

DYNAMIC MATERIALS CORP
Form 10-K
March 09, 2012
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

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

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

84-0608431
(I.R.S. Employer Identification No.)

5405 Spine Road, Boulder, Colorado 80301

(Address of principal executive offices, including zip code)

(303) 665-5700

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.05 Par Value	The Nasdaq National Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act from their obligations under those sections. Yes 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 (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

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 larger accelerated filer, accelerated filer and smaller reporting company in Rule 12-b2 of the Exchange Act.

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

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

The approximate aggregate market value of the voting stock held by non-affiliates of the registrant was \$284,180,136 as of June 30, 2011.

The number of shares of Common Stock outstanding was 13,483,238 as of March 5, 2012.

Certain information required by Items 10, 11, 12, 13 and 14 of Form 10-K is incorporated by reference into Part III hereof from the registrant's proxy statement for its 2012 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission (SEC) within 120 days of the close of the registrant's fiscal year ended December 31, 2011.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I</u>	
<u>Item 1.</u> <u>Business</u>	- 1 -
<u>Item 1A.</u> <u>Risk Factors</u>	- 11 -
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	- 19 -
<u>Item 2.</u> <u>Properties</u>	- 19 -
<u>Item 3.</u> <u>Legal Proceedings</u>	- 22 -
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	- 22 -
<u>Part II</u>	
<u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	- 23 -
<u>Item 6.</u> <u>Selected Financial Data</u>	- 25 -
<u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	- 27 -
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	- 43 -
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	- 44 -
<u>Item 9.</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	- 76 -
<u>Item 9A.</u> <u>Controls and Procedures</u>	- 76 -
<u>Item 9B.</u> <u>Other Information</u>	- 79 -
<u>Part III</u>	
<u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u>	- 80 -
<u>Item 11.</u> <u>Executive Compensation</u>	- 80 -
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	- 80 -
<u>Item 13.</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	- 80 -
<u>Item 14.</u> <u>Principal Accountant Fees and Services</u>	- 80 -
<u>Part IV</u>	
<u>Item 15.</u> <u>Exhibits and Financial Statement Schedules</u>	- 80 -
<u>Signatures</u>	- 82 -

Table of Contents

PART I

ITEM 1. Business

Overview

References made in this Annual Report on Form 10-K to we, our, us, DMC and the Company refer to Dynamic Materials Corporation and its consolidated subsidiaries.

Dynamic Materials Corporation is an industrial manufacturer focusing on niche markets related to the building of equipment and materials to support the infrastructure of the process and energy industries. Built upon specialized technologies, the Company seeks to establish a global presence through an international network of manufacturing facilities and sales offices. Today, the Company operates in three business segments: Explosive Metalworking (60% of 2011 net sales), Oilfield Products (35% of 2011 net sales), and AMK Welding (5% of 2011 net sales).

We are a leading provider of explosion-welded clad metal plates. Explosion-weld cladding uses an explosive charge to bond together plates of different metals that do not bond easily with traditional welding techniques. We refer to this part of our business as DMC Clad or the Explosive Metalworking segment. DMC Clad markets its explosion-welded clad products under the Detaclad® trade name. DMC Clad's products are used in critical applications in a variety of industries, including oil and gas, alternative energy, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation and industrial refrigeration. DMC Clad's market leadership for explosion-welded clad metal plates is a result of its state-of-the-art manufacturing facilities, technological leadership, and production expertise. We believe our customers select us for our high quality product, speed and reliability of delivery, and cost effectiveness. We have a global sales force through which we sell our products in international markets. Our Explosive Metalworking operations are located in the United States, Germany and France.

Through our Oilfield Products segment, which we also refer to as DYNAenergetics, we provide a range of proprietary and nonproprietary products for the global oil and gas industries. These products relate primarily to oil and gas well perforation, which is a process of punching holes in the casing of a well to enable easier and more precise recovery of oil or gas from a targeted formation. Manufactured products include shaped charges, detonators and detonating cords, bidirectional boosters, and perforating guns for the perforation of oil and gas wells. DYNAenergetics also distributes a line of seismic products that support oil and gas exploration activities. DYNAenergetics' primary manufacturing and sales operations are located in Germany, the United States, Canada and Russia and its products are sold in numerous countries.

Our AMK Welding segment (AMK Welding) provides advanced welding services, primarily to the power turbine and aircraft engine manufacturing industries. AMK Welding is a highly specialized welding subcontracting shop for complex shapes used principally in gas turbines and aircraft engines. AMK Welding's operations are conducted at its Connecticut facility.

Clad Metal Industry

Clad metal plates are typically used in the construction of heavy, corrosion resistant pressure vessels and heat exchangers for oil and gas, alternative energy, chemical and petrochemical, hydrometallurgy, power generation, industrial refrigeration, and similar industries. Clad metal plates consist of a thin layer of an expensive, corrosion resistant metal, such as titanium or stainless steel, which is metallurgically combined with a less expensive structural base metal, such as steel. For heavy equipment, clad generally provides a cost savings alternative to building the equipment of solely the corrosion resistant alloy.

There are three major industrial clad plate manufacturing technologies:

- Explosion welding
- Hot Rollbonding
- Weld overlay

Explosion welding, the technology utilized by DMC Clad, is the most versatile of the foregoing clad plate manufacturing technologies. Being a robust cold welding technology, explosion-welded clad products exhibit high bond strength combined with the unaltered corrosion resistance and mechanical properties of the pre-clad components. The explosion-welded clad process is suitable for joining virtually any combination of common engineering metals. Explosion-welded clad metal is produced as flat plates or concentric cylinders which can be further formed and fabricated

Table of Contents

as needed. When fabricated properly, the two metals will not come apart. The dimensional capabilities of the process are broad: cladding metal layers can range from a few thousandths of an inch to several inches and base metal thickness and lateral dimensions are primarily limited by the size capabilities of the world's metal production mills. Explosion welding is used to clad a very broad range of metals to steel including aluminum, titanium, zirconium, nickel alloys, and stainless steels. The alternative technologies are typically limited to the latter two. In addition to use as clad plates, the explosion welded components can be used as transition pieces, facilitating conventional welding of dissimilar metals. DMC Clad transition joints are used in the aluminum production and shipbuilding industries.

Hot rollbonding is performed by a small group of the world's heavy plate rolling mills. In this process, the clad metal and base metal are bonded together during the hot rolling operation in which the metal slab is converted to plate. Being a high temperature process, hot rollbond is limited to joining similar metals, such as stainless steel and nickel alloys to steel. Rollbond's niche is production of large quantities of light to medium gauge clad plates; it is frequently lower cost than explosion clad when total metal thickness is under 1 to 2 inches (dependent upon alloy and a number of other factors.) Rollbond products are generally suitable for most pressure vessel applications but have lower bond shear strength and may have inferior corrosion resistance.

In weld overlay cladding, the clad metal layer is deposited on the base metal using arc-welding type processes. Weld overlay is a cost-effective technology for complicated shapes, for field service jobs, and for production of heavy-wall pressure vessel reactors. During overlay welding, the cladding metal and base metal are melted together at their interface, the resulting dilution of the cladding metal chemistry may compromise corrosion performance and limit use in certain applications. Weld metal shrinkage during cooling potentially causes distortion when the base layer is thin; consequently, overlay is rarely the technically preferred solution for construction of new equipment when thicknesses are under 3 to 4 inches. As with rollbond, weld overlay is limited to metallurgically similar metals, primarily stainless steels and nickel alloys joined to steel. Weld overlay is typically performed in conventional metal fabrication shops.

Clad Metal End Use Markets

Explosion-welded clad metal is primarily used in construction of large industrial equipment involving high pressures and temperatures and needs to be corrosion resistant. The eight broad industrial sectors discussed below comprise the bulk of demand for DMC Clad's business. The demand for clad metal is driven by the underlying demand for new equipment and facility maintenance in these primary market sectors. Overall, the market for explosion-welded clad metal has continuously grown since its inception, with demand dependent upon the underlying needs of the various market sectors. There has been significant capital investment in many of these markets.

Oil and Gas: Oil and gas end use markets include both oil and gas production and petroleum refining. Oil and gas production covers a broad scope of operations related to recovering oil and/or gas for subsequent processing in refineries. Clad metal is used in separators, glycol contactors, piping, heat exchangers and other related equipment. The increase in oil and gas production from deep, hot, and corrosive fields has significantly increased the demand for clad equipment. Many non-traditional energy production methods are potentially commercially viable for bringing natural gas to the market. Clad is commonly used in these facilities. The primary clad metals for this market are stainless steel and nickel alloys clad to steel, with some use of reactive metals.

Petroleum refining processes frequently are corrosive, are hot, and operate at high pressures. Clad metal is extensively used in a broad range of equipment including desulfurization hydrotreaters, coke drums, distillation columns, separators and heat exchangers. In the United States, refineries are running near their full capacity; and adding capacity and reducing costly down-time are a high priority. The increasing reliance upon low quality, high sulfur crude further drives additional demand for new corrosion resistant equipment. Worldwide trends in regulatory control of sulfur emissions in gas, diesel and jet fuel are also increasing the need for clad equipment. Like the upstream oil and gas sector, the

clad metals are primarily stainless steel and nickel alloys.

Alternative Energy: Today's oil and gas prices and increasing climate concerns are driving significant upward demand for capital equipment in the alternative energy sector. Frequently, alternative energy technologies involve conditions which necessitate clad metals. Solar panels predominantly incorporate high purity silicon. Processes for manufacture of high purity silicon utilize a broad range of highly corrosion resistant clad alloys. Many geothermal fields are corrosive, requiring high alloy clad separators to clean the hot steam. Cellulosic ethanol technologies may require corrosion resistant metals such as titanium and zirconium.

Chemical and Petrochemical: Many common products, ranging from plastics to drugs to electronic materials, are produced by chemical processes. Because the production of these items often involves corrosive agents and is

Table of Contents

conducted under high pressures or temperatures, corrosion resistant equipment is needed, equipment which is best and most cost-effectively produced using clad construction. One of the larger applications for titanium-clad equipment is in the manufacture of Purified Terephthalic Acid (PTA), a precursor product for polyester, which is used in everything from carpets to plastic bottles. This market requires extensive use of stainless steel and nickel alloys, but also uses titanium and, to a lesser extent, zirconium and tantalum.

Hydrometallurgy: The conversion of raw ore to metal generally involves high energy and/or corrosive processes. Traditionally, most metals have been produced by high temperature smelting. Over the past two decades there has been an increasing trend toward acid leaching processes. These hydrometallurgy processes are more environmentally friendly and more energy efficient. The processes for production of nickel, gold, and copper involve acids, high pressures, and high temperatures. Titanium is the metal of choice. Titanium-clad plates are used extensively for construction of autoclaves and peripheral equipment.

Aluminum Production: Aluminum is reduced from its oxide in large electric smelters called potlines. The electric current is carried via aluminum conductors. The electricity must be transmitted into steel components for the high temperature smelting operations. Aluminum cannot be welded to steel conventionally. Explosion-welded aluminum-steel transition joints provide an energy efficient and highly durable solution for making these connections. Modern potlines use a large number of transition joints. Transition joints are typically replaced after approximately five years in service. Although aluminum production is the major electrochemical application for DMC Clad products, there are a number of other electrochemical applications including production of magnesium, chlorine and chlorate.

Shipbuilding: The combined problems of corrosion and top-side weight drive significant demand for our aluminum-steel transition joints. Top-side weight is often a significant problem with tall ships, including cruise ships, naval vessels, ferries and yachts. Use of aluminum in the upper structure and steel in the lower structure provides stability. Bolted joints between aluminum and steel corrode quickly in seawater. Aluminum cannot be welded directly to steel using traditional welding processes. Welded joints can only be made using transition joints. DMC Clad products can be found on many well known ships, including the QE II and modern U.S. Navy aircraft carriers.

Power Generation: Fossil fuel and nuclear power generation plants require extensive use of heat exchangers, many of which require corrosion resistant alloys to handle low quality cooling water. Our clad plates are used extensively for heat exchanger tubesheets. The largest clad tubesheets are used in the final low pressure condensers. For most coastal and brackish water cooled plants, titanium is the metal of choice technically, and titanium-clad tubesheets are the low cost solution for power plant condensers.

Industrial Refrigeration: Heat exchangers are a core component of refrigeration systems. When the cooling water is seawater, brackish, or even slightly polluted, corrosion resistant metals are necessary. Metal selection can range from stainless steel to copper alloy to titanium. Explosion-welded clad metal is often the low cost solution for making the tubesheets. Applications range from refrigeration chillers on fishing boats to massive air conditioning units for skyscrapers, airports, and deep underground mines.

Oil and Gas Field Perforating Industry

The oil and gas industry utilizes perforating products in oil and gas fields to punch holes in the casing or liner of wells to connect them to the reservoir. The operator runs a casing or liner into the well and then inserts the perforating guns, which contain a series of specialized shaped charges. Once fired, the perforating guns provide access to the specified sections of the desired areas of the targeted formations. Completing

wells through the use of perforation guns can provide more control over the well.

DYNAenergetics End Use Markets

DYNAenergetics products are utilized to perform both perforating services which require shaped charges, detonators, boosters, detonating cords, and perforating guns and seismic prospecting. DYNAenergetics manufactures and distributes a comprehensive array of perforating products. Our DYNAenergetics products are generally purchased by oilfield service companies who utilize our perforating products for oil and gas recovery and our seismic products for oil and gas exploration activities.

Table of Contents

AMK Welding End Use Markets

Parts for power turbines and aircraft engines must be machined to exacting tolerances and welded according to exacting specifications. Many of those parts have complex shapes, the welding of which requires significant expertise. AMK Welding is a specialized operation that welds complex, shaped parts for machining companies that, in turn, supply the manufacturers of power turbines and aircraft engines. Some machining companies also have their own welding facilities, which compete with AMK Welding for business.

Business Segments

We operate three business segments: Explosive Metalworking (which we also refer to as DMC Clad), Oilfield Products (which we also refer to as DYNAenergetics), and AMK Welding. The Explosive Metalworking segment uses proprietary explosive processes to fuse dissimilar metals and alloys and has more than 40 years of experience. We are the largest explosion-welded clad metal manufacturer in both North America and Europe. DYNAenergetics produces special shaped charges, detonators, detonating cords, bidirectional boosters, and perforating guns for the perforation of oil and gas wells and has more than a decade of experience providing specialized products to the oil and gas industry. AMK Welding utilizes various specialized technologies to weld components for use in power-generation turbines as well as commercial and military jet engines and has 40 years of experience.

Explosive Metalworking

The Explosive Metalworking segment seeks to build on its leadership position in its markets. During the year ended December 31, 2011, the Explosive Metalworking segment represented approximately 60% of our revenue. The three manufacturing plants and their respective shooting sites in Pennsylvania, Germany and France provide the production capacity to address concurrent projects for DMC Clad's current domestic and international customer base.

The primary product of the Explosive Metalworking segment is explosion-welded clad metal plate. Clad metal plates are used in the construction of heavy, corrosion resistant pressure vessels and heat exchangers for oil and gas, alternative energy, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration, and similar industries. The characteristics of DMC Clad's explosive metalworking processes may enable the development of new products in a variety of industries and DMC Clad continues to explore such development opportunities.

The principal product of metal cladding, regardless of the process used, is a metal plate composed of two or more dissimilar metals, usually a corrosion resistant metal and steel, bonded together. Prior to the explosion-welded clad process, the materials are inspected, the mating surfaces are ground, and the metal plates are assembled for cladding. The process involves placing a sheet of the cladder over a parallel plate of backer material and then covering the cladder material with a layer of specifically formulated explosive. A small gap or standoff space is maintained between the alloy cladder and the backer substrate. The explosion is then initiated on one side of the cladder and travels across the surface of the cladder forcing it down onto the backer. The explosion happens in approximately one-thousandth of a second. The collision conditions cause a thin layer of the mating surfaces to be spalled away in a jet. This action removes oxides and surface contaminants immediately ahead of the collision point. The extreme pressures force the two metal components together, creating a metallurgical bond between them. The explosion-welded clad process produces a strong, ductile, continuous metallurgical weld over the clad surface. After the explosion is completed,

the resulting clad plates are flattened and cut, and then undergo testing and inspection to assure conformance with internationally accepted product specifications.

Table of Contents

EXPLOSION-WELDING PROCESS

Explosion-welded cladding technology is a method to weld metals that cannot be welded by conventional processes, such as titanium-steel, aluminum-steel, and aluminum-copper. It can also be used to weld compatible metals, such as stainless steels and nickel alloys to steel. The cladding metals are typically titanium, stainless steel, aluminum, copper alloys, nickel alloys, tantalum, and zirconium. The base metals are typically carbon steel, alloy steel, stainless steel and aluminum. Although the patents for the explosion-welded cladding process have expired, DMC Clad has proprietary knowledge that distinguishes it from its competitors. The entire explosion-welding process involves significant precision in all stages, and any errors can be extremely costly as they result in the discarding of the expensive raw material metals. DMC Clad's technological expertise is a significant advantage in preventing costly waste.

Explosion-welded clad metal is used in critical applications in a variety of industries, including oil and gas, alternative energy, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and other industries where corrosion, temperature and pressure combine to produce demanding environments. Explosion-welded clad metal is also used to produce bimetal transition joints or other components which are used in ship construction, and in a variety of electrochemical industries including aluminum production.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

DMC Clad's metal products are primarily produced on a project-by-project basis conforming to requirements set forth in customers' purchase orders. Upon receipt of an order, DMC Clad obtains the component materials from a variety of sources based on quality, availability and cost and then produces the order in one of its four manufacturing plants. Final products are processed to meet contract specific requirements for product configuration and quality/inspection level.

DYNAenergetics

DYNAenergetics manufactures, markets, and sells perforating explosives and associated hardware and seismic explosives, for the international oil and gas industry. While DYNAenergetics has been producing detonating cords and

Table of Contents

detonators and selling these and seismic explosives systems for decades, since 1994 significant emphasis has been placed on enhancing its oilfield product offerings by improving existing products and adding new products. In recent years, various types of detonating cords and detonators have been added as well as bi-directional boosters, a wide range of shaped charges, and corresponding gun systems. Within the last year, DYNAenergetics began manufacturing detonators for seismic exploration systems. The three manufacturing facilities are located in Germany, Canada and Russia. Additionally, DYNAenergetics now designs and manufactures custom-ordered perforating products for third-party customers according to their designs and specifications.

The kinds of perforating products manufactured by DYNAenergetics are essential to certain types of modern oil and gas recovery. The products are sold to large, mid-sized, and small oilfield service companies in the U.S., Europe, Canada, Africa, the Middle East, and Asia, including direct sales to end users. The market for perforating products is growing. Rising worldwide demand for oil increases the demand for perforating products as oil exploration and recovery expands, leading to increased investment in the oil and gas production industry. Higher levels of exploration (seismic prospecting) and increased production activities in the global oil and gas industry are expected to continue. Increased exploration has led to increasingly complex completion operations, which raise the demand for high quality perforating products.

AMK Welding

AMK Welding employs a variety of sophisticated processes and equipment to provide specialized welding services principally to a power turbine manufacturer and to commercial and military aircraft engine manufacturers. AMK Welding is located in South Windsor, Connecticut.

Welding services are provided on a project-by-project basis based on specifications set forth in customers' purchase orders. Upon receipt of an order for welded assemblies, AMK Welding performs welding services using customer specific welding procedures.

Welding processes utilized by AMK Welding include electron beam and gas tungsten arc welding processes. AMK Welding also has considerable expertise in vacuum chamber welding, which is a critical capability when welding titanium, high temperature nickel alloys and other specialty alloys. These welding techniques are used for the welding of blades and vanes and other turbine parts typically located in the hot gas path of aircraft engines. In addition to its welding capabilities, AMK Welding also uses various heat treatment and non-destructive examination processes, such as radiographic inspection, in support of its welding operations.

Suppliers, Competition, Customer Profile, Marketing and Research and Development

DMC Clad

Suppliers and Raw Materials

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

DMC Clad uses a range of alloys, steels and other materials for its operations, such as stainless steel, copper alloys, nickel alloys, titanium, zirconium, tantalum, aluminum and other metals. DMC Clad sources its raw materials from a number of different producers and suppliers. DMC Clad holds a limited metal inventory and purchases its raw materials based on contract specifications. Under most contracts, any raw material price increases are passed on to DMC Clad's customers. DMC Clad closely monitors the quality of its supplies and inspects the type, dimensions, markings, and certification of all incoming metals to ensure that the materials will satisfy applicable construction codes. DMC Clad also manufactures a majority of its own explosives from standard raw materials, thus achieving higher quality and lower cost.

Competition

Metal Cladding. DMC Clad faces competition from alternative technologies such as rollbond and weld overlay. Usually the three processes do not compete directly against each other, each having its own preferential domain of application relating to metal used and thicknesses required. However, due to specific project considerations such as technical specifications, price and delivery time, explosion-welding may have the opportunity to compete successfully against these technologies. Rollbond is only produced by a few steel mills in the world. The weld overlay process, which

Table of Contents

is produced among the many vessel fabricators who are often also DMC Clad customers, is a slow and labor intensive process that requires a large amount of floor space for the equipment.

