a Notice of Action that proposed to classify certain of our imports as subject to anti-dumping duties pursuant to a 2010 anti-dumping duty (“AD”) order on Oil Country Tubular Goods (“OCTG”) from China. A companion countervailing duty (“CVD”) order on the same product is in effect as well. The Notice of Action covered one entry of certain raw material steel mechanical tubing made in China and imported into the U.S. from Canada by our DynaEnergetics segment during 2015 for use in manufacturing perforating guns.

In July 2015, we sent a response to U.S. Customs outlining the reasons our mechanical tubing imports do not fall within the scope of the AD order on OCTG from China and should not be subject to anti-dumping duties. U.S. Customs proposed to take similar action with respect to other entries of this product and requested an approximately \$1,100 cash deposit or bond for AD/CVD duties.

In August 2015, we posted the bond of approximately \$1,100 to U.S. Customs. Subsequently, U.S. Customs declined to conclude on the Company's assertion that the mechanical tubing the Company has been importing is not within the scope of the AD order on OCTG from China. As a result, on September 25, 2015 the Company filed a request for a scope ruling with the U.S. Department of Commerce (“Commerce Department”).

On February 15, 2016, the Company received the Commerce Department’s scope ruling, which determined certain imports, primarily used for gun carrier tubing, are included in the scope of the AD/CVD orders on OCTG from China and thus is subject to AD/CVD duties.

On March 11, 2016, the Company filed an appeal with the U.S. Court of International Trade related to the Commerce Department’s scope ruling. In its financial statements for the year ended December 31, 2015, the Company recorded a \$6.4 million reserve for AD/CVD duties and interest that the Company expects to pay if it is unsuccessful in its appeal.

The Company will incur legal defense costs and could also be subject to additional interest and penalties. Accruals for potential penalties are not reflected in our financial statements as of March 31, 2016 as they are neither probable nor estimable at this time.

11. SUBSEQUENT EVENTS

In April 2016, DynaEnergetics announced plans to further reduce its cost structure to align with the continued deterioration in its end markets. The business expects to incur restructuring expenses of up to \$1,500 related to these actions during the remainder of 2016. Annualized savings associated with these restructuring activities are expected to be approximately \$750.





Table of Contents

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 our Annual Report filed on Form 10-K for the year ended December 31, 2015.

Unless stated otherwise, all currency amounts are presented in thousands of U.S. dollars (000s).

Overview

Our business is organized into two segments: NobelClad and DynaEnergetics.

NobelClad

NobelClad manufactures clad metal plates and transition joints, which are made from clad plates, for sale 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 a large portion of the demand for our clad metal products is driven by new plant construction and large plant expansion projects, maintenance and retrofit projects at existing chemical processing, petrochemical processing, oil refining, and aluminum smelting facilities also account for a significant portion of total demand. These industries tend to be cyclical in nature and timing of new order inflow remains difficult to predict; however, we believe that our NobelClad segment is well-positioned in the marketplace.

Cost of products sold for NobelClad includes 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.

We use backlog as a primary means to measure the immediate outlook for our NobelClad business. We define "backlog" at any given point in time as 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. Our NobelClad backlog decreased to \$40,182 at March 31, 2016 from \$41,832 at December 31, 2015.

DynaEnergetics

DynaEnergetics manufactures shaped charges, detonators and detonating cord, and bidirectional boosters and perforating guns for sale to customers that perform the perforation of oil and gas wells and from sales of seismic products to customers involved in oil and gas exploration activities.

Cost of products sold for DynaEnergetics includes 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.

Results for the First Three Months of 2016

First quarter sales were impacted by a strong performance by NobelClad's Mt. Braddock, Pennsylvania operation. Late in the quarter, the production team took advantage of raw material availability and accelerated work on several orders to address customer demand.

Despite deteriorating demand in DynaEnergetics' end markets, the business continues to outperform its sector by selling high-value products such as the DynaSelect intrinsically safe integrated switch-detonator and the DPEX line of deep-penetrating shaped charges. Sales volumes of DynaSelect were at record levels during the first quarter despite a more than 30% sequential drop in the U.S. rig count. Industry conditions have slowed the roll out and adoption of the factory assembled DynaStage perforating system.

