

DYNAMIC MATERIALS CORP
Form 10-Q
October 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2013

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

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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 13,760,007 as of October 30, 2013.

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CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains “forward-looking statements” within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. In particular, we direct your attention to Part I, Item 1- Condensed Consolidated Financial Statements; Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations; Item 3 - Quantitative and Qualitative Disclosures About Market Risk; and Part II, Item 1A — Risk Factors. We intend the forward-looking statements throughout this quarterly report on Form 10-Q and the information incorporated by reference herein to be covered by the safe harbor provisions for forward-looking statements. Statements contained in this report which are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. All projections, 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.

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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)

	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$9,578	\$8,200
Accounts receivable, net of allowance for doubtful accounts of \$340 and \$406, respectively	32,018	36,981
Inventory, net	41,708	48,320
Prepaid expenses and other	3,982	5,091
Current deferred tax assets	2,564	2,074
Total current assets	89,850	100,666
PROPERTY, PLANT AND EQUIPMENT	104,208	90,621
Less - accumulated depreciation	(40,708)	(36,645)
Property, plant and equipment, net	63,500	53,976
GOODWILL, net	37,553	37,431
PURCHASED INTANGIBLE ASSETS, net	37,646	41,958
DEFERRED TAX ASSETS	505	804
OTHER ASSETS, net	500	596
TOTAL ASSETS	\$229,554	\$235,431

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

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

	September 30, 2013 (unaudited)	December 31, 2012
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$9,135	\$11,281
Accrued expenses	4,321	4,564
Dividend payable	550	540
Accrued income taxes	1,325	406
Accrued employee compensation and benefits	5,547	4,977
Customer advances	1,392	1,363
Current debt obligations	65	1,046
Current portion of capital lease obligations	33	52
Current deferred tax liabilities	274	149
 Total current liabilities	 22,642	 24,378
 LINES OF CREDIT	 25,550	 37,779
 LONG-TERM DEBT	 5	 55
 CAPITAL LEASE OBLIGATIONS	 —	 19
 DEFERRED TAX LIABILITIES	 8,429	 9,211
 OTHER LONG-TERM LIABILITIES	 1,755	 1,433
 Total liabilities	 58,381	 72,875
 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; 13,759,007 and 13,519,555 shares issued and outstanding, respectively	688	676
Additional paid-in capital	62,099	60,158
Retained earnings	113,670	108,101
Other cumulative comprehensive loss	(5,464	) (6,463)
 Total Dynamic Materials Corporation's stockholders' equity	 170,993	 162,472
Non-controlling interest	180	84
 Total stockholders' equity	 171,173	 162,556

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$229,554	\$235,431
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The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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DYNAMIC MATERIALS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(Amounts in Thousands, Except Share and Per Share Data)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
NET SALES	\$54,268	\$50,149	\$158,396	\$149,048
COST OF PRODUCTS SOLD	37,695	34,800	112,042	105,383
Gross profit	16,573	15,349	46,354	43,665
COSTS AND EXPENSES:				
General and administrative expenses	5,833	4,668	19,129	13,815
Selling and distribution expenses	3,699	4,011	12,074	12,330
Amortization of purchased intangible assets	1,581	1,520	4,734	4,584
Total costs and expenses	11,113	10,199	35,937	30,729
INCOME FROM OPERATIONS	5,460	5,150	10,417	12,936
OTHER INCOME (EXPENSE):				
Other income (expense), net	(247	) 180	(371	) 390
Interest expense	(129	) (216	) (484	) (622
Interest income	1	16	5	25
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	5,085	5,130	9,567	12,729
INCOME TAX PROVISION	1,474	1,373	2,259	3,882
NET INCOME	3,611	3,757	7,308	8,847
Less: Net income attributable to non-controlling interest	49	3	92	13
NET INCOME ATTRIBUTABLE TO DYNAMIC MATERIALS CORPORATION	\$3,562	\$3,754	\$7,216	\$8,834
INCOME PER SHARE:				
Basic	\$0.26	\$0.28	\$0.52	\$0.65
Diluted	\$0.26	\$0.28	\$0.52	\$0.65
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	13,540,394	13,212,246	13,528,880	13,204,086
Diluted	13,544,665	13,216,229	13,532,973	13,208,259

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DIVIDENDS DECLARED PER COMMON SHARE	\$0.04	\$0.04	0.12	0.12
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The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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DYNAMIC MATERIALS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(Amounts in Thousands)

(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income including non-controlling interest	\$3,611	\$3,757	\$7,308	\$8,847
Change in cumulative foreign currency translation adjustment	4,183	3,049	1,003	(207)
Total comprehensive income	7,794	6,806	8,311	8,640
Comprehensive income attributable to non-controlling interest	55	6	96	13
Comprehensive income attributable to Dynamic Materials Corporation	\$7,739	\$6,800	\$8,215	\$8,627

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

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DYNAMIC MATERIALS CORPORATION
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

(Amounts in Thousands)

(unaudited)