Explosion-Welded Metal Cladding. Competition in the explosion-welded clad metal business is fragmented. DMC Clad holds a strong market position in the clad metal industry. DMC Clad is the leading producer of explosion-welded clad products in North America, and it has a strong position in Europe against smaller competitors. The main competitor in Asia is a division of Asahi Kasei, which has competitive technology and a recognized local brand name. There are several explosion-welded clad producers in China, most of whom are technically limited and are currently not exporters outside of their domestic market. A number of additional small competitors operate throughout the world. To remain competitive, DMC Clad intends to continue developing and providing technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete favorably on the basis of price.

Customer Profile

DMC Clad's products are used in critical applications in a variety of industries, including upstream oil and gas, oil refinery, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and other similar industries. DMC Clad's customers in these industries require metal products that can withstand exposure to corrosive materials, high temperatures and high pressures. DMC Clad's customers can be divided into three tiers: the product end users (e.g., operators of chemical processing plants), the engineering contractors who design and construct plants for end users, and the metal fabricators who manufacture the products or equipment that utilize DMC Clad's metal products. It is typically the fabricator that places the purchase order with DMC Clad and pays the corresponding invoice. DMC Clad has developed strong relationships over the years with the engineering contractors (relatively large companies) who sometimes act as prescriber to fabricators.

Marketing, Sales, Distribution

DMC Clad conducts its selling efforts by marketing its services to potential customers through senior management, direct sales personnel, program managers, and independent sales representatives. Prospective customers in specific industries are identified through networking in the industry, cooperative relationships with suppliers, public relations, customer references, inquiries from technical articles and seminars and trade shows. DMC Clad markets its clad metal products to three tiers of customers: end-user owner companies, engineering contractors, and metal fabricators. DMC Clad's sales office in the United States covers the Americas and East Asia. Its sales offices in Europe cover the full European continent, Africa, the Middle East, India, and Southeast Asia. These sales teams are further supported by local sales offices in Italy, the Middle East, and India, with contract agents in most other developed countries, including China, Korea, Russia and Brazil. Contract agents typically work under multi-year agreements which are subject to sales performance as well as compliance with DMC Clad quality and customer service expectations. Members of the global sales team may be called to work on projects located outside their usual territory. By maintaining relationships with its existing customers, developing new relationship with prospective customers, and educating all its customers as to the technical benefits of DMC Clad's products, DMC Clad endeavors to have its products specified as early as possible in the design process.

DMC Clad's sales are generally shipped from the manufacturing locations in the United States, Germany and France. Generally, any shipping costs or duties for which DMC Clad is responsible will be included in the price paid by the customer. Regardless of where the sale is booked (in Europe or the U.S.), DMC Clad will produce it, capacity permitting, at the location closest to the delivery place. In the event that there is a short term capacity issue, DMC Clad produces the order at any of its production sites, prioritizing timing. The various production sites allow DMC Clad to meet customer production needs in a timely manner.

Research and Development

We prepare a formal research and development plan annually. It is implemented at the French, German, and U.S. cladding sites and is supervised by a Technical Committee, chaired by our Senior Vice President Customers and Technology, that reviews progress quarterly and meets once a year to establish the plan for the following 12 months. The research and development projects concern process support, new products, and special customer-paid projects.

Table of Contents

Oilfield Products

Suppliers and Raw Materials

DYNAenergetics utilizes a variety of raw materials for the production of oilfield perforating and seismic products, including high quality steel tubes, steel and copper, explosives (RDX, HMX, HNS), granulates, plastics and ancillary plastic product components. DYNAenergetics product line consists of complex products which require numerous high quality components. DYNAenergetics obtains its raw materials primarily from a number of different producers in Germany and other European countries, but also purchases materials from North American, Chinese, and other international suppliers.

Competition

DYNAenergetics faces competition from independent producers of perforating products who are not committed to the large service companies and from large oil and gas service companies, such as Halliburton and Schlumberger, who produce most of their own needs for shaped charges but buy other components from suppliers. DYNAenergetics competes for sales primarily on price and customer service as well as the quality and performance of its products.

Customer Profile

Onshore and offshore oilfield service companies use our DYNAenergetics products. Our customers desire perforating products that satisfy both their specific needs and expectations and difficult geological realities, such as high pressures and temperatures in the bore hole, which exist in areas where perforating products and services are used. We believe that our customers must balance costs and risks for every job and that our typical DYNAenergetics customer possesses a conservative risk tolerance. Consequently, we believe that our customers will be more likely to trust products with proven reliability in the field and will be cautious regarding new product innovation.

The customers for oilfield products can be divided into four broad categories: buying centers of large service companies, service companies worldwide, oil companies with and without their own service companies, and local resellers. DYNAenergetics customer base includes clients from each of these categories.

Marketing, Sales, Distribution

DYNAenergetics worldwide marketing and sales efforts for its oilfield and seismic products are based in Laatzen, Germany. DYNAenergetics sales strategy focuses on direct selling, distribution through licensed distributors and independent sales representatives, the establishment of international distribution centers to better manage high international transport costs, and educating current and potential customers about its

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

products and technologies. Currently, DYNAenergetics sells its oilfield and seismic products through wholly owned affiliates in the U.S., Canada and Russia; through a majority owned subsidiary in Kazakhstan; and through independent sales agents in other parts of the world.

Research and Development

DYNAenergetics attaches great importance to its research and development capabilities and has devoted substantial resources to its R&D programs. The R&D staff works closely with sales and operations management teams to establish priorities and effectively manage individual projects. Through its ongoing involvement in oil and gas industry trade shows and conferences, DYNAenergetics has increased its profile in the oil and gas industry. An R&D Project Plan, which focuses on new products, process support and customer paid projects, is prepared and reviewed at least annually in cooperation with the Sales, Operations and Quality departments.

AMK Welding

At AMK Welding, the materials welded are a function of the type of parts supplied by the customers and include many steel varieties, various nickel alloys and customer-created proprietary alloys typically used in the aerospace and ground turbine industries. Other than metal wire used in the welding process, AMK Welding does not purchase metals, and it receives the parts to be welded from the customer.

Table of Contents

AMK Welding relies on a few key customers for the majority of its business, including GE Energy, General Electric Aircraft Engines and their first tier subcontractors, such as Barnes Aerospace, and divisions of United Technology, such as Hamilton Standard, Sikorsky Aircraft and Pratt and Whitney. AMK Welding generally competes against a small number of welding companies that are typically privately owned. AMK Welding competes successfully based on a reputation for uncompromising quality and rapid responsiveness to customer needs.

Corporate History and Recent Developments

The genesis of the Company was an unincorporated business called Explosive Fabricators, which was formed in Colorado in 1965. The business was incorporated in Colorado in 1971 under the name E. F. Industries, Inc., which was later changed to Explosive Fabricators, Inc. The Company became a public company in 1977. In 1994, the Company changed its name to Dynamic Materials Corporation. The Company reincorporated in Delaware in 1997.

In 1976, the Company became a licensee of Detaclad®, the explosion-weld clad process developed by DuPont in 1959. In 1996, the Company purchased the Detaclad® operating business from Dupont.

Through a series of transactions culminating in June 2000, SNPE, Inc. (SNPE), a U.S. corporation indirectly wholly owned by the French Government, acquired approximately 56% of the Company's outstanding common stock through open market purchases as well as direct investment in the Company. SNPE also loaned the Company approximately \$1.2 million using a convertible subordinated note. On May 15, 2006, SNPE sold all of the shares it had previously purchased, as well as those received through the conversion of the note, in an underwritten public offering.

During its history, the Company has acquired a number of businesses. In 1998, the Company acquired AMK Welding, currently an operating division of the Company. Also in 1998, the Company acquired two other businesses which were subsequently sold in 2003 and 2004, respectively.

In 2001, the Company acquired substantially all of the stock of Nobelclad Europe SA (a French company) (Nobelclad); Nobelclad had previously acquired the stock of Nitro Metall AB (a Swedish company) (Nitro Metall). The stock of Nobelclad was acquired from an affiliate of our parent company at the time, SNPE. Early in its history, Nobelclad was a licensee of the Detaclad® technology. The acquisition of Nobelclad expanded the Company's explosive metalworking operations to Europe.

In 2007, the Company acquired the German company DYNAenergetics GmbH and Co. KG (DYNAenergetics) and certain affiliates. DYNAenergetics was comprised of two primary businesses: explosive metalworking and oilfield products. This acquisition expanded the Company's explosive metalworking operations in Europe and added a complimentary business segment, oilfield products.

In 2009, the Company acquired all of the stock of Alberta Canada based LRI Oil Tools Inc. (LRI) which is now operating under the name of DYNAenergetics Canada. DYNAenergetics Canada produces and distributes perforating equipment for use by the oil and gas exploration and production industry. The business had a long-term strategic relationship with the Company's Oilfield Products segment, and had served for

several years as its sole Canadian distributor.

On April 30, 2010, the Company purchased the outstanding minority-owned interests in its two Russian joint ventures that were previously majority-owned by the Company's Oilfield Products business segment. These joint ventures include DYNAenergetics RUS, which is a Russian trading company that sells the Company's oilfield products, and Perfoline, which is a Russian manufacturer of perforating gun systems.

On June 4, 2010, the Company completed its acquisition of Texas-based Austin Explosives Company (AECO), which is now operating under the name DYNAenergetics US, Inc. This business is now part of the Company's Oilfield Products business segment. AECO had been a long-time distributor of DYNAenergetics shaped charges.

On January 3, 2012, the Company acquired the assets and operating business of Texas-based TRX Industries, Inc., (TRX), a manufacturer of perforating guns and one of DYNAenergetic's suppliers. This business is now part of the Company's Oilfield Products business segment.

Our current explosive metalworking segment is comprised of the Company's U.S. Clad operations as well as the assets and operations purchased in the Nobelclad and Dynaplat acquisitions. The Oilfield Products segment is comprised entirely of DYNAenergetics and its subsidiaries. Our third segment is AMK Welding. Property locations for these operations are listed in detail in Item 2.

Table of Contents

Employees

As of December 31, 2011, we employed 456 permanent employees, the majority of whom are engaged in manufacturing operations, with the remainder being engaged in sales and marketing or corporate functions.

The majority of our manufacturing employees are not unionized. Of the 456 permanent employees, 197 are U.S. based, 108 are based in Germany at the Dynaplat and DYNAenergetics facilities, 61 are based in France at the Nobelclad facility, 48 are based in Canada at the DYNAenergetics Canada facilities, 34 are based in Russia at our DYNAenergetics RUS and Perfoline facilities, 6 are based in Kazakhstan at our KAZ DYNAenergetics facility and 2 are based in Sweden at Nitro Metall. Approximately 60% of our German-based employees are members of trade unions. About 45% of Nobelclad's employees and all Nitro Metall employees are members of trade unions. In addition, we also use a number of temporary workers at any given time, depending on the workload.

In the last three years, the Company has not experienced any strikes or work stoppages. We believe that employee relations are good.

Insurance

Our operations expose us to potential liabilities for personal injury or death as a result of the failure of a component that has been designed, manufactured, or serviced by us, or the irregularity or failure of products we have processed or distributed. We maintain liability insurance that we believe adequately protects us from future product liability claims.

Proprietary Knowledge, Permits and Patents

Protection of Proprietary Information. We hold patents related to the business of explosive metalworking and metallic processes and also own certain registered trademarks, including Detaclad®, Detacouple®, Dynalock®, EFTEK®, ETJ 2000® and NOBELCLAD®. Although the patents for the explosion-welded cladding process have expired, our current product application patents expire on various dates through 2020. Since individual patents relate to specific product applications and not to core technology, we do not believe that such patents are material to our business, and the expiration of any single patent is not expected to have a material adverse effect on our operations. Much of the manufacturing expertise lies in the knowledge of the factors that affect the quality of the finished clad product, including the types of metals to be explosion-welded, the setting of the explosion, the composition of the explosive, and the preparation of the plates to be bonded. We have developed this specialized knowledge over our 40 years of experience in the explosive metalworking business. We are very careful in protecting our proprietary know-how and manufacturing expertise, and we have implemented measures and procedures to ensure that the information remains confidential. We hold various patents and licenses through our DYNAenergetics perforating business, but some of the patents are not yet registered. As with the explosive metalworking business segment, since individual patents relate to specific product applications and not to core technology, we do not believe that such patents are material to our business, and the expiration of any single patent is not expected to have a material adverse effect on our current operations. The Dynaplat division of DMC Clad is protected through business secrets not through patents.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Permits. Explosive metalworking and the production of perforation products involve the use of explosives, making safety a critical factor in our operations. In addition, explosive metalworking and the production of oilfield products are highly regulated industries for which detailed permits are required. These permits require renewal every three or four years, depending on the permit. See Item 1A Risk Factors *Risk Factors Related to the Dynamic Materials Corporation* *We are subject to extensive government regulation and failure to comply could subject us to future liabilities and could adversely affect our ability to conduct or to expand our business* for a more detailed discussion of these permits.

Table of Contents**Foreign and Domestic Operations and Export Sales**

All of our sales are shipped from our manufacturing facilities located in the United States, Germany, France, Canada, Sweden and Russia. During 2011, we closed our manufacturing facility in Sweden. The following chart represents our net sales based on the geographic location of the customer. The sales recorded for each country are based on the country to which we shipped the product, regardless of the country of the actual end user. Explosion Metalworking products are usually shipped to the fabricator before being passed on to the end user.

	(Dollars in Thousands)		
	For the years ended December 31,		
	2011	2010	2009
United States	\$ 81,410	\$ 44,587	\$ 62,955
South Korea	29,951	10,309	5,424
Canada	24,151	29,907	12,991
Germany	12,960	25,109	11,702
Russia	8,658	7,067	4,649
France	3,828	5,425	5,788
Rest of the world	47,933	32,335	61,389
Total	\$ 208,891	\$ 154,739	\$ 164,898

Company Information

We are subject to the informational requirements of the Securities Exchange Act of 1934. We therefore file periodic reports, proxy statements and other information with the Securities Exchange Commission (the SEC). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549, or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically.

Our Internet address is www.dynamicmaterials.com. Information contained on our website does not constitute part of this Annual Report on Form 10-K. Our annual report on SEC Form 10-K, quarterly reports on Forms 10-Q, current reports on Forms 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge on our website as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC. We also regularly post information about our Company on our website under the Investors tab.

ITEM 1A. Risk Factors***Risk Factors Related to the Explosive Metalworking Segment***

Business has slowed down in some of our markets and we experienced a significant decline in 2009 and 2010 sales.

During the fourth quarter of 2008, we began to see a slowdown in DMC Clad sales to some of the markets we serve which continued into 2009 and 2010 and contributed to declines of 31.2% and 26.5% in year-to-year 2009 and 2010 sales, respectively. DMC Clad experienced a sales recovery in 2011 which led to a 28.0% increase in year-to-year 2011 sales. Our order backlog, which decreased to \$49.6 million at December 31, 2009 from \$97.2 million at December 31, 2008, rebounded only modestly to \$56.5 million at December 31, 2010 before decreasing to \$44.6 million at December 31, 2011. The explosion-weld cladding market is dependent upon sales of products for use by customers in a limited number of heavy industries, including oil and gas, alternative energy, chemicals and petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, and industrial refrigeration. These industries tend to be cyclical in nature and an economic slowdown in one or all of these industries whether due to traditional cyclical, general economic conditions or other factors could impact capital expenditures within that industry. If demand from such

Table of Contents

industries were to decline or to experience reduced growth rates, our sales would be expected to be affected proportionately, which may have a material adverse effect on our business, financial condition, and results of operations.

Our backlog figures may not accurately predict future sales.

We define backlog at any given point in time to consist of all firm, unfulfilled purchase orders and commitments at that time. Generally speaking, we expect to fill most items of backlog within the following 12 months. However, since orders may be rescheduled or canceled and a significant portion of our net sales is derived from a small number of customers, backlog is not necessarily indicative of future sales levels. Moreover, we cannot be sure of when during the future 12-month period we will be able to recognize revenue corresponding to our backlog nor can we be certain that revenues corresponding to our backlog will not fall into periods beyond the 12-month horizon.

There is a limited availability of sites suitable for cladding operations.

Our cladding process involves the detonation of large amounts of explosives. As a result, the sites where we perform cladding must meet certain criteria, including lack of proximity to a densely populated area, the specific geological characteristics of the site, and the ability to comply with local noise and vibration abatement regulations in conducting the process. In addition, our primary U.S. shooting site is subleased under an arrangement pursuant to which we provide certain contractual services to the sub-landlord. The efforts to identify suitable sites and obtain permits for using the sites from local government agencies can be time-consuming and may not be successful. In addition, we could experience difficulty in obtaining or renewing permits because of resistance from residents in the vicinity of proposed sites. The failure to obtain required governmental approvals or permits could limit our ability to expand our cladding business in the future, and the failure to maintain such permits or satisfy other conditions to use the sites would have a material adverse effect on our business, financial condition and results of operations.

The use of explosives subjects us to additional regulation, and any accidents or injuries could subject us to significant liabilities.

Our operations involve the detonation of large amounts of explosives. As a result, we are required to use specific safety precautions under U.S. Occupational Safety and Health Administration guidelines and guidelines of similar entities in Germany and France. These include precautions which must be taken to protect employees from exposure to sound and ground vibration or falling debris associated with the detonation of explosives. There is a risk that an accident or death could occur in one of our facilities. Any accident could result in significant manufacturing delays, disruption of operations or claims for damages resulting from death or injuries, which could result in decreased sales and increased expenses. To date, we have not incurred any significant delays, disruptions or claims resulting from accidents at our facilities. The potential liability resulting from any accident or death, to the extent not covered by insurance, may require us to use other funds to satisfy our obligations and could cause our business to suffer. See Our use of explosives is an inherently dangerous activity that could lead to temporary or permanent closure of our shooting sites below.

Our use of explosives is an inherently dangerous activity that could lead to temporary or permanent closure of our shooting sites.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

We use a large amount of explosives in connection with the creation of clad metals. The use of explosives is an inherently dangerous activity. Explosions, even if occurring as intended, can lead to damage to the shooting facility or to equipment used at the facility or injury to persons at the facility. If a person were injured or killed in connection with such explosives, or if equipment at the mine or either of the outdoor locations were damaged or destroyed, we might be required to suspend our operations for a period of time while an investigation is undertaken or repairs are made. Such a delay might impact our ability to meet the demand for our products. In addition, if the mine were seriously damaged, we might not be able to locate a suitable replacement site to continue our operations.

Table of Contents

Certain raw materials we use are subject to supply shortages due to general economic conditions.

Although we generally use standard metals and other materials in manufacturing our products, certain materials such as specific grades of carbon steel, titanium, zirconium and nickel can be subject to supply shortages due to general economic conditions or problems with individual suppliers. While we seek to maintain sufficient alternative supply sources for these materials, we may not always be able to obtain sufficient supplies or obtain supplies at acceptable prices without production delays, additional costs, or a loss of product quality. If we were to fail to obtain sufficient supplies on a timely basis or at acceptable prices, such loss or failure could have a material adverse effect on our business, financial condition, and results of operations.

Certain raw materials we use are subject to price increases due to general economic conditions.

The markets for certain metals and other raw materials used in our business are highly variable and are characterized by periods of increasing prices. While prices for much of the raw materials we use have recently decreased, we may again experience increasing prices. We generally do not hedge commodity prices or enter into forward supply contracts; instead we endeavor to pass along price variations to our customers. We may see a general downturn in business if the price of raw materials increases enough for our customers to delay planned projects or use alternative materials to complete their projects.

Risk Factors Related to DYNAenergetics

Potential downturns in the oil and gas industry and related services industry could have a negative impact on DYNAenergetics' economic success.

The oil and gas industry is unpredictable and has historically been subject to occasional downturns. Demand for DYNAenergetics' products is linked to the financial success of the oil and gas industry as a whole, and downturns in the oil and gas industry, especially in the rate of well drilling, could negatively impact DYNAenergetics' economic success. A variety of factors affect the demand for DYNAenergetics' products, including governmental regulation of oil and gas industry and markets, international and domestic prices for oil and gas, weather conditions, the financial condition of DYNAenergetics' clients, and consumption patterns of oil and gas.

The manufacturing of explosives subjects DYNAenergetics to various environmental, health and safety laws.

DYNAenergetics is subject to a number of environmental, health, and safety laws and regulations, the violation of which could result in significant penalties. DYNAenergetics' continued success depends on continued compliance with applicable laws and regulations. In addition, new environmental, health and safety laws and regulations could be passed which could create costly compliance issues. While DYNAenergetics endeavors to comply with all applicable laws and regulations, compliance with future laws and regulations may not be economically feasible or even possible.

DYNAenergetics continued economic success depends on remaining at the forefront of innovation in the perforating industry.