Given the steep decline in the U.S. rig count and sharply lower capital spending budgets by exploration and production companies, the second and third quarters could be particularly challenging for businesses in the well completion sector, including DynaEnergetics.

Consolidated Results of Operations

Three Months Ended March 31, 2016 Compared With Three Months Ended March 31, 2015

18

---

Table of Contents

	Three months ended			
	March 31,			
	2016	2015	\$	%
			change	change
Net sales	\$40,532	\$40,819	\$(287)	(1)%
Gross profit	10,385	10,703	(318)	(3)%
Gross profit margin	25.6	% 26.2	%	
<b>COSTS AND EXPENSES:</b>				
General and administrative expenses	5,448	6,038	(590)	(10)%
% of net sales	13.4	% 14.8	%	
Selling and distribution expenses	4,023	4,878	(855)	(18)%
% of net sales	9.9	% 12.0	%	
Amortization of purchased intangible assets	999	1,017	(18)	(2)%
% of net sales	2.5	% 2.5	%	
Restructuring charges	—	1,996	(1,996)	(100)%
Operating income (loss)	(85)	(3,226)	3,141	(97)%
Other income (expense), net	32	1,124	(1,092)	(97)%
Interest income (expense), net	(163)	(179)	16	(9)%
Income tax provision (benefit)	197	96	101	105%
Net income (loss)	(413)	(2,377)	1,964	(83)%
Adjusted EBITDA	\$3,014	\$2,166	\$848	39%

**Net sales** The decrease compared with 2015 was due to an 8% decrease in DynaEnergetics partially offset by a 5% increase in NobelClad. The decline in DynaEnergetics was due to deteriorating demand in its end markets. NobelClad took advantage of raw material availability and accelerated shipments on several orders in the first quarter of 2016.

**Gross profit** The decrease in gross profit and gross profit margin compared with 2015 was due to a lower proportion of sales in DynaEnergetics relative to NobelClad and unfavorable project mix in NobelClad partially offset by favorable product mix in DynaEnergetics.

**General and administrative expenses** The decrease compared with 2015 primarily was due to a reduction in salaries and benefits, lower stock-based compensation and a decrease in spending on outside services. The first quarter of 2015 also included incremental audit and legal expenses of \$450 associated with the restatement of previously-issued financial statements included in our 2014 Form 10-K.

**Selling and distribution expenses** The decrease compared with 2015 principally was due to lower selling expenses in DynaEnergetics after closing distribution centers as part of its previously announced restructuring programs.

**Restructuring charges** There were no restructuring charges in first quarter of 2016. In 2015 the components of restructuring charges were as follows:

	Severance and benefits	Asset impairments	Contract termination	Equipment moving and other exit costs	Total
NobelClad restructuring	\$ 39	\$ —	\$ 11	\$ 4	\$54
DynaEnergetics restructuring	146	202	—	34	382
Corporate restructuring	1,560	—	—	—	1,560
Total restructuring charges	\$ 1,745	\$ 202	\$ 11	\$ 38	\$1,996

NobelClad's restructuring relates to shifting of the majority of clad metal plate production from facilities in Rivesaltes, France and Würgendorf, Germany to its manufacturing facility in Liebenscheid, Germany.

DynaEnergetics' restructuring relates to the consolidation of perforating gun manufacturing centers, the closure of distribution centers, and the reduction of administrative workforce at the corporate offices in Troisdorf, Germany.

Table of Contents

Corporate restructuring relates to severance payments and the acceleration of unvested stock awards associated with the elimination of certain positions in our corporate office.

Operating income The increase compared with 2015 was due to an increase in DynaEnergetics operating income and lower corporate unallocated and stock-based compensation expenses partially offset by a decrease in NobelClad operating income. Corporate unallocated and stock-based compensation expenses are not allocated to our business segments.

Other income (expense), net The decrease compared with 2015 primarily was due to a decline in unrealized foreign currency gains. Our subsidiaries frequently enter into inter-company and third party transactions that are denominated in currencies other than their functional currency. Changes in exchange rates with respect to these transactions will result in unrealized gains or losses if unsettled at end of the reporting period or realized foreign currency transaction gains or losses at settlement of the transaction.