	Dynamic Materials Corporation Stockholders						
	Common Stock Shares	Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Loss	Non- Controlling Interest	Total	
Balances, December 31, 2012	13,520	\$ 676	\$ 60,158	\$ 108,101	\$ (6,463)	\$ 84	\$ 162,556
Net income	—	—	—	7,216	—	92	7,308
Change in cumulative foreign currency translation adjustment	—	—	—	—	999	4	1,003
Shares issued in connection with stock compensation plans	239	12	151	—	—	—	163
Tax impact of stock-based compensation	—	—	(895)	—	—	—	(895)
Stock-based compensation	—	—	2,685	—	—	—	2,685
Dividends declared	—	—	—	(1,647)	—	—	(1,647)
Balances, September 30, 2013	13,759	\$ 688	\$ 62,099	\$ 113,670	\$ (5,464)	\$ 180	\$ 171,173

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

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DYNAMIC MATERIALS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
 (Amounts in Thousands)
 (unaudited)

	2013	2012	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$7,308	\$8,847	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation (including capital lease amortization)	4,441	4,121	
Amortization of purchased intangible assets	4,734	4,584	
Amortization of deferred debt issuance costs	76	96	
Stock-based compensation	2,685	2,838	
Deferred income tax benefit	(260	) (763)
Gain (loss) on disposal of property, plant and equipment	5	(32)
Change in:			
Accounts receivable, net	4,978	(588)
Inventories	6,566	(4,565)
Prepaid expenses and other	1,041	635	
Accounts payable	(2,187	) (2,458)
Customer advances	14	(554)
Accrued expenses and other liabilities	1,333	316	
Net cash provided by operating activities	30,734	12,477	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment	(14,030	) (10,526)
Acquisition of TRX Industries	—	(10,294)
Change in other non-current assets	209	152	
Net cash used in investing activities	(13,821	) (20,668)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings (repayments) on bank lines of credit, net	(13,252	) 17,087	
Payment on loans with former owners of LRI	(47	) (1,157)
Payment on capital lease obligations	(39	) (53)
Payment of dividends	(1,637	) (1,614)
Net proceeds from issuance of common stock to employees and directors	163	98	
Tax impact of stock-based compensation	(895	) (5)
Net cash provided by (used in) financing activities	(15,707	) 14,356	
EFFECTS OF EXCHANGE RATES ON CASH	172	(60)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,378	6,105	
CASH AND CASH EQUIVALENTS, beginning of the period	8,200	5,276	

CASH AND CASH EQUIVALENTS, end of the period	\$9,578	\$11,381
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The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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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, 2012.

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.

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.

Based upon our most recent review of inventory quantities to identify potentially excess, slow moving and obsolete inventory items, we determined that reserves for our Oilfield Product business segment should be increased by \$1,245 to adequately provide for estimated requirements and recorded corresponding expense of \$1,245 (\$895, net of tax) in cost of products sold in our third quarter 2013 condensed consolidated statement of operations. This change in estimate resulted from a comprehensive review of Oilfield Products' inventories that was completed during the third quarter and reflects management's efforts to reduce overall inventory levels and rationalize product line offerings. The impact of this change in estimate reduced earnings per share by \$0.06 per share (basic and diluted) for the three and nine months ended September 30, 2013.

Inventories consist of the following at September 30, 2013 and December 31, 2012 and include reserves of \$2,040 and \$337, respectively:

	September 30, 2013	December 31, 2012
Raw materials	\$13,358	\$16,079
Work-in-process	10,410	12,133
Finished goods	16,995	19,155
Supplies	945	953
	\$41,708	\$48,320

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.

In January 2013, the United States Congress authorized, and the President signed into law, legislation which retroactively changed federal tax laws for 2012. Since this legislation was enacted in 2013, the financial statement benefit from these changes,

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totaling approximately \$900, was reflected in the provision for income taxes in the consolidated statement of operations during the nine months ended September 30, 2013.

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:

	For the three months ended September 30, 2013			For the three months ended September 30, 2012		
	Income	Shares	EPS	Income	Shares	EPS
Basic earnings per share:						
Net income attributable to DMC	\$3,562			\$3,754		
Less income allocated to RSAs	(59	)		(83)	
Net income allocated to common stock for EPS calculation	\$3,503	13,540,394	\$0.26	\$3,671	13,212,246	\$0.28
Adjust shares for dilutives:						
Stock-based compensation plans		4,271			3,983	
Diluted earnings per share:						
Net income attributable to DMC	\$3,562			\$3,754		
Less income allocated to RSAs	(59	)		(83)	
Net income allocated to common stock for EPS calculation	\$3,503	13,544,665	\$0.26	\$3,671	13,216,229	\$0.28
	For the nine months ended September 30, 2013			For the nine months ended September 30, 2012		
	Income	Shares	EPS	Income	Shares	EPS
Basic earnings per share:						
Net income attributable to DMC	\$7,216			\$8,834		
Less income allocated to RSAs	(115	)		(196)	
Net income allocated to common stock for EPS calculation	\$7,101	13,528,880	\$0.52	\$8,638	13,204,086	\$0.65
Adjust shares for dilutives:						
Stock-based compensation plans		4,093			4,173	
Diluted earnings per share:						