DYNAenergetics position in the perforation market depends in part on its ability to remain an innovative leader in the field. The ability to remain competitive depends in part on the retention of talented personnel. DYNAenergetics may be unable to remain an innovative leader in the perforation market segment or may be unable to retain top talent in the field.

Table of Contents

Risk Factors Related to Dynamic Materials Corporation

Weakness in the general global economy may adversely affect certain segments of our end market customers and reduce our sales and results of operations.

We supply products to customers that fabricate industrial equipment for various capital-intensive industries. Weakness in the general global economy may adversely affect our end market customers, causing them to cancel or postpone new plant or infrastructure construction, expansion, maintenance, or retrofitting projects that use our DMC Clad products. Similarly, any decrease in oil and gas well drilling activities will reduce the sales of our DYNAenergetics products. Any decrease in the demand for gas turbines and airplane engines will reduce the demand for the work performed by our AMK division. The global general economic climate may lessen demand for our products and reduce our sales and results of operations.

Our operating results fluctuate from quarter to quarter.

We have experienced, and expect to continue to experience, fluctuations in annual and quarterly operating results caused by various factors, including the timing and size of orders by major customers, customer inventory levels, shifts in product mix, acquisitions and divestitures, and general economic conditions. The upstream oil and gas, oil refinery, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and other diversified industries to which we sell our products are, to varying degrees, cyclical and tend to decline in response to overall declines in industrial production. As a result, our business is also cyclical, and the demand for our products by these customers depends, in part, on overall levels of industrial production. Any future material weakness in demand in any of these industries could materially reduce our revenues and profitability. In addition, the threat of terrorism and other geopolitical uncertainty could have a negative impact on the global economy, the industries we serve and our operating results.

We typically do not obtain long-term volume purchase contracts from our customers. Quarterly sales and operating results, therefore, depend on the volume and timing of the orders in our backlog as well as bookings received during the quarter. Significant portions of our operating expenses are fixed, and planned expenditures are based primarily on sales forecasts and product development programs. If sales do not meet our expectations in any given period, the adverse impact on operating results may be magnified by our inability to adjust operating expenses sufficiently or quickly enough to compensate for such a shortfall. Results of operations in any period should not be considered indicative of the results for any future period. Fluctuations in operating results may also result in fluctuations in the price of our common stock. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

We are exposed to potentially volatile fluctuations of the U.S. dollar (our reporting currency) against the currencies of many of our operating subsidiaries.

Many of our operating subsidiaries conduct business in Euros or other foreign currency. Any increase (decrease) in the value of the U.S. dollar against any foreign currency that is the functional currency of any of our operating subsidiaries will cause us to experience foreign currency translation losses (gains) with respect to amounts already invested in such foreign currencies. In addition, our company and our operating subsidiaries are exposed to foreign currency risk to the extent that we or they enter into transactions denominated in currencies other than our or their respective functional currencies. For example DYNAenergetics KG's functional currency is Euros, but its sales often occur in U.S. dollars.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Changes in exchange rates with respect to these items will result in unrealized (based upon period-end exchange rates) or realized foreign currency transaction gains and losses upon settlement of the transactions. In addition, we are exposed to foreign exchange rate fluctuations related to our operating subsidiaries' assets and liabilities and to the financial results of foreign subsidiaries and affiliates when their respective financial statements are translated into U.S. dollars for inclusion in our consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive income (loss) as a separate component of equity. As a result of foreign currency risk, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations. The primary exposure to foreign currency risk for us is to the Euro due to the percentage of our U.S. dollar revenue that is derived from countries where the Euro is the functional currency.

Table of Contents

The terms of our indebtedness contain a number of restrictive covenants, the breach of any of which could result in acceleration of payment of our credit facilities.

We are parties to a syndicated credit agreement that, as of December 31, 2011, had an outstanding balance of approximately \$26.5 million. Our credit agreement includes various covenants and restrictions, certain of which relate to the incurrence of additional indebtedness; mortgaging, pledging or disposition of major assets; and limits on capital expenditures and other investments. We are also required to maintain certain financial ratios on a quarterly basis. A breach of any of these covenants could result in acceleration of our obligations to repay our debt. As of December 31, 2011, we were in compliance with all financial covenants and other provisions of the credit agreement and our other loan agreements. However, our ability to comply with these covenants and ratios may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Any failure to remain in compliance with any material provision or covenant of our credit agreement could result in a default which would, absent a waiver or amendment, require immediate repayment of outstanding indebtedness under our credit facilities. It may be difficult to liquidate assets sufficient to immediately repay our outstanding indebtedness under our credit facility.

Customers have the right to change orders until products are completed.

Customers have the right to change orders after they have been placed. If orders are changed, the extra expenses associated with the change will be passed on to the customer. However, because a change in an order may delay completion of the project, recognition of income for the project may also be delayed.

There is no assurance that we will continue to compete successfully against other clad, perforating, and welding companies.

Our explosion-welded clad products compete with explosion-welded clad products made by other manufacturers in the clad metal business located throughout the world and with clad products manufactured using other technologies. Our combined North American and European operations typically supply explosion-welded clad to the worldwide market. There is one other well-known explosion-welded clad supplier worldwide, a division of Asahi-Kasei Corporation of Japan. There are also a number of smaller companies worldwide with explosion-welded clad manufacturing capability, including several companies in China. There are currently no other significant North American based explosion-welded clad suppliers. We focus strongly on reliability, product quality, on-time delivery performance, and low cost manufacturing to minimize the potential of future competitive threats. However, there is no guarantee we will be able to maintain our competitive position.

Explosion-welded clad products also compete with those manufactured by rollbond and weld overlay cladding processes. In rollbond technology, the clad and base metal are bonded together during a hot rolling process in which slab is converted to plate. In weld overlay, which is typically performed by our fabricator customers, the cladding layer is deposited on the base metal through a fusion welding process. The technical and commercial niches of each cladding process are well understood within the industry and vary from one world market location to another. Our products compete with weld overlay clad products manufactured by a significant number of our fabricator customers.

DYNAenergetics competes principally with perforating companies based in North America, South America, and Russia who produce and market perforating services and products. DYNAenergetics also competes with oil and gas service companies who are able to satisfy a portion of their perforating needs through in-house production. To remain competitive, DYNAenergetics must continue to provide innovative products

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

and maintain an excellent reputation for quality, safety, and value. There can be no assurances that we will continue to compete successfully against these companies.

AMK Welding competes principally with other domestic companies that provide welding services to the aircraft engine and power generation industries. Some of these competitors have established positions in the market and long standing relationships with customers. To remain competitive, we must continue to develop and provide technologically advanced welding, heat-treat and inspection services, maintain quality levels, offer flexible delivery schedules, and compete favorably on the basis of price. We compete against other welding companies on the basis of quality, performance and cost. There can be no assurance that we will continue to compete successfully against these companies.

Table of Contents

We are dependent on a relatively small number of customers for a significant portion of our net sales.

A significant portion of our net sales is derived from a relatively small number of customers although sales to no one customer exceeded 10% during any of the last three years. We expect to continue to depend upon our principal customers for a significant portion of our sales, although our principal customers may not continue to purchase products and services from us at current levels, if at all. The loss of one or more major customers or a change in their buying patterns could have a material adverse effect on our business, financial condition, and results of operations. In past years, the majority of DMC Clad's revenues have been derived from customers in the oil and gas, alternative energy, chemicals and petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation and industrial refrigeration industries and the majority of AMK Welding's revenues have been derived from customers in the aircraft engine and power generation industries. Economic downturns in these industries could have a material adverse effect on our business, financial condition, and results of operations.

DYNAenergetics, which contributed approximately 35% to our 2011 sales, has customers throughout the world. Economic or political instability in certain regions of the world where DYNAenergetics conducts a significant volume of its business, such as Russia, could have a material adverse effect on DYNAenergetics' business and operating results.

AMK Welding, contributed approximately 5% to our 2011 sales, continues to rely primarily on one customer for the majority of its sales. This customer and AMK Welding have entered into a long-term supply agreement for certain of the services provided to this customer. Any termination of or significant reduction in AMK Welding's business relationship with this customer could have a material adverse effect on AMK Welding's business and operating results.

Failure to attract and retain key personnel could adversely affect our current operations.

Our continued success depends to a large extent upon the efforts and abilities of key managerial and technical employees. The loss of services of certain of these key personnel could have a material adverse effect on our business, results of operations, and financial condition. There can be no assurance that we will be able to attract and retain such individuals on acceptable terms, if at all; and the failure to do so could have a material adverse effect on our business, financial condition, and results of operations.

Liabilities under environmental and safety laws could result in restrictions or prohibitions on our facilities, substantial civil or criminal liabilities, as well as the assessment of strict liability and/or joint and several liability.

We are subject to extensive environmental and safety regulation in North America and Europe. Any failure to comply with current and future environmental and safety regulations could subject us to significant liabilities. In particular, any failure to control the discharge of hazardous materials and wastes could subject us to significant liabilities, which could adversely affect our business, results of operations or financial condition.

We and all our activities in the United States are subject to federal, state and local environmental and safety laws and regulations, including but not limited to, noise abatement and air emissions regulations, the Comprehensive Environmental Response, Compensation and Liability Act of

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

1980, regulations issued and laws enforced by the labor and employment departments of the U.S. and the states in which we conduct business, by the U.S. Department of Commerce, the U.S. Environmental Protection Agency, and by state and local health and safety agencies. In Germany, we and all our activities are subject to various safety and environmental regulations of the federal state which are enforced by the local authorities, including the Federal Act on Emission Control (Bundesimmissionsschutzgesetz). The Federal Act on Emission Control permits are held by companies jointly owned by DYNAenergetics and the other companies that are located at the Würgendorf and Troisdorf manufacturing sites and are for an indefinite period of time. In France, we and all our activities are subject to state environmental and safety regulations established by various departments of the French Government, including the Ministry of Labor, the Ministry of Ecology and the Ministry of Industry, and to local environmental and safety regulations and administrative procedures established by DRIRE (Direction Régionale de l'Industrie, de la Recherche et de l'Environnement) and the Préfecture des Pyrénées Orientales. In addition, our shooting operations in Germany and France may be particularly vulnerable to noise abatement regulations because these operations are primarily conducted outdoors. The Dillenburg facility is operated based on a mountain plan (Bergplan), which is a specific permit granted by the local mountain authority. This permit must be renewed every three years.

Table of Contents

Changes in or compliance with environmental and safety laws and regulations could inhibit or interrupt our operations, or require modifications to our facilities. Any actual or alleged violations of environmental and safety laws could result in restrictions or prohibitions on our facilities, substantial civil or criminal sanctions, as well as the assessment of strict liability and/or joint and several liability under applicable law. Under certain environmental laws, we could be held responsible for all of the costs relating to any contamination at our or our predecessor's past or present facilities and at third party waste disposal sites. We could also be held liable for any and all consequences arising out of human exposure to hazardous substances or other environmental damage. Accordingly, environmental, health or safety matters may result in significant unanticipated costs or liabilities.

We are subject to extensive government regulation and failure to comply could subject us to future liabilities and could adversely affect our ability to conduct or to expand our business.

We are subject to extensive government regulation in the United States, Germany, France, Canada and Russia, including guidelines and regulations for the safe manufacture, handling, transport and storage of explosives issued by the U.S. Bureau of Alcohol, Tobacco and Firearms; the Federal Motor Carrier Safety Regulations set forth by the U.S. Department of Transportation; the Safety Library Publications of the Institute of Makers of Explosive; and similar guidelines of their European counterparts. In Germany, the transport, storage and use of explosives is governed by a permit issued under the Explosives Act (Sprengstoffgesetz). In France, the manufacture and transportation of explosives is subcontracted to a third party which is responsible for compliance with regulations established by various State and local governmental agencies concerning the handling and transportation of explosives. Our French operations could be adversely affected if the third party does not comply with these regulations. We must comply with licensing and regulations for the purchase, transport, storage, manufacture, handling and use of explosives. In addition, while our shooting facilities in Würgendorf and Troisdorf, Germany and Tautavel, France are located outdoors, our shooting facilities located in Pennsylvania and in Dillenburg, Germany are located in mines, which subject us to certain regulations and oversight of governmental agencies that oversee mines.

We are also subject to extensive environmental and occupational safety regulation, as described below under Liabilities under environmental and safety laws could result in restrictions or prohibitions on our facilities, substantial civil or criminal liabilities, as well as the assessment of strict liability and/or joint and several liability and The use of explosives subjects us to additional regulation, and any accidents or injuries could subject us to significant liabilities.

The export of certain products from the United States or from foreign subsidiaries of U.S. companies is restricted by U.S. and similar foreign export regulations. These regulations generally prevent the export of products that could be used by certain end users, such as those in the nuclear or biochemical industries. In addition, the use and handling of explosives may be subject to increased regulation due to heightened concerns about security and terrorism. Such regulations could restrict our ability to access and use explosives and increase costs associated with the use of such explosives, which could have a material adverse effect on our business, financial condition, and results of operations.

Any failure to comply with current and future regulations in North America and Europe could subject us to future liabilities. In addition, such regulations could restrict our ability to expand our facilities, construct new facilities, or compete in certain markets or could require us to incur other significant expenses in order to maintain compliance. Accordingly, our business, results of operations or financial condition could be adversely affected by our non-compliance with applicable regulations, by any significant limitations on our business as a result of our inability to comply with applicable regulations, or by any requirement that we spend substantial amounts of capital to comply with such regulations.

Work stoppages and other labor relations matters may make it substantially more difficult or expensive for us to produce our products, which could result in decreased sales or increased costs, either of which would negatively impact our financial condition and results of

operations.

We are subject to the risk of work stoppages and other labor relations matters, particularly in Germany and France, where some of our employees are unionized. The employees at our U.S. and Canadian facilities, where a significant portion of our products are manufactured, are not unionized. While we believe our relations with employees are satisfactory, any prolonged work stoppage or strike at any one of our principal facilities could have a negative impact on our business, financial condition or results of operations. We have not experienced a strike or work stoppage in the last 3 years. However, if a work stoppage occurs at one or more of our facilities, it may materially impair our ability to operate our business in the future.

Table of Contents

As we regularly test the value of goodwill associated with our recent acquisitions, economic conditions may lead to an impairment of such goodwill.

We review the carrying value of goodwill at least annually to assess impairment because it is not amortized. Additionally, we review the carrying value of any intangible asset or goodwill whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Our impairment testing in the fourth quarter of 2011 did not result in a determination that any of our goodwill was impaired. However, future impairment is possible and could occur if (i) the operating results underperform what we have estimated or (ii) additional volatility of the capital markets should cause us to raise the percent discount rate utilized in our discounted cash flow analysis or decrease the multiples utilized in our market-based analysis. The use of different estimates or assumptions within our discounted cash flow model when determining the fair value of our reporting units or using methodologies other than as described above could result in different values for reporting units and could result in an impairment charge.

The unsuccessful integration of a business we acquire could have a material adverse effect on operating results.

We continue to consider possible acquisitions as part of our growth strategy. Any potential acquisition may require additional debt or equity financing, resulting in additional leverage and dilution to existing stockholders. We may be unable to consummate any future acquisition. If any acquisition is made, we may not be able to integrate such acquisition successfully without a material adverse effect on our financial condition or results of operations.

Table of Contents

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Corporate Headquarters

Our corporate headquarters are located in Boulder, Colorado. The term of the lease for the office space is through November 30, 2015, with renewal options through November 30, 2021.

Explosive Metalworking

We own our principal domestic manufacturing site, which is located in Mount Braddock, Pennsylvania. We currently lease our primary domestic shooting site, which is located in Dunbar, Pennsylvania, and we also have license and risk allocation agreements relating to the use of a secondary shooting site that is located within a few miles of our Mount Braddock, Pennsylvania manufacturing facility. The shooting site in Dunbar and the nearby secondary shooting site support our Mount Braddock manufacturing facility. The lease for the Dunbar property will expire on December 15, 2015, but we have options to renew the lease which extend through December 15, 2029. The license and risk allocation agreements will expire on December 31, 2018, but we have options to renew these agreements through December 31, 2028. Our German subsidiary, Dynaplat, has a manufacturing site in Würgendorf, Germany and a shooting site in Dillenburg, Germany. Portions of these sites are leased and portions are owned. The lease expiration dates for our Würgendorf manufacturing site is August 31, 2016, but we have options to renew the lease through August 31, 2021 and the expiration date for our Dillenburg shooting site is August 31, 2016 and may be renewed. Our French subsidiary, Nobelclad, owns the land and the buildings housing its operations in Rivesaltes, France, and Tautavel, France (except for a small portion in Tautavel that is leased). This lease expires on December 31, 2016, and may be extended.

Oilfield Products

Our German subsidiary, DYNAenergetics, leases a manufacturing site and sales office in Troisdorf, Germany. The lease expiration date for our Troisdorf manufacturing site is December 31, 2015 and for the sales office the lease expiration date is February 29, 2016. Our Canadian subsidiary, DYNAenergetics Canada leases office and warehouse space in various cities throughout Alberta, Canada. They also lease bunkers for storage of their explosives in various locations throughout Alberta, Canada. These agreements are on a month to month basis. Our DYNAenergetics US subsidiary leases office and warehouse space in various cities throughout Texas, as well as Lafayette, Louisiana and New Mexico. They also lease storage bunkers in various locations in Texas, Arkansas, Louisiana and New Mexico which have month to month agreements. Our Russian subsidiaries lease office and warehouse space in Tyumen and Moscow, Russia. Our Kazakhstan subsidiary leases office and warehouse space in Aktobe, Kazakhstan.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

AMK Welding

We own the land and buildings housing the operations of AMK Welding in South Windsor, Connecticut.

Below are charts summarizing our properties by segment, including their location, type, size, whether owned or leased and lease terms, if applicable.

Corporate Headquarters

Location	Facility Type	Facility Size	Owned/Leased	Expiration Date of Lease (if applicable)
Boulder, Colorado	Corporate and Sales Office	14,630 sq. ft.	Leased	November 30, 2015, with renewal options through November 30, 2021

Table of Contents*Explosive Metalworking*

Location	Facility Type	Facility Size	Owned/Leased	Expiration Date of Lease (if applicable)
Mt. Braddock, Pennsylvania	Clad Plate Manufacturing	48,000 sq. ft.	Owned	
Dunbar, Pennsylvania	Clad Plate Shooting Site	322 acres	Leased	December 15, 2015, with renewal options through December 15, 2029
Rivesaltes, France	Clad Plate Manufacturing	6.5 acres	Owned	
Rivesaltes, France	Clad Plate Manufacturing, Nobelclad Europe Sales and Administration Office	49,643 sq. ft.	Owned	
Rivesaltes, France	Clad Plate Manufacturing	Land around building: 61,354 sq. ft.	Leased	March 31, 2020, with renewal options
		Building: 11,302 sq. ft.	Leased	
Tautavel, France	Clad Shooting Site	116 acres	109 acres owned, 7 acres leased	December 31, 2016, with renewal options
Dillenburg Germany	Dynaplat, Shooting site	11.4 acres	Owned	
		9,849 sq. ft.	Leased	August 31, 2012, with renewal options through August 31, 2021
Würgendorf, Germany	Dynaplat, Manufacturing	Land: 25 acres	Owned	
		Shooting site: 4,941 sq. ft.	Leased	August 31, 2016, with renewal options
		Building: 37,007 sq. ft.	Leased	
Würgendorf, Germany	Dynaplat, Sales and Administration Office	2,965 sq. ft.	Leased	March 31, 2012

Table of Contents*Oilfield Products*

Location	Facility Type	Facility Size	Owned/Leased	Expiration Date of Lease (if applicable)
Troisdorf, Germany	DYNAenergetics, Manufacturing	263,201 sq. ft.	Leased	December 31, 2015
Troisdorf, Germany	DYNAenergetics, Office	2,033 sq. ft.	Leased	February 29, 2016
Laatzten, Germany	DYNAenergetics, Sales	2,314 sq. ft.	Leased	Open terms, but can be cancelled with a six month notice
Alberta, Canada	DYNAenergetics Canada, Manufacturing	160 acres	Owned	
Alberta, Canada	Various storage magazines		Leased	Month to month agreement
Calgary, Alberta	DYNAenergetics Canada, Sales office	535 sq. ft.	Leased	September 30, 2012
Edmonton, Alberta	DYNAenergetics Canada, Sales office and warehouse	24,000 sq. ft.	Leased	January 31, 2014
Edmonton, Alberta	DYNAenergetics Canada, Storage magazines	45.56 acres	Leased	Month to month agreement
Grande Prairie, Alberta	DYNAenergetics Canada, Sales office and warehouse	3,000 sq. ft.	Leased	March 31, 2015, with renewal options
Lloydminster, Alberta	DYNAenergetics Canada, Sales office and warehouse	5,460 sq. ft.	Leased	October 31, 2014
Red Deer, Alberta	DYNAenergetics Canada, Sales office and warehouse	6,583 sq. ft.	Leased	September 30, 2016
Austin, Texas	DYNAenergetics US, Office	2,000 sq. ft.	Leased	Month to month agreement
Bridgeport, Texas	DYNAenergetics US, Office and warehouse	4,000 sq. ft.	Leased	June 30, 2013
Bridgeport, Texas	DYNAenergetics US, Storage magazine	100 acres	Leased	Month to month agreement
Corpus Christi, Texas	DYNAenergetics US, Office and warehouse	6,000 sq. ft.	Leased	August 31, 2013
Houston, Texas	DYNAenergetics US, Office	400 sq. ft.	Leased	August 31, 2012
Pearland, Texas	DYNAenergetics US, Office and warehouse	6 acres	Leased	October 31, 2012
Spicewood, Texas	DYNAenergetics US, Storage magazine	500 acres	Leased	Month to month agreement
Tyler, Texas	DYNAenergetics US, Office and warehouse	4,000 sq. ft.	Leased	Month to month agreement
Victoria, Texas	DYNAenergetics US, Office and warehouse	4,000 sq. ft.	Leased	June 30, 2012
Victoria, Texas	DYNAenergetics US, Storage magazine	4,000 sq. ft.	Leased	Month to month agreement
East Camden, AR	DYNAenergetics US, Storage magazine		Leased	Month to month agreement