Interest income (expense), net The increase compared with 2015 was due to higher interest expense on a larger average outstanding debt balance as well as to the amortization of loan fees associated with the credit agreement entered into during February 2015 and amended in December 2016.

Income tax provision (benefit) We recorded income tax expense of \$197 for the first quarter of 2016 compared to income tax expense of \$96 for the first quarter of 2015. We currently are unable to recognize tax benefits associated with losses incurred in certain jurisdictions due to valuation allowances recorded against our deferred tax assets in those jurisdictions.

Net loss As a result of the factors discussed above, net loss for three months ended March 31, 2016 was \$413 (\$0.03 per diluted share) compared with a net loss of \$2,377 (\$0.17 per diluted share) for the same period in 2015.

Adjusted EBITDA The increase compared with 2015 primarily was due to the smaller net loss compared to 2015 as well higher other income from foreign currency transaction gains in 2015.

Adjusted EBITDA is a non-GAAP (generally accepted accounting principles) measure that we believe provides an important indicator of our ongoing operating performance. Adjusted EBITDA, as well as income measures that exclude restructuring expenses (ex-items), are non-GAAP financial measures used by management to measure operating performance. Non-GAAP results are presented only as a supplement to the financial statements based on U.S. GAAP. The non-GAAP financial information is provided to enhance the reader's understanding of DMC's financial performance, but no non-GAAP measure should be considered in isolation or as a substitute for financial measures calculated in accordance with GAAP. Reconciliations of the most directly comparable GAAP measures to non-GAAP measures are provided within the schedules that follow.

EBITDA is defined as net income plus or minus net interest plus taxes, depreciation and amortization. Adjusted EBITDA excludes from EBITDA stock-based compensation, restructuring and impairment charges and, when appropriate, other items that management does not utilize in assessing DMC's operating performance (as further described in the following financial schedules). None of these non-GAAP financial measures are recognized terms under GAAP and do not purport to be an alternative to net income as an indicator of operating performance or any other GAAP measure.

Management uses these non-GAAP measures in its operational and financial decision-making, believing that it is useful to eliminate certain items in order to focus on what it deems to be a more reliable indicator of ongoing operating performance. As a result, internal management reports used during monthly operating reviews feature the adjusted EBITDA. In addition, certain management incentive awards are based, in part, on the amount of adjusted

EBITDA achieved during the year. Management also believes that investors may find non-GAAP financial measures useful for the same reasons, although investors are cautioned that non-GAAP financial measures are not a substitute for GAAP disclosures.

Because not all companies use identical calculations, DMC's presentation of non-GAAP financial measures may not be comparable to other similarly titled measures of other companies. However, these measures can still be useful in evaluating the company's performance against its peer companies because management believes the measures provide users with valuable insight into key components of GAAP financial disclosures.

All of the items included in the reconciliation from net income to EBITDA and adjusted EBITDA are either (i) non-cash items (e.g., depreciation, amortization of purchased intangibles and stock-based compensation) or (ii) items that management does not consider to be useful in assessing DMC's operating performance (e.g., income taxes, restructuring and impairment charges). In the case of the non-cash items, management believes that investors can better assess the company's operating performance if the measures are presented without such items because, unlike cash expenses, these adjustments do not affect

Table of Contents

DMC's ability to generate free cash flow or invest in its business. For example, by adjusting for depreciation and amortization in computing EBITDA, users can compare operating performance without regard to different accounting determinations such as useful life. In the case of the other items, management believes that investors can better assess operating performance if the measures are presented without these items because their financial impact does not reflect ongoing operating performance.

The following is a reconciliation of the most directly comparable GAAP measure to EBITDA and Adjusted EBITDA.