Table of Contents

Location	Facility Type	Facility Size	Owned/Leased	Expiration Date of Lease (if applicable)
Lafayette, Louisiana	DYNAenergetics US, Office and warehouse	6,800 sq. ft	Leased	Month to month agreement
Beaux Bridge, Louisiana	DYNAenergetics US, Storage magazine		Leased	Month to month agreement
Hobbs, New Mexico	DYNAenergetics US, Office and warehouse	5,000 sq. ft	Leased	June 30, 2013
Hobbs, New Mexico	DYNAenergetics US, Storage magazines		Leased	Month to month agreement
Tyumen, Russia	Perfoline, Manufacturing	23,369 sq. ft	Leased	July 31, 2012
Moscow, Russia	DYNARus, Sales office	939 sq. ft	Leased	September 1, 2012
Chapaevsk Russia	DYNARus, Warehouse	149 sq. ft	Leased	January 12, 2012
Noyabrsk, Russia	DYNARus, Warehouse	3,229 sq. ft	Leased	December 31, 2012
Nizhnevartovsk, Russia	DYNARus, Warehouse	7,750 sq. ft	Leased	March 31, 2012
Aktobe, Kazakhstan	KazDYNAenergetics, Sales Office	538 sq. ft	Owned	
Aktobe, Kazakhstan	KazDYNAenergetics, Warehouse	20 sq. ft.	Leased	February 28, 2012
Aktobe, Kazakhstan	KazDYNAenergetics, Bunker	1,692 sq. ft.	Owned	
Aktobe, Kazakhstan	KazDYNAenergetics, Land	20 acres	Leased	Year 2050

AMK Welding

Location	Facility Type	Facility Size	Owned/Leased	Expiration Date of Lease (if applicable)
South Windsor, Connecticut	AMK Welding	33,850 sq. ft.	Owned	

ITEM 3. Legal Proceedings

Although we may in the future become a party to litigation, there are no pending legal proceedings against us.

ITEM 4. Mine Safety Disclosures

Not applicable.

Table of Contents**PART II****ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is publicly traded on The Nasdaq National Market (Nasdaq) under the symbol BOOM. The following table sets forth quarterly high and low sales prices for the common stock during our last two fiscal years, as reported by Nasdaq.

	High	Low
<u>2011</u>		
First Quarter	\$ 27.99	\$ 19.55
Second Quarter	\$ 29.69	\$ 20.00
Third Quarter	\$ 24.49	\$ 14.00
Fourth Quarter	\$ 24.10	\$ 15.00
<u>2010</u>		
First Quarter	\$ 22.40	\$ 15.10
Second Quarter	\$ 19.10	\$ 14.02
Third Quarter	\$ 17.08	\$ 13.50
Fourth Quarter	\$ 24.80	\$ 14.73

As of March 5, 2012, there were approximately 359 holders of record of our common stock.

We declared and paid quarterly dividends aggregating \$0.16 per share dividend in 2011 and 2010. We may pay quarterly dividends subject to capital availability and periodic determinations that cash dividends 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 considerations, changes in income tax laws, and any other factors that our Board of Directors deems relevant. Any determination to pay cash dividends will be at the discretion of the Board of Directors.

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for information regarding securities authorized for issuance under our equity compensation plans.

Table of Contents

FINANCIAL PERFORMANCE

The following graph compares the performance of our common stock with the Nasdaq Non-Financial Stocks Index and the Nasdaq Composite (U.S.) Index. The comparison of total return (change in year end stock price plus reinvested dividends) for each of the years assumes that \$100 was invested on December 29, 2006, in each of the Company, Nasdaq Non-Financial Stocks Index and the Nasdaq Composite (U.S.) Index with investment weighted on the basis of market capitalization. Historical results are not necessarily indicative of future performance.

Total Return Analysis	12/29/06	12/31/07	12/31/08	12/31/09	12/31/10	12/30/11
Dynamic Materials Corporation	\$ 100	\$ 210.43	\$ 69.29	\$ 72.41	\$ 82.26	\$ 72.67
Nasdaq Non-Financial Stocks	\$ 100	\$ 113.43	\$ 66.67	\$ 100.55	\$ 119.34	\$ 119.20
Nasdaq Composite (US)	\$ 100	\$ 108.47	\$ 66.35	\$ 95.38	\$ 113.19	\$ 113.81

Table of Contents**ITEM 6. Selected Financial Data**

The following selected financial data should be read in conjunction with the Consolidated Financial Statements, including the related Notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations. The 2007 selected financial data include the operating results of DYNAenergetics from the November 15, 2007, acquisition date through December 31, 2007, and balance sheet information as of December 31, 2007. The 2009 selected financial data includes the operating results of LRI from the October 1, 2009, acquisition date through December 31, 2009, and balance sheet information as of December 31, 2009. The 2010 selected financial data includes consolidation of the operating results of the two Russian joint ventures from the April 30, 2010, acquisition date, through December 31, 2010, and balance sheet information as of December 31, 2010. The 2010 selected financial data also includes the operating results of DYNAenergetics US from the June 4, 2010, acquisition date, through December 31, 2010, and balance sheet information as of December 31, 2010.

	(Dollars in Thousands, Except Per Share Data)					
	Year Ended December 31,					
	2011	2010	2009	2008	2007	
Statement of Operations						
Net sales	\$ 208,891	\$ 154,739	\$ 164,898	\$ 232,577	\$ 165,175	
Cost of products sold	153,445	117,789	121,779	161,732	110,168	
Gross profit	55,446	36,950	43,119	70,845	55,007	
Cost and expenses	37,227	30,161	26,881	32,793	16,115	
Income from operations	18,219	6,789	16,238	38,052	38,892	
Other income (expense), net	(1,409)	(401)	(3,255)	(4,640)	(158)	
Income before income taxes	16,810	6,388	12,983	33,412	38,734	
Income tax provision	4,369	1,133	4,378	9,206	14,147	
Net income	12,441	5,255	8,605	24,206	24,587	
Net income (loss) attributable to non-controlling interest	(50)	(10)	56	138		
Net income attributable to Dynamic Materials Corporation	\$ 12,491	\$ 5,265	\$ 8,549	\$ 24,068	\$ 24,587	
Net income per share:						
Basic	\$ 0.94	\$ 0.40	\$ 0.67	\$ 1.89	\$ 2.02	
Diluted	\$ 0.93	\$ 0.40	\$ 0.66	\$ 1.87	\$ 1.99	
Weighted average number of shares outstanding:						
Basic	13,089,691	12,869,666	12,640,069	12,445,685	12,083,851	
Diluted	13,099,121	12,881,754	12,662,440	12,554,402	12,273,135	
Dividends Declared per Common Share	\$ 0.16	\$ 0.16	\$ 0.12	\$ 0.15	\$ 0.15	
Financial Position						
Current assets	\$ 91,189	\$ 72,735	\$ 87,974	\$ 91,049	\$ 94,730	
Total assets	213,426	201,393	225,176	229,586	240,899	
Current liabilities	29,310	38,392	42,135	45,747	58,818	
Long-term debt and capital lease obligations	26,650	14,734	34,556	46,514	62,051	
Other non-current liabilities	11,423	13,183	16,189	18,691	21,751	
Non-controlling interest	83	160	185	132		
Dynamic Materials Corporation's stockholders' equity	145,960	134,924	132,111	118,502	98,279	

Table of Contents

Selected unaudited quarterly financial data for the years ended December 31, 2011 and 2010 are presented below:

	(Dollars in Thousands, Except Per Share Data)			
	Year ended December 31, 2011			
	Quarter ended March 31,	Quarter ended June 30,	Quarter ended September 30,	Quarter ended December 31,
Net sales	\$ 45,574	\$ 54,165	\$ 54,890	\$ 54,262
Gross profit	\$ 10,302	\$ 15,473	\$ 14,832	\$ 14,840
Net income	\$ 750	\$ 3,868	\$ 4,273	\$ 3,599
Net income per share - basic	\$ 0.06	\$ 0.29	\$ 0.32	\$ 0.27
Net income per share - diluted	\$ 0.06	\$ 0.29	\$ 0.32	\$ 0.27

	Year ended December 31, 2010			
	Quarter ended March 31,	Quarter ended June 30,	Quarter ended September 30,	Quarter ended December 31,
Net sales	\$ 30,357	\$ 38,258	\$ 41,298	\$ 44,826
Gross profit	\$ 6,984	\$ 9,258	\$ 10,853	\$ 9,855
Net income (loss)	\$ (412)	\$ 3,036	\$ 1,326	\$ 1,315
Net income (loss) per share - basic	\$ (0.03)	\$ 0.23	\$ 0.10	\$ 0.10
Net income (loss) per share - diluted	\$ (0.03)	\$ 0.23	\$ 0.10	\$ 0.10

The net income per share for the 2011 and 2010 quarters, when totaled, does not equal net income per share for the respective years as the per share amounts for each quarter and for each year are computed based on their respective discrete periods.

Table of Contents

ITEM 7. 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 included elsewhere in this annual report.

Unless stated otherwise, all dollar figures in this discussion are presented in thousands (000's).

Executive Overview

Our business is organized into three segments: Explosive Metalworking (which we also refer to as DMC Clad), Oilfield Products and AMK Welding. In 2011, Explosive Metalworking accounted for 60% of our net sales and 66% of our income from operations before consideration of unallocated corporate expenses and stock-based compensation expense, which is not allocated to our business segments. Our Oilfield Products and AMK Welding segments accounted for 35% and 5%, respectively, of our 2011 net sales, and 26% and 8%, respectively, of our income from operations before unallocated corporate expenses and stock-based compensation expense. In 2010 and 2009, Explosive Metalworking accounted for 64% and 81% of our net sales, respectively, and 60% and 106%, respectively, of income from operations before unallocated corporate expenses and stock-based compensation expense.

Our 2011 net sales increased by \$54,152, or 35.0%, compared to 2010 net sales. This year-to-year consolidated net sales increase reflects sales increases of \$27,629 (28.0%) and \$27,450 (60.6%) for our Explosive Metalworking and Oilfield Products segments, respectively, that were partially offset by a sales decrease of \$927 (8.6%) for our AMK Welding segment. Excluding incremental sales of \$5,743 from the acquisition of Austin Explosives on June 4, 2010 and the step acquisition of two Russian joint ventures that was completed on April 30, 2010, our Oilfield Products segment reported an increase of \$21,707, or 47.9%, from its 2010 net sales. Income from operations increased 168.4% to \$18,219 in 2011 from \$6,789 in 2010. This \$11,430 increase reflects increases of \$8,597 and \$3,762 in the operating income reported by our Explosive Metalworking and Oilfield Products segments, respectively, which were partially offset by a decrease in AMK Welding's operating income of \$561 and a net increase in aggregate unallocated corporate expenses and stock-based compensation expense of \$368. Reported consolidated operating income for 2011 and for 2010 includes amortization expense of \$5,707 and \$5,330, respectively, relating to purchased intangible assets associated with our acquisition of DYNAenergetics, DYNAenergetics Canada, DYNAenergetics US, and the Russian joint ventures. Our net income increased by 137.2% to \$12,491 in 2011 from \$5,265 in 2010.

Impact of Current Economic Situation on the Company.

We were only minimally impacted in 2008 by the global economic slowdown. However, during 2009 and 2010, we experienced a significant slowdown in Explosive Metalworking sales to some of the markets we serve. The explosion-welded clad plate market is dependent upon sales of products for use by customers in a number of heavy industries, including oil and gas, alternative energy, chemicals and petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, and industrial refrigeration. These industries tend to be cyclical in nature and the current worldwide economic downturn has affected many of these markets. Despite the slowdown we have seen in certain sectors, including chemical, petrochemical and hydrometallurgy, quoting activity in other end markets remains healthy, and we continue to track an extensive list of projects. While timing of new order inflow remains difficult to predict, our Explosive Metalworking segment has benefited from the modest improvement in 2011 of some of the industries it supplies and we believe that it is well-positioned to further benefit as global

economic conditions improve.

As a result of acquisitions made during 2009 and 2010 and strong organic sales growth beginning in the third quarter of 2010, our Oilfield Products segment has grown into a second core business for us, generating 35% of our consolidated net sales in 2011 as compared to only 13% of our consolidated net sales in 2009. We believe the economic environment for this business segment remains positive and we expect to see continued organic sales growth in this segment during 2012 as well as the benefit of incremental sales from the January 3, 2012 acquisition of TRX Industries.

Our Explosive Metalworking backlog, which totaled \$97,247 at the end of 2008 before this business segment began to see a significant decline in booking activity, decreased to \$41,154 at September 30, 2010 before rebounding to \$56,539 at December 31, 2010 on strong fourth quarter 2010 booking activity and then decreasing to \$44,564 at December 31, 2011. While the backlog at December 31, 2011 is substantially lower than that at the beginning of the year, our recent quoting activity has been very strong and, after a slow sales start in 2012, we expect full year 2012 Explosive Metalworking net sales to be flat to up slightly from the \$126,199 in net sales that this segment reported in 2011. Based

Table of Contents

upon the December 31, 2011 Explosive Metalworking backlog, recent strong quoting activity for this segment and positive sales trends in our Oilfield Products business segment, we believe that our 2012 consolidated net sales could increase by 7% to 10% from the \$208,891 in consolidated net sales that we reported in 2011.

Net sales

Explosive Metalworking's revenues are generated principally from sales of clad metal plates and sales of transition joints, which are made from clad plates, 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.

Oilfield Products' revenues are generated principally from sales of shaped charges, detonators and detonating cord, and bidirectional boosters and perforating guns to customers who perform the perforation of oil and gas wells and from sales of seismic products to customers involved in oil and gas exploration activities.

AMK Welding's revenues are generated from welding, heat treatment, and inspection services that are provided with respect to customer-supplied parts for customers primarily involved in the power generation industry and aircraft engine markets.

A significant portion of our revenue is derived from a relatively small number of customers; therefore, the failure to complete existing contracts on a timely basis, to receive payment for such services in a timely manner, or to enter into future contracts at projected volumes and profitability levels could adversely affect our ability to meet cash requirements exclusively through operating activities. We attempt to minimize the risk of losing customers or specific contracts by continually improving product quality, delivering product on time and competing aggressively on the basis of price.

Gross profit and cost of products sold

Cost of products sold for Explosive Metalworking 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.

Cost of products sold for Oilfield Products 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.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

AMK Welding's cost of products sold consists principally of employee compensation and benefits, welding supplies (wire and gas), depreciation of manufacturing facilities and equipment, outside services and other manufacturing overhead expenses.

Income taxes

Our effective income tax rate increased to 26.0% in 2011 from 17.7% in 2010. Income tax provisions on the earnings of our foreign subsidiaries are provided based upon the respective foreign statutory tax rates for the applicable years. Going forward, based upon existing tax regulations and current federal, state and foreign statutory tax rates, we expect our blended effective tax rate on our projected consolidated pre-tax income to range between 27% and 30% in 2012 and subsequent years.

Table of Contents*Backlog*

We use backlog as a primary means of measuring the immediate outlook for our Explosive Metalworking business. We define backlog at any given point in time as consisting of 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 backlog with respect to the Explosive Metalworking segment decreased to \$44,564 at December 31, 2011 from \$56,539 at December 31, 2010. Based upon the December 31, 2011 Explosive Metalworking backlog, recent strong quoting activity for this segment and positive sales trends in our Oilfield Products business segment, we believe that our 2012 consolidated net sales could increase by 7% to 10% from the \$208,891 in consolidated net sales that we reported in 2011.

Year ended December 31, 2011 compared to Year Ended December 31, 2010*Net sales*

	2011		2010		Change	Percentage Change
Net sales	\$ 208,891	\$	154,739	\$	54,152	35.0%

Net sales for 2011 increased 35.0% to \$208,891 from \$154,739 in 2010. Explosive Metalworking sales increased 28.0% to \$126,199 in 2011 (60.4% of total sales) from \$98,570 in 2010 (63.7% of total sales). This \$27,629 sales increase reflects a general strengthening of demand in our Explosive Metalworking business and more than \$11 million in second quarter export shipments from our U.S. manufacturing facility on two large orders that were received in December of 2010.

Oilfield Products contributed \$72,782 to sales in 2011 (34.8% of total sales) compared to \$45,332 in 2010 (29.3% of total sales), which represents a sales increase of 60.6%. Excluding incremental sales of \$5,743 from our 2010 acquisition of Austin Explosives and the step acquisition of two Russian joint ventures, 2011 Oilfield Products sales increased \$21,707, or 47.9%, reflecting a substantial increase in global oil and gas drilling activities, particularly in North America.

AMK Welding contributed \$9,910 to 2011 sales (4.7% of total sales) versus sales of \$10,837 in 2010 (7.0% of total sales), a decrease of 8.6%. This decrease includes a \$1,932 decline in sales from ground power work that was partially offset by an \$827 increase in sales from aircraft engine work.

Gross profit

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

	2011		2010		Change	Percentage Change
Gross profit	\$	55,446	\$	36,950	\$ 18,496	50.1%
Consolidated gross profit margin rate		26.5%		23.9%		

Gross profit increased by 50.1% to \$55,446 in 2011 from \$36,950 in 2010. Our 2011 consolidated gross profit margin rate increased to 26.5% from 23.9% in 2010. The gross profit margin for Explosive Metalworking increased from 18.8% in 2010 to 22.4% in 2011. Oilfield Products gross margin remained flat at 33.4% in both 2011 and 2010. The gross profit margin for AMK Welding decreased to 31.1% in 2011 from 33.1% in 2010.

The 19.3% increase in the 2011 gross profit margin rate for Explosive Metalworking reflects an 11.9% increase in our U.S. gross margin rate from 22.2% in 2010 to 24.9% in 2011 and a 45.6% increase in our European gross margin rate from 11.8% in 2010 to 17.2% in 2011 on year-to-year sales increases of 30% and 24%, respectively. The increase in the 2011 gross profit margin rate for our Explosive Metalworking segment relates principally to favorable changes in product mix as compared to 2010 but also reflects a somewhat improved pricing environment compared to the extremely competitive pricing environment that existed throughout 2010 and a more favorable absorption of fixed manufacturing overhead expenses. As has been the case historically, we expect to see continued fluctuations in Explosive Metalworking's quarterly gross margin rates in the future that result from fluctuations in quarterly sales volume and changes in product mix.

Table of Contents

The Oilfield Products gross margin rate of 33.4% in 2011 was the same as that reported in 2010. The absence of change in the Oilfield Products gross margin rate reflects favorable 2011 cost variances resulting from increased production levels that were totally offset by unfavorable changes in product/customer mix.

The decrease in AMK Welding's reported gross margin relates principally to differences in the rate at which AMK Welding absorbed its fixed manufacturing overhead costs based on the sales decrease discussed above.

Based upon the expected contribution to 2012 consolidated net sales by each of our three business segments, we expect our consolidated full year 2012 gross margin to be in a range of 28% to 29%.

General and administrative expenses

	2011		2010		Change	Percentage Change
General and administrative expenses	\$ 16,711	\$	13,696	\$	3,015	22.0%
Percentage of net sales	8.0%		8.9%			

General and administrative expenses increased by \$3,015, or 22.0%, to \$16,711 in 2011 from \$13,696 in 2010. Excluding incremental general and administrative expenses of \$547 that resulted from the acquisition of Austin Explosives and the Russian joint ventures, our general and administrative expenses increased by \$2,468 or 18.0%. This increase includes increases of \$781 and \$456 in salaries and incentive compensation, respectively, an increase in legal fees of \$293, an increase in consulting fees of \$227 relating to information technology projects, an increase of \$221 in other outside professional service fees, a \$146 increase in business development expenses, an increase of \$128 in certain corporate governance and public-company expenses (board of director fees, directors and officers insurance and other investor relations expenses), and a net increase of \$216 in all other expense categories. As a percentage of net sales, general and administrative expenses decreased to 8.0% in 2011 from 8.9% in 2010.

Selling and distribution expenses

	2011		2010		Change	Percentage Change
Selling and distribution expenses	\$ 14,809	\$	11,135	\$	3,674	33.0%
Percentage of net sales	7.1%		7.2%			

Selling and distribution expenses, which include sales commissions of \$1,751 in 2011 and \$852 in 2010, increased by 33.0% to \$14,809 in 2011 from \$11,135 in 2010. Excluding incremental selling and distribution expenses of \$1,517 that resulted from the acquisition of Austin Explosives and the Russian joint ventures, our selling and distribution expenses increased by \$2,157 or 19.4%. This increase in our selling and distribution expenses includes increased selling and distribution expenses of \$1,160 at our U.S. divisions and \$997 at our foreign divisions. The \$1,160 increase in our U.S. selling and distribution expenses reflects increases of \$30 and \$434 for salaries and accrued incentive compensation, respectively, an increase of \$597 for sales commissions and a net increase of \$99 in all other spending categories. The \$997 increase in our foreign divisions' selling and distribution expenses reflects increases of \$373 and \$302 for salary expense and sales commissions, respectively.

and a net increase of \$322 in all other spending categories. As a percentage of net sales, selling and distribution expenses remained relatively flat at 7.1% in 2011 compared to 7.2% in 2010.

Our 2011 consolidated selling and distribution expenses include \$6,043 and \$8,061 for our Explosive Metalworking and Oilfield Products business segments, respectively. Our 2010 consolidated selling and distribution expenses include \$5,166 and \$5,186 for our Explosive Metalworking and Oilfield Products business segments, respectively. The higher level of selling and distribution expenses for our Oilfield Products segment relative to its contribution to our consolidated net sales reflects the need, particularly in North America, to maintain a number of strategically located distribution centers that are in close proximity to areas which contain a large concentration of oilfields and enjoy a high volume of related oil and gas drilling activities.

Table of Contents*Amortization expenses*

	2011		2010		Change	Percentage Change
Amortization of purchased intangible assets	\$ 5,707	\$	\$ 5,330	\$	377	7.1%
Percentage of net sales	2.7%		3.4%			

Amortization expense relates to the amortization of values assigned to intangible assets in connection with our November 15, 2007 acquisition of DYNAenergetics, our October 1, 2009 acquisition of LRI, our April 30, 2010 acquisition of the two Russian joint ventures and our June 4, 2010 acquisition of Austin Explosives. Amortization expense for 2011 includes \$4,316, \$1,191, and \$200 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively and increased from 2010, primarily due to a full year of amortization related to 2010 acquisitions. Amortization expense for 2010 includes \$3,854, \$1,136, \$340 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively. Amortization expense (as measured in Euros) associated with the DYNAenergetics acquisition is expected to approximate 3,490 in 2012, and 2012 amortization expense (as measured in Canadian dollars) associated with the LRI acquisition is expected to approximate 80 CAD. Amortization expense (as measured in Euros) associated with the acquisition of the two Russian joint ventures is expected to approximate 232 in 2012, and 2012 amortization expense associated with the Austin Explosives acquisition is expected to approximate \$435.

Operating income

	2011		2010		Change	Percentage Change
Operating income	\$ 18,219	\$	\$ 6,789	\$	11,430	168.4%

Income from operations (operating income) increased by 168.4% to \$18,219 in 2011 from \$6,789 in 2010. Explosive Metalworking reported operating income of \$16,058 in 2011 as compared to \$7,461 in 2010. This 115.2% increase is largely attributable to the 28.0% increase in net sales and the 19.3% increase in the 2011 gross margin rate as discussed above. Operating results of Explosive Metalworking for 2011 and 2010 include \$2,224 and \$2,271, respectively, of amortization expense of purchased intangible assets.

Oilfield Products reported operating income of \$6,188 in 2011 as compared to operating income of \$2,426 in 2010. The significant improvement in operating results for our Oilfield Products segment is attributable to the significant increases in sales and gross profit as discussed above that reflect the incremental sales and gross profit from the acquisitions of Austin Explosives and the Russian joint ventures as well as an increase in global oil and gas drilling activities, particularly in North America. Operating results of Oilfield Products for 2011 and 2010 include \$3,483 and \$3,059, respectively, of amortization expense of purchased intangible assets.

AMK Welding reported operating income of \$2,056 in 2011, a decrease of 21.4% from the \$2,617 in operating income that it reported in 2010. The decline in AMK's operating income is largely attributable to the declines in sales and gross margin rate as discussed above.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Operating income in 2011 and 2010 includes \$2,686 and \$2,214, respectively, of unallocated corporate expenses and \$3,397 and \$3,501, respectively, of stock-based compensation expense. These expenses are not allocated to our business segments and thus are not included in the above 2011 and 2010 operating income totals for Explosive Metalworking, Oilfield Products, and AMK Welding.

Gain on step acquisition of joint ventures

	2011	2010	Change	Percentage Change
Gain on step acquisition of joint ventures	\$	\$ 2,117	\$ (2,117)	N/A

Table of Contents

During the second quarter of 2010, we acquired the remaining non-controlling interests in two Russian joint ventures that were previously majority-owned. Prior to the acquisition date, we accounted for the joint ventures as equity investments. As a result of the acquisition of the remaining non-controlling interests, we now consolidate these entities. In accordance with accounting standards applicable to transactions of this nature, we determined the fair value of our interests in these joint ventures immediately prior to the purchase and recognized a resultant gain of \$2,117.

Other income (expense), net

	2011		2010		Change	Percentage Change
Other income (expense), net	\$	528	\$	199	\$ 329	165.3%

We reported net other income of \$528 in 2011 compared to net other income of \$199 in 2010. Our 2011 net other income includes net realized and unrealized foreign exchange gains of \$372, including a gain of \$87 on our currency swap agreement (which expired in April 2011), and net other income items aggregating \$156. Our 2010 net other income includes net realized and unrealized foreign exchange gains of \$150, including a gain of \$118 on our currency swap agreement, and net other income items aggregating \$59.

Interest income (expense), net

	2011		2010		Change	Percentage Change
Interest income (expense), net	\$	(1,937)	\$	(2,972)	\$ 1,035	(34.8)%

We recorded net interest expense of \$1,937 in 2011 compared to net interest expense of \$2,972 in 2010. Our 2010 interest expense includes a non-recurring, non-cash charge of \$251 related to the write-off of unamortized debt issuance costs associated with the March prepayment, in the amount of \$12,498 (9,020 Euros), of the remaining balance of the Euro term loan that was outstanding under our bank syndicate credit facility. This Euro term loan was scheduled to mature on November 16, 2012. Our 2011 interest expense includes a non-recurring, non-cash charge of \$284 related to the write-off of certain unamortized debt issuance costs associated with the our bank syndicate credit facility entered into on November 16, 2007, which was amended and restated in its entirety on December 21, 2011 through a new five-year credit facility with a syndicate of four banks. The decrease in our 2011 interest expense is attributable to a significant reduction in average outstanding borrowings that resulted principally from \$22,124 in payments on syndicated term loans during 2010, including the March 2010 prepayment of the Euro term loan discussed above.

Income tax provision

	2011		2010		Change	Percentage Change
Income tax provision	\$	4,369	\$	1,133	\$ 3,236	285.6%
Effective tax rate		26.0%		17.7%		

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

We recorded an income tax provision of \$4,369 in 2011 compared to \$1,133 in 2010. The 2011 effective tax rate increased to a more normal level of 26.0% from 17.7% in 2010. Our unusually low 2010 effective tax rate related principally to the low tax rate applicable to the non-recurring gain on the acquisition of non-controlling interests in two Russian joint ventures. Our effective tax rate on the \$4,281 of ordinary pretax income that we reported in 2010 was 25.1%. Our consolidated income tax provision for 2011 and 2010 included \$4,078 and \$1,670, respectively, related to U.S. taxes, with the remainder relating to net foreign tax provision of \$291 in 2011 and a net foreign tax benefit of \$537 in 2010 associated with our foreign operations and holding companies.

Our statutory income tax rates range from 19% to 33% for our various U.S. and foreign operating subsidiaries and holding companies. The fluctuations in our consolidated effective tax rate for the years ended December 31, 2011 and 2010 relate principally to the different tax rates in our U.S. and foreign tax jurisdictions and the variation in

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

contribution to consolidated pre-tax income from each jurisdiction for the respective periods and also reflect the impact of favorable permanent differences in our foreign taxes.

We expect our blended effective tax rate for 2012 to range from 27% to 30% based on projected pre-tax income.

Adjusted EBITDA

	2011	2010	Change	Percentage Change
Adjusted EBITDA	\$ 32,865	\$ 21,013	\$ 11,852	56.4%

Adjusted EBITDA is a non-GAAP measure that we believe provides an important indicator of our ongoing operating performance. Our aggregate non-cash depreciation, amortization of purchased intangible assets and stock-based compensation expense for 2011 and 2010 was \$14,596 and \$14,214, respectively. These aggregate non-cash charges represent a significant percentage of the consolidated operating income that we reported for these periods. We use non-GAAP EBITDA and Adjusted EBITDA in our operational and financial decision-making and believe that these non-GAAP measures are a reliable indicator of our ability to generate cash flow from operations and facilitate a more meaningful comparison of the operating performance of our three business segments than do certain GAAP measures. Research analysts, investment bankers and lenders also use EBITDA and Adjusted EBITDA to assess operating performance. The following is a reconciliation of the most directly comparable GAAP measure to Adjusted EBITDA.

	2011	2010
Net income attributable to DMC	\$ 12,491	\$ 5,265
Interest expense	1,945	3,046
Interest income	(8)	(74)
Provision for income taxes	4,369	1,133
Depreciation	5,492	5,383
Amortization of purchased intangible assets	5,707	5,330
EBITDA	29,996	20,083
Stock-based compensation	3,397	3,501
Other (income) expense, net	(528)	(2,316)
Equity in earnings of joint ventures	(255)	(255)
Adjusted EBITDA	\$ 32,865	\$ 21,013

Adjusted EBITDA increased 56.4% to \$32,865 in 2011 from \$21,013 in 2010 primarily due to the \$11,430 increase in operating income.

Year ended December 31, 2010 compared to Year Ended December 31, 2009

Net sales

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

	2010		2009		Change	Percentage Change
Net sales	\$	154,739	\$	164,898	\$ (10,159)	(6.2)%

Net sales for 2010 decreased 6.2% to \$154,739 from \$164,898 in 2009. Explosive Metalworking sales decreased 26.5% to \$98,570 in 2010 (63.7% of total sales) from \$134,096 in 2009 (81.3% of total sales). The decrease in Explosive Metalworking sales reflects a business slowdown in several of the industries that this business segment serves.

Oilfield Products contributed \$45,332 to sales in 2010 (29.3% of total sales) compared to \$21,764 in 2009 (13.2% of total sales). Excluding incremental sales of \$15,436 from our acquisitions of LRI and Austin Explosives and the step acquisition of two Russian joint ventures, 2010 sales increased \$8,132 or 37.4%, reflecting a strong rebound in oil and gas drilling activities in North America and other regions of the world.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

AMK Welding contributed \$10,837 to 2010 sales (7.0% of total sales) versus sales of \$9,038 in 2009 (5.5% of total sales), an increase of 19.9%.

Gross profit

	2010		2009		Change	Percentage Change
Gross profit	\$ 36,950	\$	\$ 43,119	\$	(6,169)	(14.3)%
Consolidated gross profit margin rate	23.9%		26.1%			

Gross profit decreased by 14.3% to \$36,950 in 2010 from \$43,119 in 2009. Our 2010 consolidated gross profit margin rate decreased to 23.9% from 26.1% in 2009. The gross profit margin for Explosive Metalworking decreased from 27.0% in 2009 to 18.8% in 2010. Oilfield Products reported a gross margin of 33.4% in 2010 compared to a gross margin of 22.3% in 2009. The gross profit margin for AMK Welding increased to 33.1% in 2010 from 27.0% in 2009.

The 30.3% decrease in the 2010 gross profit margin rate for Explosive Metalworking reflects a 34.6% decrease in our U.S. gross margin rate from 34.0% in 2009 to 22.2% in 2010 and a 24.2% decrease in our European gross margin rate from 15.6% in 2009 to 11.8% in 2010 on year-to-year sales declines of 20.3% and 36.5%, respectively. While lower sales and the resultant less favorable absorption of fixed manufacturing overhead costs have negatively impacted gross margins reported by all of our cladding divisions, the significant decline in our U.S. gross margin rate for 2010 compared to 2009 relates principally to unfavorable changes in product mix and an extremely competitive pricing environment in certain end markets that comprise a significant portion of our 2010 sales. Historically, gross margins for our European explosion welding divisions have been lower than those reported by our U.S. division due to less efficient fixed manufacturing cost structures associated with our smaller European facilities and this has again been case during 2010. While our European cladding divisions also face a competitive pricing environment, the principal reason for the large decrease in our European gross margin rate for 2010 compared to 2009 is the 36.5% decline in sales. As has been the case historically, we expect to see continued fluctuations in Explosive Metalworking's quarterly gross margin rates in the future that result from fluctuations in quarterly sales volume and change in product mix.

The increase in Oilfield Products' 2010 gross margin relates principally to the significant sales increases that are discussed above and favorable changes in product/customer mix. Gross margins reported by the Oilfield Products segment also reflect the incremental margin on intercompany sales to recently acquired former distributors in Canada, the U.S. and Russia as these acquired entities sell products through to the end customers.

The increase in AMK Welding's gross margin relates principally to the sales increase discussed above and associated more favorable absorption of fixed manufacturing overhead expenses.

General and administrative expenses

2010	2009	Change	Percentage Change
------	------	--------	----------------------

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

General and administrative expenses	\$	13,696	\$	12,980	\$	716	5.5%
Percentage of net sales		8.9%		7.9%			

General and administrative expenses increased by \$716, or 5.5%, to \$13,696 in 2010 from \$12,980 in 2009. Excluding incremental general and administrative expenses of \$1,229 that resulted from the acquisitions of LRI, Austin Explosives and the Russian joint ventures, our general and administrative expenses decreased by \$513 or 4%. This decrease includes increases of \$113 and \$122 in salaries and stock-based compensation, respectively, which were more than offset by a \$195 decrease in accrued incentive compensation and a net decrease of \$473 in all other expense categories that reflects the impact of tight controls over discretionary spending. As a percentage of net sales, general and administrative expenses increased to 8.9% in 2010 from 7.9% in 2009.

Table of Contents*Selling and distribution expenses*

	2010		2009		Change	Percentage Change	
Selling and distribution expenses	\$	11,135	\$	8,837	\$	2,298	26.0%
Percentage of net sales		7.2%		5.4%			

Selling and distribution expenses, which include sales commissions of \$783 in 2010 and \$1,387 in 2009, increased by 26% to \$11,135 in 2010 from \$8,837 in 2009. Excluding incremental selling and distribution expenses of \$3,378 that resulted from the acquisitions of LRI, Austin Explosives and the Russian joint ventures, our selling and distribution expenses decreased by \$1,080 or 12.2%. This decrease in our selling and distribution expenses includes decreased selling and distribution expenses of \$121 at our U.S. divisions and \$959 at our foreign divisions. The decrease in our foreign divisions' selling and distribution expenses relates principally to staff reductions within our European explosion welding facilities and lower sales commissions. The \$121 decrease in our U.S. selling and distribution expenses reflects decreases of \$121 and \$118 for salaries and accrued incentive compensation, respectively, and a net increase of \$118 in other spending categories. As a percentage of net sales, selling and distribution expenses increased to 7.2% in 2010 from 5.4% in 2009. The increase in selling and distribution expenses as a percentage of sales relates largely to our Oilfield Products business and the need, particularly in North America, to maintain a number of strategically located distribution centers that are in close proximity to areas which contain a large concentration of oilfields and enjoy a high volume of related oil and gas drilling activities.

Amortization expenses

	2010		2009		Change	Percentage Change	
Amortization of purchased intangible assets	\$	5,330	\$	5,064	\$	266	5.3%
Percentage of net sales		3.4%		3.1%			

Amortization expense relates to the amortization of values assigned to intangible assets in connection with our November 15, 2007 acquisition of DYNAenergetics, our October 1, 2009 acquisition of LRI, our April 30, 2010 acquisition of the two Russian joint ventures and our June 4, 2010 acquisition of Austin Explosives. Amortization expense for 2010 includes \$3,854, \$1,136, and \$340 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively. Amortization expense for 2009 includes \$3,511, \$1,173, \$380 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively.

Operating income

	2010		2009		Change	Percentage Change	
Operating income	\$	6,789	\$	16,238	\$	(9,449)	(58.2)%

Income from operations (operating income) decreased by 58.2% to \$6,789 in 2010 from \$16,238 in 2009. Explosive Metalworking reported operating income of \$7,461 in 2010 as compared to \$23,301 in 2009. This 68% decrease is largely attributable to the 26.5% decrease in net

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

sales and the 30.3% decline in the 2010 gross margin rate as discussed above. Operating results of Explosive Metalworking for 2010 and 2009 include \$2,271 and \$2,407, respectively, of amortization expense of purchased intangible assets.

Oilfield products reported operating income of \$2,426 in 2010 as compared to an operating loss of \$3,074 in 2009. The significant improvement in operating results for our Oilfield Products segment is attributable to the significant increases in sales and gross profit as discussed above that reflect the incremental sales and gross profit from the acquisitions of LRI, Austin Explosives and the Russian joint ventures as well as an increase in global oil and gas drilling activities, particularly in North America. Operating results of Oilfield Products for 2010 and 2009 include \$3,059 and \$2,657, respectively, of amortization expense of purchased intangible assets.

Table of Contents

AMK Welding reported operating income of \$2,617 in 2010, an increase of 56.6% from the \$1,671 that it reported in 2009. The improvement in AMK's operating income is largely attributable to the 19.9% sales increase discussed above.

Operating income in 2010 and 2009 includes \$2,214 and \$2,235, respectively of unallocated corporate expenses and \$3,501 and \$3,425, respectively, of stock-based compensation expense. These expenses are not allocated to our business segments and thus are not included in the above 2010 and 2009 operating income totals for Explosive Metalworking, Oilfield Products, and AMK Welding.

Gain on step acquisition of joint ventures

	2010		2009		Change	Percentage Change
Gain on step acquisition of joint ventures	\$ 2,117	\$	\$	\$	2,117	N/A

During the second quarter of 2010, we acquired the remaining non-controlling interests in two Russian joint ventures that were previously majority-owned. Prior to the acquisition date, we accounted for the joint ventures as equity investments. As a result of the acquisition of the remaining non-controlling interests, we now consolidate these entities. In accordance with accounting standards applicable to transactions of this nature, we determined the fair value of our interests in these joint ventures immediately prior to the purchase and recognized a resultant gain of \$2,117.

Other income (expense), net

	2010		2009		Change	Percentage Change
Other income (expense), net	\$ 199	\$	\$ (219)	\$	418	(190.9)%

We reported net other income of \$199 in 2010 compared to net other expense of \$219 in 2009. Our 2010 net other income includes net realized and unrealized foreign exchange gains of \$150, including a gain of \$118 on our currency swap agreement, and net other income items aggregating \$49. Our 2009 other net expense of \$219 relates principally to realized and unrealized foreign exchange losses recorded by our Swedish and German subsidiaries.

Interest income (expense), net

	2010		2009		Change	Percentage Change
Interest income (expense), net	\$ (2,972)	\$	\$ (3,257)	\$	285	(8.8)%

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

We recorded net interest expense of \$2,972 in 2010 compared to net interest expense of \$3,257 in 2009. Our 2010 interest expense includes a non-recurring, non-cash charge of \$251 related to the write-off of unamortized debt issuance costs associated with the March prepayment, in the amount of \$12,498 (9,020 Euros), of the remaining balance of the Euro term loan that was outstanding under our bank syndicate credit facility. This Euro term loan was scheduled to mature on November 16, 2012. The decrease in interest expense is attributable to a significant reduction in average outstanding borrowings that resulted from scheduled term loan payments and the March 2010 prepayment of the Euro term loan. Interest savings from these term loan reductions were partially offset by higher average interest rates in 2010 that relate principally to the October 2009 amendment to our bank syndicated credit facility which resulted in an increase in the interest rate charged on outstanding borrowings of 1.5% per annum.