	Three months ended March 31,	
	2016	2015
Net loss attributable to DMC	\$(413 )	\$(2,377)
Interest expense	164	182
Interest income	(1 )	(3 )
Provision for income taxes	197	96
Depreciation	1,514	1,655
Amortization of purchased intangible assets	999	1,017
EBITDA	2,460	570
Restructuring charges	—	1,996
Stock-based compensation	586	724
Other (income) expense, net	(32 )	(1,124 )
Adjusted EBITDA	\$3,014	\$2,166

## Business Segment Financial Information

We primarily evaluate performance and allocate resources based on segment revenues, operating income and adjusted EBITDA as well as projected future performance. Segment operating income is defined as revenues less expenses identifiable to the segment. Segment operating income will reconcile to consolidated income before income taxes by deducting unallocated corporate expenses, including stock-based compensation, net other expense, net interest expense, income tax provision, and income from discontinued operations.

## NobelClad

## Three Months Ended March 31, 2016 Compared With Three Months Ended March 31, 2015

	Three months ended March 31,		\$ change	% change
	2016	2015		
Net sales	\$25,052	\$23,944	\$1,108	5 %
Gross profit	3,967	4,550	(583 )	(13 )%
Gross profit margin	15.8 %	19.0 %		
<b>COSTS AND EXPENSES:</b>				
General and administrative expenses	985	1,250	(265 )	(21 )%
Selling and distribution expenses	1,379	1,328	51	4 %
Amortization of purchased intangible assets	94	96	(2 )	(2 )%
Restructuring expenses	—	54	(54 )	(100)%
Operating income (loss)	1,508	1,821	(313 )	(17 )%
Adjusted EBITDA	\$2,440	\$3,032	\$(592 )	(20 )%

Net sales The increase compared with 2015 reflects the timing differences with respect to when orders enter our backlog and the subsequent shipment of these orders.

Gross profit The decrease in gross profit and gross profit margin compared with 2015 primarily was due to less favorable margins on its mix of projects in the first quarter of 2016 when compared to the same period in 2015. The decline in gross profit partially was offset by higher sales and lower manufacturing overhead expenses from consolidation of manufacturing facilities in Europe.



Table of Contents

General and administrative expenses The decrease compared with 2015 primarily was attributable to lower salaries and wages.

Restructuring expense Restructuring expenses in 2015 related to shifting the majority of clad metal plate production from facilities in Rivesaltes, France and Würgendorf, Germany to its manufacturing facility in Liebenscheid, Germany.

Operating income The decline in operating income was driven by lower gross margin from unfavorable project mix. The decline was partially offset by higher sales and lower general and administrative expenses.

Adjusted EBITDA The decrease compared with 2015 was due to a decline in operating income and lower depreciation in the first quarter of 2016 from consolidating manufacturing operations in Europe. See explanation of the use of Adjusted EBITDA under "Consolidated Results of Operations."

	Three months ended March 31,	
	2016	2015
Income from operations	\$1,508	\$1,821
Adjustments:		
Restructuring	—	54
Depreciation	838	1,061
Amortization of purchased intangibles	94	96
Adjusted EBITDA	\$2,440	\$3,032

## DynaEnergetics

## Three Months Ended March 31, 2016 Compared With Three Months Ended March 31, 2015

	Three months ended March 31,			
	2016	2015	\$ change	% change
Net sales	\$15,480	\$16,875	\$(1,395)	(8)%
Gross profit	6,466	6,201	265	4%
Gross profit margin	41.8%	36.7%		
COSTS AND EXPENSES:				
General and administrative expenses	2,062	2,215	(153)	(7)%
Selling and distribution expenses	2,579	3,478	(899)	(26)%
Amortization of purchased intangible assets	905	921	(16)	(2)%
Restructuring expenses	—	382	(382)	(100)%
Operating income (loss)	920	(794)	1,714	(216)%
Adjusted EBITDA	\$2,501	\$1,103	\$1,398	127%

Net sales The decrease compared with 2015 primarily was due to deteriorating demand in DynaEnergetics' end markets.

**Gross profit** The increase in gross profit and gross profit margin compared with 2015 was due to favorable product mix mostly attributable to sales of our DynaSelect intrinsically-safe switch detonator and our DPEX line of deep penetrating shaped charges.

**General and administrative expenses** The decrease compared with 2015 primarily was due to a headcount reduction associated with our previously announced restructuring programs.

**Selling and distribution expenses** The decrease compared with 2015 was principally due to lower salaries and wages including the impact of closing multiple distribution centers in 2015 combined with a decrease in outside sales agents commission expense due to lower sales into territories in which we don't have a captive sales force.