Table of Contents*Income tax provision*

	2010	2009	Change	Percentage Change
Income tax provision	\$ 1,133	\$ 4,378	\$ (3,245)	(74.1)%
Effective tax rate	17.7%	33.9%		

We recorded an income tax provision of \$1,133 in 2010 compared to \$4,378 in 2009. Our 2010 income tax provision included a provision of \$59 associated with the \$2,117 non-recurring gain that we recorded on the acquisition of non-controlling interest in two Russian joint ventures as discussed above and a provision of \$1,074 on the remaining pretax income of \$4,281. The effective tax rate decreased to 17.7% in 2010 from 33.9% in 2009 due principally to the low tax rate applicable to the non-recurring gain on the acquisition of non-controlling interest in two Russian joint ventures. Our effective tax rate on the \$4,281 of ordinary pretax income that we reported was 25.1%. Our consolidated income tax provision for 2010 and 2009 included \$1,670 and \$5,659, respectively, related to U.S. taxes, with the remainder relating to net foreign tax benefits of \$537 and \$1,281 in 2010 and 2009, respectively, associated with our foreign operations and holding companies.

Adjusted EBITDA

	2010	2009	Change	Percentage Change
Adjusted EBITDA	\$ 21,013	\$ 29,713	\$ (8,700)	(29.3)%

Adjusted EBITDA is a non-GAAP measure that we believe provides an important indicator of our ongoing operating performance. Our aggregate non-cash depreciation, amortization and stock-based compensation expense for the years ended December 31, 2010 and 2009 was \$14,214 and \$13,531, respectively, and represents a significant percentage of the consolidated operating income that we reported for these years. We use non-GAAP EBITDA and Adjusted EBITDA in our operational and financial decision-making and believe that these non-GAAP measures are a reliable indicator of our ability to generate cash flow from operations and facilitate a more meaningful comparison of the operating performance of our three business segments than do certain GAAP measures. Research analysts, investment bankers and lenders also use EBITDA and Adjusted EBITDA to assess operating performance. The following is a reconciliation of the most directly comparable GAAP measure to Adjusted EBITDA.

	2010	2009
Net income attributable to DMC	\$ 5,265	\$ 8,549
Interest expense	3,046	3,473
Interest income	(74)	(216)
Provision for income taxes	1,133	4,378
Depreciation	5,383	5,042
Amortization of purchased intangible assets	5,330	5,064
EBITDA	20,083	26,290
Stock-based compensation	3,501	3,425
Other (income) expense, net	(2,316)	219
Equity in earnings of joint ventures	(255)	(221)
Adjusted EBITDA	\$ 21,013	\$ 29,713

Adjusted EBITDA decreased 29.3% to \$21,013 in 2010 from \$29,713 in 2009 primarily due to the decrease in operating income of \$9,449.

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

Table of Contents

from operations and funds available under our current credit facilities and any future replacement thereof will be sufficient to fund the working capital, debt service, 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 at attractive prices; and (iii) continue to implement cost-effective internal processes, our ability to meet cash requirements through operating activities could be impacted. Furthermore, any restriction on the availability of borrowings under our credit facilities could negatively affect our ability to meet future cash requirements.

Debt facilities

On December 21, 2011, we entered into a five-year syndicated credit agreement, which provides revolving loan availability of \$36,000, 16,000 Euros and 1,500 Canadian Dollars through a syndicate of four banks, and amends and restates in its entirety our prior syndicated credit agreement entered into on November 16, 2007. Our prior syndicated credit agreement provided for revolving loan availability of \$25,000 and 7,000 Euros, and also had a remaining balance of \$13,247 outstanding under a \$45,000 term loan. On the closing date of our amended and restated new credit agreement, the remaining outstanding balance on our term loan was converted to a revolving credit loan.

There are two significant financial covenants under our syndicated credit agreement, the leverage ratio and fixed charge coverage ratio requirements. The leverage ratio is defined in the credit agreement 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 years ended December 31, 2010 and 2011, Consolidated EBITDA approximated the Adjusted EBITDA that we reported for the respective periods. As of December 31, 2011, the maximum leverage ratio permitted by our credit facility was 2.25 to 1.0. The actual leverage ratio as of December 31, 2011 was 0.83 to 1.0. The maximum leverage ratio permitted as of March 31, June 30, September 30 and December 31, 2012 is also 2.25 to 1.0.

The fixed charge ratio, as defined in the credit agreement, means, for any period, the ratio of Consolidated EBITDA to Fixed Charges. Consolidated EBITDA is defined above and Fixed Charges equals the sum of cash interest expense, cash dividends, cash income taxes and an amount equal to 75% of depreciation expense. As of December 31, 2011, the minimum fixed charge ratio permitted by our credit facility was 2.0 to 1.0. The actual fixed charge ratio as of December 31, 2011 was 2.50 to 1.0. The minimum fixed charge coverage ratio permitted for the twelve month periods ending March 31, June 30, September 30 and December 31, 2012 is 2.0 to 1.0.

As of December 31, 2011, U.S. dollar revolving loans of \$20,247 and Euro revolving loans of \$6,215 were outstanding under our syndicated credit agreement, \$13 was outstanding under our separate DYNAenergetics line of credit agreements, and \$1,271 was outstanding under loan agreements with the former owners of LRI. While we had approximately \$39,484 of unutilized revolving credit loan capacity as of December 31, 2011 under our various credit facilities, future borrowings are subject to compliance with financial covenants that could significantly limit availability.

On January 3, 2012 we acquired TRX Industries (see Note 10) at which time we borrowed an additional \$10,000 on our U.S. dollar revolving loan.

Debt and other contractual obligations and commitments

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 December 31, 2011, we were in compliance with all financial covenants and other provisions of our debt agreements.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

The table below presents principal cash flows by expected maturity dates for our debt obligations and other contractual obligations and commitments as of December 31, 2011:

Contractual Obligations	Payment Due by Period As of December 31, 2011				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
Total long-term debt and interest obligations (1)	\$ 1,159	\$ 121	\$	\$	\$ 1,280
Capital lease obligations (2)	72	77			149
Operating lease obligations (3)	1,639	2,050	809	196	4,694
License agreements obligations (4)	239	478	478	478	1,673
Purchase obligations (5)	22,946				22,946
Total	\$ 26,055	\$ 2,726	\$ 1,287	\$ 674	\$ 30,742

(1) Amounts represent future cash payments on our long-term debt and interest expense obligations and are reflected in accompanying Consolidated Balance Sheets.

(2) The present value of these capital lease obligations are included in our Consolidated Balance Sheets. See Note 9 of the Notes to Consolidated Financial Statements for additional information.

(3) The operating lease obligations presented reflect future minimum lease payments due under non-cancelable portions of our leases as of December 31, 2011. Our operating lease obligations are described in Note 9 of the Notes to Consolidated Financial Statements.

(4) The license agreements obligations presented reflect future minimum payments due under non-cancelable portions of our agreements as of December 31, 2011. Our license agreements obligations are described in Note 9 of the Notes to Consolidated Financial Statements.

(5) Amounts represent commitments to purchase goods or services to be utilized in the normal course of business. These amounts are not reflected in accompanying Consolidated Balance Sheets.

As of December 31, 2011, we have \$20,247 and \$6,215 of outstanding borrowings under our U.S. and Euro revolving lines of credit, respectively, at then current interest rates of 3.25% and 2.91%, respectively. On January 3, 2012, the interest rate on our U.S. borrowings was reduced to 1.55%. The credit agreement has a five-year term ending December 21, 2016. For more information about our debt obligations, see Note 5 to our consolidated financial statements elsewhere in this annual report.

Cash flows from operating activities

Net cash flows provided by operating activities for 2011 totaled \$9,726. Significant sources of operating cash flow included net income of \$12,441, non-cash depreciation and amortization expense of \$11,848, and stock-based compensation of \$3,397. Operating cash flow for the year was reduced by a deferred income tax benefit of \$1,587 and net negative changes in working capital of \$16,408. Negative cash flows from changes in working capital included increases in accounts receivable, inventories and prepaid expenses and decrease in accounts payable of \$9,551, \$8,392, \$1,346 and \$1,035, respectively. These were partly offset by increases in accrued expenses and other liabilities of \$3,451 and customer advances of \$465. The \$9,551 increase in accounts receivables follows the \$9,436 increase in fourth quarter 2011 consolidated sales compared to those in the fourth quarter of 2010. The \$8,392 increase in inventories relates principally to our Oilfield Products segment, which has made a deliberate effort to build up its finished goods inventories to better meet the strong increase in business activity that the segment has experienced in 2011 and the expected sales demand in 2012. The \$3,342 increase in accrued expenses and other liabilities relates to both timing issues and a significant increase in accrued incentive compensation.

Net cash flows provided by operating activities for 2010 totaled \$16,693. Significant sources of operating cash flow included net income of \$5,255, non-cash depreciation and amortization expense of \$11,300, stock-based

Table of Contents

compensation of \$3,501 and net positive changes in working capital of \$683. These sources of operating cash flow were partially offset by a \$2,117 non-cash gain on step acquisition of joint ventures and a deferred income tax benefit of \$1,708. Positive cash flows from changes in working capital included decreases in accounts receivable and inventories and increases in accounts payable of \$2,690, \$1,696, and \$2,970, respectively. These were partly offset by decreases in customer advances and accrued expenses and other liabilities of \$4,871 and \$1,365, respectively. The decreases in accounts receivable and inventories reflect declines of more than 20% in our Explosive Metalworking segment's accounts receivable and inventory balances that follow the decrease in this segment's sales levels, with these declines being partially offset by increased accounts receivable and inventories in our Oilfield Products segment, which reflect a strong rebound in this segment's underlying sales and production activity during the last half of 2010. The decrease in customer advances reflects the return of customer advances to a more normal level after the inclusion at December 31, 2009 of a \$4,500 advance from one customer on a large order that was shipped during 2010. The increase in accounts payable relates primarily to the timing of inventory purchases and payments while the decrease in accrued expenses and other liabilities relates to both timing issues and a decrease in accrued incentive compensation.

Net cash flows provided by operating activities for 2009 totaled \$29,540. Significant sources of operating cash flow included net income of \$8,605, non-cash depreciation and amortization expense of \$10,403, stock-based compensation of \$3,425 and net positive changes in working capital of \$10,112. Deferred income tax benefits of \$2,784 partly offset these sources of operating cash flows. Positive cash flows from changes in working capital included decreases in accounts receivable and inventories and increases in customer advances of \$11,891, \$6,604, and \$3,813, respectively. These were partly offset by increases in prepaid expenses of \$571 and decreases in accounts payables and accrued expenses and other liabilities of \$8,045 and \$3,580, respectively.

Cash flows from investing activities

Net cash flows used in investing activities for 2011 totaled \$7,731 which consisted almost entirely of capital expenditures.

Net cash flows used in investing activities for 2010 totaled \$9,265 which included investments in acquisitions of \$5,685 and \$3,527 in capital expenditures.

Net cash flows used in investing activities for 2009 totaled \$4,142 and consisted primarily of \$3,917 in capital expenditures and \$284 of cash paid in connection with the acquisition of LRI.

Cash flows from financing activities

Net cash flows used in financing activities for 2011 totaled \$1,395. Significant uses of cash for financing activities included term loan payments of \$22,247, including a prepayment of \$13,247, under our prior syndicated credit agreement that was replaced on December 21, 2011 by a new five-year syndicated credit facility that provides for approximately \$60,000 of revolving loan availability, payment of annual dividends of \$2,130, \$627 in final principal payments on our Nord LB term loans, \$435 payment of debt issuance costs related to the new syndicated credit agreement and \$295 payment on capital lease obligations. Sources of cash flow from financing activities included net borrowings on bank lines of credit of \$24,191, including net borrowings of \$25,402 under our new syndicated credit facility, and \$177 in net proceeds from the issuance of common stock relating to the exercise of stock options.

Net cash flows used in financing activities for 2010 totaled \$24,947. Significant uses of cash for financing activities included \$2,876 in required prepayments of term loans under our syndicated credit agreement from excess cash flow that we generated in fiscal year 2009, \$12,498 to prepay the remaining principal balance of our Euro term loan under our syndicated credit agreement, \$6,750 for scheduled term loan principal payments under our syndicated credit agreement, payment of annual dividends of \$2,089, \$797 in principal payments on our Nord LB term loans, \$601 for the negative tax impact of stock-based compensation and payment on capital lease obligations of \$304. Sources of cash flow from financing activities included net borrowings on bank lines of credit of \$780 and \$188 in net proceeds from the issuance of common stock relating to the exercise of stock options.

Net cash flows used in financing activities for 2009 totaled \$17,730. Significant uses of cash for financing activities included \$9,760 for scheduled term loan principal payments under our syndicated credit agreement, \$3,854 in required prepayments of term loans under our syndicated credit agreement from excess cash flow we generated in 2008, payments on loans with their former LRI owners of \$1,231, repayments of LRI's bank line of credit of \$952, payment of annual dividends of \$1,028 and \$876 in principal payments on our Nord LB term loans. Sources of cash flow from

Table of Contents

financing activities included \$425 in net proceeds from the issuance of common stock relating to the exercise of stock options and \$90 for excess tax benefits related to stock option exercises.

Critical Accounting Policies

Our historical consolidated financial statements and notes to our historical consolidated financial statements contain information that is pertinent to our management's discussion and analysis of financial condition and results of operations. Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that our management make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. However, the accounting principles used by us generally do not change our reported cash flows or liquidity. Existing rules must be interpreted and judgments made on how the specifics of a given rule apply to us.

In management's opinion, the more significant reporting areas impacted by management's judgments and estimates are revenue recognition, asset impairments, goodwill and other intangible assets, and income taxes. Management's judgments and estimates in these areas are based on information available from both internal and external sources, and actual results could differ from the estimates, as additional information becomes known. We believe the following to be our most critical accounting policies.

Revenue recognition

Sales of clad metal products and welding services are generally based upon customer specifications set forth in customer purchase orders and require us to provide certifications relative to metals used, services performed and the results of any non-destructive testing that the customer has requested be performed. All issues of conformity of the product to specifications are resolved before the product is shipped and billed. Products related to the oilfield products segment, which include detonating cords, detonators, bi-directional boosters and shaped charges, as well as, seismic related explosives and accessories, are standard in nature. In all cases, revenue is recognized only when all four of the following criteria have been satisfied: persuasive evidence of an arrangement exists; the price is fixed or determinable; delivery has occurred; and collection is reasonably assured. For contracts that require multiple shipments, revenue is recorded only for the units included in each individual shipment. If, as a contract proceeds toward completion, projected total cost on an individual contract indicates a probable loss, we will account for such anticipated loss.

Asset impairments

We review our long-lived assets to be held and used by us for impairment whenever events or changes in circumstances indicate their carrying amount may not be recoverable. In so doing, we estimate the future net cash flows expected to result from the use of these assets and their eventual disposition. If the sum of the expected future net cash flows (undiscounted and without interest charges) is less than the carrying amount of these assets, an impairment loss is recognized to reduce the asset to its estimated fair value. Otherwise, an impairment loss is not recognized. Long-lived assets to be disposed of, if any, are reported at the lower of carrying amount or fair value less costs to sell.

Business Combinations

We account for our business acquisitions using the purchase method of accounting. We allocate the total cost of the acquisition to the underlying net assets based on their respective estimated fair values. As part of this allocation process, we identify and attribute values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding multiple, highly subjective variables, including those with respect to future cash flows, discount rates, asset lives, and the use of different valuation models and therefore require considerable judgment. Our estimates and assumptions are based, in part, on the availability of listed market prices or other transparent market data. These determinations affect the amount of amortization expense recognized in future periods. We base our fair value estimates on assumptions we believe to be reasonable but are inherently uncertain.

Goodwill and Other Intangible Assets

We review the carrying value of goodwill at least annually to assess impairment because it is not amortized. Additionally, we review the carrying value of any intangible asset or goodwill whenever events or changes in

Table of Contents

circumstances indicate that its carrying amount may not be recoverable. Examples of such events or changes in circumstances, many of which are subjective in nature, include significant negative industry or economic trends, significant changes in the manner of our use of the acquired assets or our strategy, a significant decrease in the market value of the asset, and a significant change in legal factors or in the business climate that could affect the value of the asset. If an impairment indicator is present, we perform an analysis to confirm whether an impairment has actually occurred and if so, the amount of the required impairment charge. We assess impairment by comparing the fair value of an identifiable intangible asset or goodwill with its carrying value. The determination of fair value involves significant management judgment and assumptions, including assumptions regarding estimated useful lives, revenue growth, operating margins, future market conditions and discount rates.

We evaluate goodwill for impairment on a reporting unit level on at least an annual basis. A reporting unit is a group of businesses (i) for which discrete financial information is available and (ii) that have similar economic characteristics. We test goodwill for impairment first by determining the fair value of each reporting unit and then comparing the fair value of each reporting unit to its carrying value. If carrying value exceeds fair value for any reporting unit, then we calculate and compare the implied fair value of goodwill to the carrying amount of goodwill and record an impairment charge for any excess of carrying value over implied fair value. Our impairment testing has not resulted in a determination that any of our goodwill was impaired. A future impairment is possible and could occur if (i) operating results underperform what we have estimated or (ii) additional volatility of the capital markets or other factors should cause us to raise the percent discount rate utilized in our discounted cash flow analysis or decrease the multiples utilized in our market-based analysis. The use of different estimates or assumptions within our discounted cash flow model when determining the fair value of our reporting units or using methodologies other than as described above could result in different values for reporting units and could result in an impairment charge.

Finite-lived intangible assets are reviewed for impairment when indicators are present. We compare the expected undiscounted future operating cash flows associated with these finite-lived assets to their respective carrying values to determine if they are fully recoverable. If the expected future operating cash flows of an asset are not sufficient to recover the carrying value, we estimate the fair value of the asset. Impairment is recognized when the carrying amount of the asset is not recoverable and when the carrying value exceeds fair value. The projected cash flows require several assumptions related to, among other things, relevant market factors, revenue growth, if any, and operating margins.

Income taxes

We are required to recognize deferred tax assets and deferred tax liabilities for the expected future income tax consequences of transactions that have been included in our financial statements but not our tax returns. Deferred tax assets and liabilities are determined based on income tax credits and on the temporary differences between the Consolidated Financial Statement basis and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. We routinely evaluate deferred tax assets to determine if they will, more likely than not, be recovered from future projected taxable income; if not, we record an appropriate valuation allowance.

Off Balance Sheet Arrangements

We have no obligations, assets or liabilities other than those appearing or disclosed in our financial statements forming part of this annual report; no trading activities involving non-exchange traded contracts accounted for at fair value; and no relationships and transactions with persons or entities that derive benefits from their non-independent relationship with us or our related parties.

Forward-Looking Statements

This annual report and the documents incorporated by reference into it contain certain forward-looking statements within the safe harbor provisions of the Private Securities Litigations Reform Act of 1995. These statements include information with respect to our anticipated future financial condition and results of operations and businesses. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, will, continue, project, forecast, and similar expressions, as well as statements in the future tense, identify forward-looking statements.

Table of Contents

These forward-looking statements are not guarantees of our future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements. These risks and uncertainties include:

- The ability to obtain new contracts at attractive prices;
- The size and timing of customer orders;
- Fluctuations in customer demand;
- General economic conditions, both domestically and abroad, and their effect on us and our customers;
- Competitive factors;
- The timely completion of contracts;
- The timing and size of expenditures;
- The timely receipt of government approvals and permits;
- The adequacy of local labor supplies at our facilities;
- The availability and cost of funds; and
- Fluctuations in foreign currencies.

The effects of these factors are difficult to predict. New factors emerge from time to time and we cannot assess the potential impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date of this annual report, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of such statement or to reflect the occurrence of unanticipated events. In addition, see [Risk Factors](#) for a discussion of these and other factors.

Recent Accounting Pronouncements

Please refer to Note 2 to our Consolidated Financial Statements in this annual report for a discussion of recent accounting pronouncements and their anticipated effect on our business.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our interest rate risk management policies are designed to reduce the potential earnings volatility that could arise from changes in interest rates. Periodically, we use interest rate swaps to stabilize funding costs by managing the exposure created by the differing maturities and interest rate structures of our assets and liabilities. See Note 2 to the Consolidated Financial Statements for further information on interest rate risk management.

Foreign Currency Risk

Our consolidated financial statements are expressed in U.S. dollars, but a portion of our business is conducted in currencies other than U.S. dollars. Changes in the exchange rates for such currencies into U.S. dollars can affect our revenues, earnings, and the carrying value of our assets and liabilities in our consolidated balance sheet, either positively or negatively. Sales made in currencies other than U.S. dollars accounted for 34%, 38%, and 45% of total sales for the years ended 2011, 2010, and 2009, respectively.

Table of Contents

ITEM 8. Financial Statements and Supplementary Data

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2011 and 2010 and for Each of the Three Years Ended

December 31, 2011, 2010 and 2009

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	45
Financial Statements:	
<u>Consolidated Balance Sheets</u>	46
<u>Consolidated Statements of Operations</u>	48
<u>Consolidated Statements of Stockholders' Equity</u>	49
<u>Consolidated Statements of Cash Flows</u>	50
<u>Notes to Consolidated Financial Statements</u>	52

The consolidated financial statement schedules required by Regulation S-X are filed under Item 15 Exhibits and Financial Statement Schedules .

Table of Contents

Report of Independent Registered Public Accounting Firm

The Stockholders and the

Board of Directors of Dynamic Materials Corporation:

We have audited the accompanying consolidated balance sheets of Dynamic Materials Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also include the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dynamic Materials Corporation and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Dynamic Materials Corporation and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado
March 9, 2012

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED BALANCE SHEETSAS OF DECEMBER 31, 2011 AND 2010

(Dollars in Thousands)

	2011	2010
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,276	\$ 4,572
Accounts receivable, net of allowance for doubtful accounts of \$424 and \$378, respectively	36,368	27,567
Inventories	43,218	35,880
Prepaid expenses and other	4,858	3,659
Current deferred tax assets	1,469	1,057
Total current assets	91,189	72,735
PROPERTY, PLANT AND EQUIPMENT	72,914	66,734
Less - accumulated depreciation	(31,512)	(26,928)
Property, plant and equipment, net	41,402	39,806
GOODWILL, net	37,507	39,173
PURCHASED INTANGIBLE ASSETS, net	42,054	48,490
DEFERRED TAX ASSETS	485	248
OTHER ASSETS, net	789	941
TOTAL ASSETS	\$ 213,426	\$ 201,393

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

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED BALANCE SHEETSAS OF DECEMBER 31, 2011 AND 2010

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

	2011	2010
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 14,753	\$ 16,109
Accrued expenses	5,358	3,529
Dividend payable	535	529
Accrued income taxes	780	477
Accrued employee compensation and benefits	4,666	3,711
Customer advances	1,918	1,531
Lines of credit	13	2,621
Current maturities on long-term debt	1,153	9,596
Current portion of capital lease obligations	66	272
Current deferred tax liabilities	68	17
Total current liabilities	29,310	38,392
LINES OF CREDIT	26,462	
LONG-TERM DEBT	118	14,579
CAPITAL LEASE OBLIGATIONS	70	155
DEFERRED TAX LIABILITIES	10,185	12,083
OTHER LONG-TERM LIABILITIES	1,238	1,100
Total liabilities	67,383	66,309
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; 13,367,169 and 13,224,696 shares issued and outstanding, respectively	668	661
Additional paid-in capital	55,983	52,451
Retained earnings	98,565	88,210
Other cumulative comprehensive loss	(9,256)	(6,398)
Total Dynamic Materials Corporation's stockholders' equity	145,960	134,924
Non-controlling interest	83	160
Total stockholders' equity	146,043	135,084

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$	213,426	\$	201,393
---	----	---------	----	---------

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

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED STATEMENTS OF OPERATIONSFOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009(Dollars in Thousands, Except Share Data)

	2011	2010	2009
NET SALES	\$ 208,891	\$ 154,739	\$ 164,898
COST OF PRODUCTS SOLD	153,445	117,789	121,779
Gross profit	55,446	36,950	43,119
COSTS AND EXPENSES:			
General and administrative expenses	16,711	13,696	12,980
Selling and distribution expenses	14,809	11,135	8,837
Amortization of purchased intangible assets	5,707	5,330	5,064
Total costs and expenses	37,227	30,161	26,881
INCOME FROM OPERATIONS	18,219	6,789	16,238
OTHER INCOME (EXPENSE):			
Gain on step acquisition of joint ventures		2,117	
Other income (expense), net	528	199	(219)
Interest expense	(1,945)	(3,046)	(3,473)
Interest income	8	61	173
Related party interest income		13	43
Equity in earnings of joint ventures		255	221
INCOME BEFORE INCOME TAXES	16,810	6,388	12,983
INCOME TAX PROVISION	4,369	1,133	4,378
NET INCOME	12,441	5,255	8,605
Less: Net income (loss) attributable to non-controlling interest	(50)	(10)	56
NET INCOME ATTRIBUTABLE TO DYNAMIC MATERIALS CORPORATION	\$ 12,491	\$ 5,265	\$ 8,549
NET INCOME PER SHARE:			
Basic	\$ 0.94	\$ 0.40	\$ 0.67
Diluted	\$ 0.93	\$ 0.40	\$ 0.66
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:			
Basic	13,089,691	12,869,666	12,640,069
Diluted	13,099,121	12,881,754	12,662,440
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.16	\$ 0.16	\$ 0.12

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

Table of Contents

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Amounts in Thousands)

Dynamic Materials Corporation Stockholders							
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Income/(Loss)	Non- Controlling Interest	Total
Balances, December 31, 2008	12,781	\$ 639	\$ 42,050	\$ 78,042	\$ (2,229)	\$ 132	\$ 118,634
Comprehensive income:							
Net income				8,549		56	8,605
Derivative valuation, net of tax of \$221					432		432
Change in cumulative foreign currency translation adjustment					2,137	(3)	2,134
Comprehensive income						53	11,171
Shares issued for acquisitions	5		94				94
Shares issued in connection with stock compensation plans	84	4	421				425
Tax impact of stock-based compensation			90				90
Stock-based compensation			3,425				3,425
Dividends declared				(1,543)			(1,543)
Balances, December 31, 2009	12,870	\$ 643	\$ 46,080	\$ 85,048	\$ 340	\$ 185	\$ 132,296
Comprehensive income:							
Net income (loss)				5,265		(10)	5,255
Derivative valuation, net of tax of \$299					454		454
Change in cumulative foreign currency translation adjustment					(7,192)	(15)	(7,207)
Comprehensive income						(25)	(1,498)
Shares issued for acquisitions	222	11	3,290				3,301
Shares issued in connection with stock compensation plans	133	7	181				188
Tax impact of stock-based compensation			(601)				(601)
Stock-based compensation			3,501				3,501
Dividends declared				(2,103)			(2,103)
Balances, December 31, 2010	13,225	\$ 661	\$ 52,451	\$ 88,210	\$ (6,398)	\$ 160	\$ 135,084
Comprehensive income:							

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Net income (loss)				12,491				(50)		12,441	
Change in cumulative foreign currency translation adjustment								(2,858)	(69)	(2,927)	
Comprehensive income									(119)	9,514	
Shares issued in connection with stock compensation plans	142		7		170					177	
Tax impact of stock-based compensation									(35)	(35)	
Stock-based compensation					3,397					3,397	
Dividends declared									(2,136)	(2,136)	
Contribution from non-controlling stockholder									42	42	
Balances, December 31, 2011	13,367	\$	668	\$	55,983	\$	98,565	\$	(9,256)	\$ 83	146,043

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

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009(Dollars in Thousands)

	2011		2010		2009
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	\$ 12,441		\$ 5,255		\$ 8,605
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation (including capital lease amortization)	5,492		5,383		5,042
Amortization of purchased intangible assets	5,707		5,330		5,064
Amortization of deferred debt issuance costs	649		587		297
Stock-based compensation	3,397		3,501		3,425
Deferred income tax benefit	(1,587)		(1,708)		(2,784)
Equity in earnings of joint ventures			(255)		(221)
Gain on step acquisition of joint ventures			(2,117)		
Loss on disposal of property, plant and equipment	35		34		
Change in:					
Accounts receivable, net	(9,551)		2,690		11,891
Inventories	(8,392)		1,696		6,604
Prepaid expenses and other	(1,346)		(437)		(571)
Accounts payable	(1,035)		2,970		(8,045)
Customer advances	465		(4,871)		3,813
Accrued expenses and other liabilities	3,451		(1,365)		(3,580)
Net cash provided by operating activities	9,726		16,693		29,540
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property, plant and equipment	(7,726)		(3,527)		(3,917)
Acquisition of Austin Explosives Company			(3,620)		
Step acquisition of joint ventures, net of cash acquired			(2,065)		
Acquisition of LRI, net of cash acquired					(284)
Change in other non-current assets	(5)		(53)		59
Net cash used in investing activities	(7,731)		(9,265)		(4,142)

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

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Dollars in Thousands)

	2011	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment on syndicated term loans	(22,247)	(22,124)	(13,614)
Borrowings (repayments) on bank lines of credit, net	24,191	780	(952)
Payment on loans with former owners of LRI	(36)		(1,231)
Payment on Nord LB term loans	(627)	(797)	(876)
Payment on capital lease obligations	(295)	(304)	(203)
Payment of dividends	(2,130)	(2,089)	(1,028)
Payment of deferred debt issuance costs	(435)		(341)
Contribution from non-controlling stockholder	42		
Net proceeds from issuance of common stock to employees and directors	177	188	425
Tax impact of stock-based compensation	(35)	(601)	90
Net cash used in financing activities	(1,395)	(24,947)	(17,730)
EFFECTS OF EXCHANGE RATES ON CASH	104	(320)	383
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	704	(17,839)	8,051
CASH AND CASH EQUIVALENTS, beginning of the period	4,572	22,411	14,360
CASH AND CASH EQUIVALENTS, end of the period	\$ 5,276	\$ 4,572	\$ 22,411
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for -			
Interest	\$ 1,280	\$ 2,458	\$ 3,017
Income taxes, net	\$ 5,847	\$ 4,111	\$ 6,132
NON-CASH FINANCING ACTIVITY:			
Common stock issued for acquisitions	\$	\$ 3,301	\$ 94
Debt assumed in acquisitions	\$	\$	\$ 5,553

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

Table of Contents

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

(Currency Amounts in Thousands, Except Per Share Data)

(1) ORGANIZATION AND BUSINESS

Dynamic Materials Corporation (DMC) was incorporated in the state of Colorado in 1971 and reincorporated in the state of Delaware during 1997. DMC is headquartered in Boulder, Colorado and has manufacturing facilities in the United States, Germany, France, Canada and Russia. Customers are located throughout the world. DMC currently operates under three business segments Explosive Metalworking, in which metals are metallurgically joined or altered by using explosives; Oilfield Products, which manufactures, markets, and sells oil field perforating equipment and explosives; and AMK Welding, which utilizes a number of welding technologies to weld components for manufacturers of jet engines and ground-based turbines. DMC has eight wholly-owned operating subsidiaries, Nobelclad Europe S.A. (Nobelclad), Nitro Metall Aktiebolag (Nitro Metall), DYNAenergetics GmbH and Co. KG (DYNAenergetics), Dynaplat GmbH and Co. KG (Dynaplat), DYNAenergetics Canada, DYNAenergetics RUS, Perfoline and DYNAenergetics US. DYNAenergetics Canada (formerly LRI Oil Tools, Inc.) was acquired in 2009 as described below and DYNAenergetics RUS, Perfoline and DYNAenergetics US (formally Austin Explosives Company) were acquired in 2010 also as described below. DMC also has one majority-owned subsidiary, KAZ DYNAenergetics, who distributes perforating equipment in Kazakhstan. In addition, DMC has six wholly owned holding companies. Dynamic Materials Luxembourg S.a r.l 1, Dynamic Materials Luxembourg S.a r.l 2, DYNAenergetics Holding GmbH, DYNAenergetics Beteiligungs GmbH and Dynaplat Holdings GmbH were established in connection with the acquisition of DYNAenergetics and DYNAenergetics NA, LLC was established in connection with the acquisition of LRI Oil Tools, Inc.

2009 Acquisition

On October 1, 2009, we acquired all of the stock of Alberta, Canada based LRI Oil Tools Inc (LRI), which is now operating under the name DYNAenergetics Canada. DYNAenergetics Canada produces and distributes perforating equipment for use by the oil and gas exploration and production industry. The business had a long-term strategic relationship with our Oilfield Products segment and had served for several years as our sole Canadian distributor. Our statements of operations include the effect of the LRI acquisition from the October 1, 2009 closing date. See Note 3 for additional disclosures regarding this acquisition.

2010 Acquisitions

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

On April 30, 2010, we purchased the outstanding minority-owned interests in our two Russian joint ventures that were previously majority owned by our Oilfield Products business segment. These joint ventures include DYNAenergetics RUS, which is a Russian trading company that sells our oilfield products, and Perfoline, which is a Russian manufacturer of perforating gun systems. Our statements of operations include the effect of the DYNAenergetics RUS and Perfoline acquisitions from the April 30, 2010 closing date. See Note 3 for additional disclosures regarding these acquisitions.

On June 4, 2010, we completed our acquisition of the assets of Texas-based Austin Explosives Company (AECO). This business is now part of our Oilfield Products business segment. AECO had been a long-time distributor of DYNAenergetics shaped charges. Our statements of operations include the effect of the AECO acquisition from the June 4, 2010 closing date. See Note 3 for additional disclosures regarding this acquisition.

Table of Contents

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Consolidated Financial Statements include the accounts of DMC and its controlled subsidiaries. Only subsidiaries in which controlling interests are maintained are consolidated. The equity method is used to account for our ownership in subsidiaries where we do not have a controlling interest. All significant intercompany accounts, profits, and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Foreign Operations and Foreign Exchange Rate Risk

The functional currency for our foreign operations is the applicable local currency for each affiliate company. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated at exchange rates in effect at period-end, and the statements of operations are translated at the average exchange rates during the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded as a separate component of stockholders' equity and are included in other cumulative comprehensive income (loss). Transactions denominated in currencies other than the local currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. As a result, amounts related to assets and liabilities reported in the consolidated statements of cash flows will not agree to changes in the corresponding balances in the consolidated balance sheets. The effects of exchange rate changes on cash balances held in foreign currencies are reported as a separate line item below cash flows from financing activities.

In September 2010, our German subsidiary, DYNAenergetics, entered into a currency swap agreement with its bank to economically hedge the currency risk associated with a large U.S. dollar order (\$2,700) that was awarded to it. Under the agreement, DYNAenergetics agreed to exchange \$2,700 for Euros at an exchange rate of 1.269 U.S. dollars per Euro between January 18, 2011 and April 30, 2011. We did not designate this derivative as a cash flow hedge for accounting purposes and as such, gains and losses related to changes in its valuation were recorded in the statement of operations. During the years ended December 31, 2011 and 2010, we recorded gains on this currency swap agreement of \$87 and \$118, respectively. These gains are classified as other income (expense), net in our statement of operations.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

In September 2011, DYNAenergetics entered into a new currency hedge agreement with its bank to hedge its risk on a new \$2,500 order which is similar to the order described above. This hedge agreement, which was amended in December 2011, allows DYNAenergetics to sell \$2,500 for Euros at an exchange rate of 1.425 U.S. dollars per Euros if the market rate is under 1.25 or above 1.425 at the time of settlement. If the market rate upon settlement is between 1.25 and 1.425, the market rate will be used. The only exception to this would be if the market exchange rate were to drop below 1.25 any time prior to the settlement in which case the rate upon settlement will be 1.425 even if the exchange rate subsequently rises back above 1.25 prior to settlement. This hedge agreement expires on May 3, 2012. We did not designate this derivative as a cash flow hedge for accounting purposes and as such, gains and losses related to changes in its valuation will be recorded in the statement of operations. The fair value of the instrument at December 31, 2011 and the change in fair value of this hedge from its inception to December 31, 2011 were immaterial.

Table of Contents

Cash and Cash Equivalents and Restricted Cash

For purposes of the consolidated financial statements, we consider highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

We estimate our allowance for doubtful accounts based on historical rates of write-offs of uncollectible receivables and our evaluation of the year end composition of accounts receivable.

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 factory overhead. Inventories consist of the following at December 31, 2011 and 2010:

	2011		2010	
Raw materials	\$	15,526	\$	12,001
Work-in-process		10,511		11,387
Finished goods		15,947		11,870
Supplies		1,234		622
	\$	43,218	\$	35,880

Shipping and handling costs incurred by us upon shipment to customers are included in cost of products sold in the accompanying consolidated statements of operations.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, except for assets acquired in acquisitions which are recorded at fair value. Additions, improvements, and betterments are capitalized. Maintenance and repairs are charged to operations as the costs are incurred. Depreciation is computed using the straight-line method over the estimated useful life of the related asset (except leasehold improvements which are depreciated over the shorter of their estimated useful life or the lease term) as follows:

Buildings and improvements	15-30 years
----------------------------	-------------

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Manufacturing equipment and tooling	3-15 years
Furniture, fixtures, and computer equipment	3-10 years
Other	3-10 years

Property, plant and equipment consist of the following at December 31, 2011 and 2010:

	2011		2010	
Land	\$	2,249	\$	2,293
Buildings and improvements		22,212		21,940
Manufacturing equipment and tooling		33,409		32,333
Furniture, fixtures and computer equipment		6,741		6,347
Other		2,257		1,787
Construction in process		6,046		2,034
	\$	72,914	\$	66,734

Table of Contents

Asset Impairments

We review our long-lived assets to be held and used by us for impairment whenever events or changes in circumstances indicate their carrying amount may not be recoverable. In so doing, we estimate the future net cash flows expected to result from the use of these assets and their eventual disposition. If the sum of the expected future net cash flows (undiscounted and without interest charges) is less than the carrying amount of these assets, an impairment loss is recognized to reduce these assets to their estimated fair values. Otherwise, an impairment loss is not recognized. Long-lived assets to be disposed of, if any, are reported at the lower of carrying amount or fair value less cost to sell. There have been no asset impairments for the years ending December 31, 2011, 2010 and 2009.

Goodwill

Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses acquired. Goodwill is not amortized; however, the carrying value of goodwill must be tested annually for impairment on a reporting unit level. Our policy is to test goodwill in the fourth quarter of each year unless circumstances indicate impairment during an intervening period. We test goodwill for impairment using the following two-step approach:

The first step is a comparison of each reporting unit's fair value to its carrying value. We estimate fair value using the best information available, including market information and discounted cash flow projections, also referred to as the income approach. The income approach uses a reporting unit's projection of estimated operating results and cash flows that is discounted using a weighted-average cost of capital that reflects current market conditions. The projections incorporate our best estimates of economic and market conditions over the projected period including growth rates in sales and estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements. We validate our estimates of fair value under the income approach by comparing the values to fair value estimates using a market approach.

If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist, and the second step must be performed to measure the amount of impairment loss. In the second step, the fair value of the reporting unit is allocated to the assets and liabilities of the reporting unit as if it had just been acquired in a business combination and as if the purchase price was equivalent to the fair value of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. We then compare that implied fair value of the reporting unit's goodwill to the carrying value of that goodwill. If the implied fair value is less than the carrying value, we recognize an impairment loss for the excess.

Our quantitative impairment testing has not resulted in a determination that any of our goodwill is impaired. A future impairment is possible and could occur if (i) operating results underperform what we have estimated or (ii) additional volatility of the capital markets should cause us to raise the discount rate utilized in our discounted cash flow analysis or decrease the multiples utilized in our market-based analysis. The use of different estimates or assumptions within the discounted cash flow model when determining the fair value of our reporting units or using methodologies other than as described above could result in different values for reporting units and could result in an impairment charge.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

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

	Explosive Metalworking	Oilfield Products	Total
Goodwill balance at December 31, 2009	\$ 24,577	\$ 18,587	\$ 43,164
Adjustment due to recognition of tax benefit of tax amortization of certain goodwill	(332)	(471)	(803)
Adjustment due to exchange rate differences	(1,787)	(1,401)	(3,188)
Goodwill balance at December 31, 2010	\$ 22,458	\$ 16,715	\$ 39,173
Adjustment due to recognition of tax benefit of tax amortization of certain goodwill	(349)	(496)	(845)
Adjustment due to exchange rate differences	(472)	(349)	(821)
Goodwill balance at December 31, 2011	\$ 21,637	\$ 15,870	\$ 37,507

All of the goodwill shown above, which is primarily in Germany, corresponds to amortizable goodwill for tax purposes.

Purchased Intangible Assets

Our purchased intangible assets include core technology, customer relationships and trademarks/trade names. Impairment, if any, is calculated based upon our evaluation whereby, estimated undiscounted future cash flows associated with these assets or operations are compared with their carrying value to determine if a write-down to fair value is required. Finite lived intangible assets are amortized over the estimated useful life of the related assets which have a weighted average amortization period of 13 years in total.

The weighted average amortization periods of the intangible assets by asset category are as follows:

Core technology	20 years
Customer relationships	10 years
Trademarks / Trade names	9 years

The following table presents details of intangible assets as of December 31, 2011:

	Gross	Accumulated Amortization	Net
Core technology	\$ 22,041	\$ (4,525)	\$ 17,516
Customer relationships	38,165	(14,720)	23,445
Trademarks / Trade names	2,361	(1,268)	1,093
Total intangible assets	\$ 62,567	\$ (20,513)	\$ 42,054

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

The following table presents details of intangible assets as of December 31, 2010:

	Gross	Accumulated Amortization	Net
Core technology	\$ 22,557	\$ (3,497)	\$ 19,060
Customer relationships	39,052	(10,930)	28,122
Trademarks / Trade names	2,416	(1,108)	1,308
Total intangible assets	\$ 64,025	\$ (15,535)	\$ 48,490

The decrease in the gross value of our purchased intangible assets from December 31, 2010 to December 31, 2011 is due solely to the impact of foreign currency translation adjustments.