Table of Contents

Restructuring expense DynaEnergetics' restructuring activity in 2015 relates to the closure of a number of distribution centers in North America and Colombia and the closure of a perforating gun manufacturing facility and distribution center in Edmonton, Alberta.

Operating income DynaEnergetics' operating income increased compared with 2015 primarily due to lower operating expenses as a result of cost reduction initiatives.

Adjusted EBITDA The increase compared with 2015 is primarily due to higher operating income. See explanation of the use of Adjusted EBITDA under "Consolidated Results of Operations"

	Three months ended March 31,	
	2016	2015
Income (loss) from operations	\$920	\$(794 )
Adjustments:		
Restructuring	—	382
Depreciation	676	594
Amortization of purchased intangibles	905	921
Adjusted EBITDA	\$2,501	\$1,103

## 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. 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 interest service, dividend payments, 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; (iii) continue selling products at attractive margins; and (iv) continue to implement cost-effective internal processes, our ability to meet cash requirements through operating activities could be impacted. Additionally, continued challenging conditions in our core energy markets could impact our ability to meet cash requirements through operating activities. Furthermore, any restriction on the availability of borrowings under our credit facilities could negatively affect our ability to meet future cash requirements.

## Debt facilities

We have a a five-year \$75,000 syndicated credit agreement ("credit facility"), which allows for revolving loans of \$65,000 in US dollars and \$10,000 in alternate currencies as well as a \$100,000 accordion feature to increase the commitments in any of the loan classes subject to approval by applicable lenders. We also maintain a line of credit with a German bank for certain DynaEnergetics operations. This line of credit provides a borrowing capacity of 4,000 Euros.

As of March 31, 2016, U.S. dollar revolving loans of \$23,500 were outstanding under our credit facility. While we had approximately \$51,500 of available revolving credit loan capacity as of March 31, 2016 under our various credit facilities, future borrowings are subject to compliance with financial covenants that could significantly limit such availability.

There are two significant financial covenants under our credit facility, the leverage ratio and debt service coverage ratio requirements. The leverage ratio is defined in the credit facility as Consolidated Funded Indebtedness at the balance sheet date as compared to Consolidated EBITDA, which is defined as earnings before provisions for income taxes, interest expense, depreciation and amortization, extraordinary, non-recurring charges and other non-cash charges, for the previous twelve months. For the three months ended March 31, 2016 and the year ended December 31, 2015, Consolidated EBITDA approximated the "Adjusted EBITDA" that we reported for the respective periods. Under our credit facility, the maximum leverage ratio permitted by our credit facility is 3.75 to 1.0. The actual leverage ratio as of March 31, 2016 was 1.65 to 1.0.

The debt service coverage ratio, as defined in the credit facility, means, for any period, the ratio of Consolidated EBITDA less the sum of cash dividends, cash income taxes and capital expenditures to Debt Service Charges. Consolidated EBITDA is defined above and Debt Service Charges equals the sum of cash interest expense and scheduled principal payments of Consolidated

## Table of Contents

Funded Indebtedness. Under our credit facility, the minimum debt service coverage ratio permitted by our credit facility is 1.35 to 1.0. The actual debt service coverage ratio for the trailing twelve months ended March 31, 2016 was 8.79 to 1.0.

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, 2016, we were in compliance with all financial covenants and other provisions of our debt agreements.

### Other contractual obligations and commitments

Our long-term debt balance decreased to \$23,500 at March 31, 2016 from \$27,500 at December 31, 2015. Our other contractual obligations and commitments have not materially changed since December 31, 2015.

### Cash flows from operating activities

Net cash provided by operating activities was \$3,805 for the three months ended March 31, 2016. This compares to net cash used in operating activities of \$3,832 for the same period in 2015. The year-over-year increase in operating cash flows of \$7,637 was driven by an increase in net income of \$1,964 and a \$7,965 decrease in net working capital. We experienced favorable net working capital changes of \$1,379 in the first quarter of 2016 compared with unfavorable changes in net in working capital of \$6,586 in the same period of 2015. Favorable changes in our first quarter 2016 working capital included a \$4,878 increase in customer advances related to customer prepayments in NobelClad and a \$3,612 increase in accounts receivable due to lower sales volume and improved collections in DynaEnergetics. These favorable changes in working capital were partially offset by a \$2,812 decrease in accrued expenses and other liabilities primarily as a result of income tax payments and a \$3,047 increase in prepaid expenses.

Net cash provided by operating activities was \$3,832 for the three months ended March 31, 2015. We experienced unfavorable net working capital changes of \$6,586 in the 2015 period, including an increase in inventories and prepaid expenses of \$4,933 and \$618, respectively, and decreases of \$2,122 in accounts payable and \$1,301 in customer advances. The increases in working capital were driven by higher sales in DynaEnergetics, timing of accounts payable and prepayment for raw materials with long lead times but favorable pricing. These unfavorable changes were partially offset by a decrease in accounts receivable of \$3,979.

### Cash flows from investing activities

Net cash flows used in investing activities for the three months ended March 31, 2016 were \$415 and primarily consisted of capital expenditures.

Net cash flows used in investing activities for the three months ended March 31, 2015 totaled \$891 and consisted almost entirely of capital expenditures.

### Cash flows from financing activities

Net cash flows used in financing activities for the three months ended March 31, 2016 totaled \$4,284, which included net repayments on bank lines of credit of \$3,998 and payment of quarterly dividends of \$284.

Net cash flows provided by financing activities for the three months ended March 31, 2015 totaled \$8,747, which included net borrowings on bank lines of credit of \$10,142 and payment of quarterly dividends of \$559.

Payment of Dividends

On February 17, 2016, our board of directors declared a quarterly cash dividend of \$0.02 per share which was paid on April 15, 2016. The dividend totaled \$288 and was payable to shareholders of record as of March 31, 2016. We paid a quarterly cash dividend of \$0.04 per share in the first quarter of 2015.

We may continue to pay quarterly dividends in the future subject to capital availability and periodic determinations that cash dividends are in compliance with our debt covenants and 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, debt covenant compliance, changes in federal income tax laws, or 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 our Board of Directors.

Table of Contents

Critical Accounting Policies

Our critical accounting policies have not changed from those reported in our Annual Report filed on Form 10-K for the year ended December 31, 2015.

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, 2015.

ITEM 4. Controls and Procedures

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, we identified a material weakness related to deferred income tax accounting for certain foreign entities. More specifically, the calculation of deferred tax positions for certain foreign entities was based on inappropriate methods and supporting data. The controls over reconciliation and review of income tax accounting did not identify the inappropriate methods and supporting data used in the computations. We are currently evaluating the controls and procedures we will design and put in place to remediate this material weakness. These controls and procedures may include the following:

- Revise, as necessary, the process and internal controls to compile and review deferred tax account balances and their impact on the income tax provision.
- Add internal and external resources focused on the preparation and review of the tax accounts.
- Provide income tax accounting training.

We are in the process of remediating this material weakness by executing upon the above actions. The actions that we are taking are subject to ongoing senior management review, as well as Audit Committee oversight. Although we plan to complete this remediation process as quickly as possible, we cannot at this time estimate how long it will take and our initiatives may not prove to be successful in remediating this material weakness. Management believes the foregoing efforts will effectively remediate the material weakness. As we continue to evaluate and work to improve our internal control over financial reporting, management may execute additional measures to address potential control deficiencies or modify the remediation plan described above. Management will continue to review and make necessary changes to the overall design of our internal controls.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our 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 our management, including our 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, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on that evaluation, which includes the material weakness identified at December 31, 2015 discussed above, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level. There have been no other changes in our internal controls during the

quarter ended March 31, 2016 or in other factors that could materially affect our internal controls over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our 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 our 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 errors or mistakes. 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, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the disclosure controls and procedures are met.

25

---



Table of Contents

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no significant changes in the risk factors identified as being attendant to our business in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

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 Senior 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 Senior 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.

101 The following materials from the Quarterly Report on Form 10-Q of Dynamic Materials Corporation, for the quarter ended March 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statement of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.\*

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

26

---

Table of Contents

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: April 28,  
2016

/s/ Michael Kuta

Michael Kuta, Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)