Expected future amortization of intangible assets is as follows:

For the years ended December 31 -		
2012	\$	5,335
2013		5,335
2014		5,132
2015		3,709
2016		3,709
Thereafter		18,834
	\$	42,054

Other Assets

Included in other assets are net deferred debt issuance costs of \$530 and \$743 as of December 31, 2011 and 2010, respectively. The outstanding balance of deferred debt issuance as of December 30, 2010 related to the syndicated credit agreement that we entered into on November 16, 2007 in connection with the acquisition of DYNAenergetics. These costs were being amortized over the five-year term of the credit agreement which was scheduled to expire on November 16, 2012. On December 21, 2011, we entered into a new five-year syndicated credit agreement, which amended and restated in its entirety the agreement entered into on November 16, 2007. In connection with this amendment, \$284 of costs associated with the term loan and the banks which are no longer in the syndicate were expensed. The outstanding balance of deferred debt issuance as of December 31, 2011 includes additional costs of \$435 that were incurred in connection with our amended and restated credit agreement and \$95 of deferred debt issuance costs that were carried over from the prior agreement. These deferred debt issuance are being amortized over the five-year term of the amended and restated credit agreement which expires on December 21, 2016.

Customer Advances

On occasion, we require customers to make advance payments prior to the shipment of their orders in order to help finance our inventory investment on large orders or to keep customers' credit limits at acceptable levels. As of December 31, 2011 and 2010, customer advances totaled \$1,918 and \$1,531, respectively, and originated from several customers.

Revenue Recognition

Sales of clad metal products and welding services are generally based upon customer specifications set forth in customer purchase orders and require us to provide certifications relative to metals used, services performed, and the results of any non-destructive testing that the customer has requested be performed. All issues of conformity of the product to specifications are resolved before the product is shipped and billed. Products related to the oilfield products segment, which include detonating cords, detonators, bi-directional boosters, and shaped charges, as well as, seismic related explosives and accessories, are standard in nature. In all cases, revenue is recognized only when all four of the

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

following criteria have been satisfied: persuasive evidence of an arrangement exists; the price is fixed or determinable; delivery has occurred; and collection is reasonably assured. For contracts that require multiple shipments, revenue is recorded only for the units included in each individual shipment. If, as a contract proceeds toward completion, projected total cost on an individual contract indicates a probable loss, we will account for such anticipated loss.

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:

	Income	For the Year Ended December 31, 2011		EPS
		Shares		
Basic earnings per share:				
Net income attributable to DMC	\$ 12,491			
Less income allocated to RSAs	(246)			
Net income allocated to common stock for EPS calculation	\$ 12,245	13,089,691	\$	0.94
Adjust shares for dilutives:				
Stock-based compensation plans		9,430		
Diluted earnings per share:				
Net income attributable to DMC	\$ 12,491			
Less income allocated to RSAs	(246)			
Net income allocated to common stock for EPS calculation	\$ 12,245	13,099,121	\$	0.93
For the Year Ended December 31, 2010				
	Income	Shares		EPS
Basic earnings per share:				
Net income attributable to DMC	\$ 5,265			
Less income allocated to RSAs	(94)			
Net income allocated to common stock for EPS calculation	\$ 5,171	12,869,666	\$	0.40
Adjust shares for dilutives:				
Stock-based compensation plans		12,088		
Diluted earnings per share:				
Net income attributable to DMC	\$ 5,265			
Less income allocated to RSAs	(94)			
Net income allocated to common stock for EPS calculation	\$ 5,171	12,881,754	\$	0.40

		For the Year Ended December 31, 2009		
	Income	Shares		EPS
Basic earnings per share:				
Net income attributable to DMC	\$	8,549		
Less income allocated to RSAs		(132)		
Net income allocated to common stock for EPS calculation	\$	8,417	12,640,069	\$ 0.67
Adjust shares for dilutives:				
Stock-based compensation plans			22,371	
Diluted earnings per share:				
Net income attributable to DMC	\$	8,549		
Less income allocated to RSAs		(132)		
Net income allocated to common stock for EPS calculation	\$	8,417	12,662,440	\$ 0.66

Derivative Financial Instruments

We have periodically used interest rate swap agreements to manage our interest rate risk on significant portions of our variable rate term loan debt. Our accounting method for our interest rate swap agreements involves designating the derivative arrangements as hedges in accordance with accounting principles generally accepted in the United States and as a result, changes in the fair value of the swap agreement are recorded in other comprehensive income with the offset as a swap agreement asset or liability. It is our policy to execute such arrangements with creditworthy banks. Additionally, as discussed above, we have periodically used foreign currency hedge agreements to manage our foreign currency risk on select transactions.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade accounts receivable and payable, accrued expenses and long-term debt approximate their fair value.

We had an interest rate swap agreement, which expired on November 16, 2010, and a foreign currency hedge agreement, which expired on April 30, 2011, that were recorded at fair value. With respect to the currency hedge agreement entered into in September 2011, as amended in December 2011, the fair value of the instrument at December 31, 2011 and the change in fair value from its inception to December 31, 2011 were immaterial. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are required to use an established hierarchy for fair value measurements based upon the inputs to the valuation and the degree to which they are observable or not observable in the market. The three levels in the hierarchy are as follows:

- Level 1 Inputs to the valuation based upon quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.
- Level 2 Inputs to the valuation include quoted prices in either markets that are not active, or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data.

- Level 3 Inputs to the valuation that are unobservable inputs for the asset or liability.

The highest priority is assigned to Level 1 inputs and the lowest priority to Level 3 inputs.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Our foreign currency hedge agreements are not exchange listed and are therefore valued with models that use Level 2 inputs. At December 31, 2010, the fair value of the foreign currency hedge agreement, which expired on April 30, 2011, was \$118 and was recorded in prepaid expenses and other on the balance sheet.

Income Taxes

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 based on enacted tax laws and for tax credits. We recognize deferred tax assets for the expected future effects of all deductible temporary differences. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized (see Note 7).

Related Party Transactions

Prior to acquiring the remaining outstanding interests in our unconsolidated joint ventures on April 30, 2010 (see Note 3), we had related party transactions with these joint ventures. Additionally, in 2009 we had related party transactions with a former owner of LRI who remains an employee of DYNAenergetics Canada. We also had transactions January 1 through September 30, 2009 with LRI who, at the time, was the non-controlling interest partner of one of our consolidated joint ventures. A summary of related party transactions for 2010 and 2009 are summarized below:

	2010		2009	
	Sales to	Interest income from	Sales to	Interest income from
DYNAenergetics RUS	\$ 663	\$	\$ 2,353	\$
Minority Interest Partner			745	
Perfoline	19	13	86	43
Total	\$ 682	\$ 13	\$ 3,184	\$ 43

Concentration of Credit Risk

Financial instruments, which potentially subject us to a concentration of credit risk, consist primarily of cash, restricted cash, cash equivalents, and accounts receivable. Generally, we do not require collateral to secure receivables. At December 31, 2011, we had no financial instruments with off-balance sheet risk of accounting losses other than the derivative discussed above.

Other Cumulative Comprehensive Income (Loss)

Other cumulative comprehensive income (loss) as of December 31, 2011, 2010, and 2009 consisted of the following:

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

	2011	2010	2009
Currency translation adjustment	\$ (9,256)	\$ (6,398)	\$ 794
Interest rate swap valuation adjustment, net of tax of \$0, \$0 and \$299, respectively			(454)
	\$ (9,256)	\$ (6,398)	\$ 340

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued an accounting standard which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendment is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Other than revised disclosures, we do not anticipate a material impact from this update.

On September 15, 2011 the FASB issued a revised accounting standard intended to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendment will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted.

Reclassifications

Certain prior year balances in the consolidated financial statements and notes have been reclassified to conform to the 2011 presentation.

(3) ACQUISITIONS

Austin Explosives

On June 4, 2010, we completed our acquisition of Austin Explosives Company (AECO), which is now operating under the name DYNAenergetics US, Inc. This business is part of our Oilfield Products business segment. AECO had been a long-time distributor of DYNAenergetics shaped charges. This acquisition, along with the acquisition of the outstanding interests in our Russian joint ventures (discussed below), further expanded our Oilfield Products business, and positioned the segment to capitalize on the long-term demand from the oil and gas industry.

The acquisition was structured as an asset purchase valued at \$6,921 which was financed by (i) the payment of \$3,620 in cash and (ii) the issuance of 222,445 shares of DMC common stock (valued at \$3,301).

The purchase price of the acquisition was allocated to tangible and identifiable intangible assets based on their fair values as determined by appraisals performed as of the acquisition date. The allocation of the purchase price to the assets of AECO was as follows:

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Current assets	\$	5,792
Property, plant and equipment		368
Intangible assets		4,773
Deferred tax assets		7
Other assets		81
Total assets acquired		11,021
Current liabilities		4,100
Total liabilities assumed		4,100
Net assets acquired	\$	6,921

We acquired identifiable finite-lived intangible assets as a result of the acquisition of AECO. The finite-lived intangible assets acquired were classified as customer relationships and were valued at \$4,773, which are being

Table of Contents

amortized over 11 years. These amounts are included in Purchased Intangible Assets and are further discussed in Note 2.

Russian Joint Ventures

On April 30, 2010, we purchased the outstanding non-controlling interests in our two Russian joint ventures that were previously majority-owned by our Oilfield Products business segment. These joint ventures include DYNAenergetics RUS, which is a Russian trading company that sells our oilfield products, and Perfoline, which is a Russian manufacturer of perforating gun systems. We paid a combined \$2,065 for the respective 45% and 34.81% outstanding stakes in DYNAenergetics RUS and Perfoline.

Prior to the acquisition date, we accounted for our 55% and 65.19% interest in DYNAenergetics RUS and Perfoline, respectively, as equity-method investments (see Note 4). The acquisition date fair value of the previous equity interest was \$3,533. We recognized a gain of \$2,117 as a result of revaluing our prior equity interest held before the acquisition to fair value as of the latter acquisition date. The gain is included in the line item gain on step acquisition of joint ventures in the consolidated statement of operations.

Appraisals performed as of the acquisition date resulted in a new fair value of the combined entities of \$5,598 which was allocated to our tangible and identifiable intangible assets as follows:

Current assets	\$	5,243
Property, plant and equipment		411
Intangible assets		3,669
Deferred tax assets		12
Other assets		56
Total assets acquired		9,391
Line of credit		36
Other current liabilities		2,547
Deferred tax liabilities		813
Other long term liabilities		397
Total liabilities assumed		3,793
Net assets acquired	\$	5,598

We acquired identifiable finite-lived intangible assets as a result of acquiring the remaining interests of DYNAenergetics RUS and Perfoline. The finite-lived intangible assets acquired were classified as customer relationships and were valued at \$3,669, which are being amortized over 11 years. These amounts are included in Purchased Intangible Assets and are further discussed in Note 2.

LRI Oil Tools Inc.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

On October 1, 2009, we completed our acquisition of LRI Oil Tools Inc., which is part of our Oilfield Products business segment. LRI, which now operates as DYNAenergetics Canada, produces and distributes perforating equipment for use by the oil and gas exploration and production industry. The business had a long-term strategic relationship with our Oilfield Products segment and had served for several years as our sole Canadian distributor.

The acquisition was valued at \$5,946 and was financed by (i) the payment of \$284 in cash, net of cash acquired of \$15, (ii) the issuance of 4,875 shares of DMC common stock (valued at \$94), and (iii) the assumption of \$5,553 (5,982 Canadian dollars (CAD)) of LRI's debt. The assumed debt consists of \$2,676 (2,883 CAD) for a line of credit, \$2,445 (2,634 CAD) for loans with the former owners of LRI and \$432 (465 CAD) for capital lease obligations.

Table of Contents

The purchase price of the acquisition was allocated to our tangible and identifiable intangible assets based on their fair values as determined by appraisals performed as of the acquisition date. The allocation of the purchase price to the assets and liabilities of LRI was as follows:

Current assets	\$	5,430
Property, plant and equipment		2,191
Intangible assets		1,117
Deferred tax assets		298
Other assets		1
Total assets acquired		9,037
Line of credit		2,676
Other current liabilities		2,448
Long term debt		2,877
Deferred tax liabilities		643
Total liabilities assumed		8,644
Net assets acquired	\$	393

We acquired identifiable finite-lived intangible assets as a result of the acquisition of LRI. The finite-lived intangible assets acquired are classified and valued as follows:

	Value	Amortization Period
Core technology	\$ 347	15 years
Customer relationships	770	15 years
Total intangible assets	\$ 1,117	

These amounts are included in Purchased Intangible Assets and are further discussed in Note 2.

Table of ContentsPro Forma Statements of Operations

The following table presents the pro-forma combined results of operations for the years ended December 31, 2010 and 2009 assuming (i) the acquisitions of AECO, the Russian joint ventures and LRI had occurred on January 1 of the year represented; (ii) pro-forma amortization expense of the purchased intangible assets; (iii) pro-forma depreciation expense of the fair value of purchased property, plant and equipment; (iv) reduction of interest expense assuming we paid down LRI's debt by 2,200 CAD (1,200 CAD for the loans to former owners of LRI and 1,000 CAD for the line of credit) immediately following the acquisition (net of a related pro forma reduction in interest income); (v) elimination of intercompany sales; and (vi) increase in interest expense for borrowing 1,500 Euros to fund the acquisition of the Russian joint ventures:

	(Unaudited)	
	For the years ended December 31,	
	2010	2009
Net sales	\$ 162,028	\$ 180,451
Income from operations	\$ 7,136	\$ 15,466
Net income attributable to DMC	\$ 5,167	\$ 7,218
Net income per share:		
Basic	\$ 0.39	\$ 0.55
Diluted	\$ 0.39	\$ 0.55

The pro-forma results above are not necessarily indicative of the operating results that would have actually occurred if the acquisition had been in effect on the dates indicated, nor are they necessarily indicative of future results of the combined companies.

(4) INVESTMENT IN JOINT VENTURES

As discussed in Note 3, on April 30, 2010, we acquired the remaining non-controlling interests in two joint ventures that were previously majority-owned by our Oilfield Products business segment. Prior to the April 30, 2010 step acquisition, these investments, which include DYNAenergetics RUS and Perfoline, were accounted for under the equity method due to certain non-controlling interest veto rights that allowed the non-controlling interest shareholders to participate in decisions related to the ordinary course of business. Operating results from January 1, 2010 through April 30, 2010 and for the year ended December 31, 2009 includes our proportionate share of income from these unconsolidated joint ventures. As a result of the step acquisition, we now consolidate the financial statements of these entities.

Summarized unaudited financial information for the joint ventures accounted for under the equity method for the period from January 1, 2010 through April 30, 2010 and the year ended December 31, 2009 are as follows:

	2010 (a)	2009
Net sales	\$ 2,575	\$ 6,517
Gross profit	\$ 656	\$ 1,813
Operating income	\$ 302	\$ 900
Net income attributable to DMC	\$ 468	\$ 404
Equity in earnings of joint ventures	\$ 255	\$ 221

(a) Represents operating results through April 30, 2010

Table of Contents(5) DEBT

Lines of credit consisted of the following at December 31, 2011 and 2010:

	2011	2010
Syndicated credit agreement revolving loan	\$ 20,247	\$ 1,060
Syndicated credit agreement Euro revolving loan	6,215	
Nord LB line of credit	13	1,561
	26,475	2,621
Less current portion	(13)	(2,621)
Long-term lines of credit	\$ 26,462	\$

Long-term debt consisted of the following at December 31, 2011 and 2010:

	2011	2010
Syndicated credit agreement term loan	\$	\$ 22,247
Nord LB Euro term loan		596
Loans with former owners of LRI	1,271	1,332
	1,271	24,175
Less current maturities	(1,153)	(9,596)
Long-term debt	\$ 118	\$ 14,579

Syndicated Credit Agreement

On December 21, 2011, we entered into a five-year syndicated credit agreement (credit facility) which amended and restated in its entirety our prior syndicated credit facility entered into on November 16, 2007. The new credit facility, which provides revolving loan availability of \$36,000, 16,000 Euros and 1,500 Canadian Dollars, is through a syndicate of four banks, with JP Morgan Chase Bank, N.A. acting as administrative agent for the U.S. and Canadian dollar loans and JP Morgan Europe Ltd. acting as administrative agent for the Euro loans. The credit facility expires on December 21, 2016. On the date we amended and restated the credit agreement, the remaining balance of \$13,247 on our term loan effectively became a revolving loan.

U.S. Dollar Revolving Loans: At our option, borrowings under the \$36,000 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 0.00% (at our current leverage ratio) and LIBOR loans bear interest at the applicable LIBOR rate plus 1.25% (at our current leverage ratio). As of December 31, 2011, outstanding revolving loans totaled \$20,247 and had an all-in interest rate of 3.25% based on the ABR rate. Subsequent to year end, we acquired the assets and operating business of Texas-based TRX Industries, Inc. (see Note 10). In connection with this acquisition, we increased our revolving loan borrowings to \$30,147 at an all-in interest rate of 1.55% based upon the one month LIBOR option.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Euro Revolving Loans: At our option, borrowings under the 16,000 Euro revolving loan can be based on one, two, three, or six month Euro Interbank Offered Rate (EURIBOR) rates and bear interest at the applicable EURIBOR rate plus 1.25% (at our current leverage ratio). As of December 31, 2011, we had outstanding borrowings of 4,800 Euros (\$6,215 based on the December 31, 2011 exchange rate) under the Euro revolving loan bearing interest at an all-in rate of 2.91% based on the six month EURIBOR option.

Canadian Dollar Revolving Loans: At our option, borrowings under the \$1,500 Canadian Dollar revolving loan can be based on one, two, three or six month Canadian Dealer Offered Rate (CDOR) rates and bear interest at the

Table of Contents

applicable CDOR rate plus 1.50% (at our current ratio). As of December 31, 2011, there were no borrowings outstanding under our \$1,500 Canadian Dollar revolving loan.

The syndicated credit facility is secured by the assets of DMC including accounts receivable, inventory, and fixed assets, as well as guarantees and share pledges by DMC.

Lines of Credit with German Banks

We maintain separate lines of credit with two German banks for our DYNAenergetics operations. These lines of credit each provide a borrowing capacity of 3,000 Euros and are also used by DYNAenergetics to issue bank guarantees to its customers to secure advance payments made by them. One of these lines of credit had outstanding borrowings of \$13 as of December 31, 2011. As of December 31, 2011, bank guarantees secured by the lines of credit totaled \$1,471 based upon the December 31, 2011 exchange rate. The two lines of credit bear interest at EURIBOR based variable rates with a weighted average interest rate at December 31, 2011 of 3.33%. Both lines of credit have open-ended terms and can be cancelled by the banks at any time.

Loans with Former Owners of LRI

In connection with our October 1, 2009 acquisition of LRI, we assumed loans with the former owners of LRI totaling 2,634 Canadian Dollars. Following the acquisition, we immediately repaid 1,302 Canadian Dollars of the loans, leaving a principal balance of 1,332 Canadian Dollars, which was due in 35 equal installments beginning on December 1, 2011 with the final payment being due on October 1, 2014. As of December 31, 2011, the outstanding balance on these loans was 1,296 Canadian Dollars (\$1,271 based on the December 31, 2011 exchange rate). Under the terms of our amended and restated credit facility, we were required to prepay the outstanding principal balance on certain of these loans in January of 2012 in the amount of 1,080 Canadian Dollars, which reduced the then remaining principal balance to 178 Canadian Dollars. These loans bear interest at the prime rate plus 1.25% (4.25% at December 31, 2011).

Nord LB Euro Term Loan

DYNAenergetics had a 3,000 Euro term loan with Nord LB that they obtained in September 2006. This loan, which had an outstanding balance of 450 Euros on December 31, 2010 and required quarterly principal payments of 150 Euros, was paid in full in September 2011.

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

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

assets; and maintenance of specified financial ratios. As of December 31, 2011, we were in compliance with all financial covenants and other provisions of our debt agreements.

Scheduled Debt Maturity

Our long-term debt matures as follows:

Year ended December 31-	
2012	1,153
2013	63
2014	55
	\$ 1,271

Table of Contents(6) STOCK OWNERSHIP AND BENEFIT PLANS

Through our 1997 Equity Incentive Plan (1997 Plan), we had provided for grants of both incentive stock options and non-statutory stock options. On September 21, 2006, our stockholders approved, and we adopted, the 2006 Stock Incentive Plan (2006 Plan). Upon the adoption of the 2006 Plan, the 1997 Plan was terminated with respect to new grants of stock options; however, all unexercised options previously granted under the 1997 Plan remain outstanding. The 2006 Plan provides for the grant of various types of equity-based incentives, including stock options, restricted stock, restricted stock units, stock appreciation rights, performance shares, performance units and other stock-based awards. There are a total of 942,500 shares available for grant under the 2006 Plan (which includes 92,500 rolled over from the 1997 Plan). As of December 31, 2011, we have granted an aggregate of 638,750 shares of restricted stock and restricted stock units under the 2006 Plan, leaving 303,750 shares available for future grant.

The following table sets forth the total stock-based compensation expense included in the Consolidated Statements of Operations:

	2011		2010		2009	
Cost of products sold	\$	261	\$	316	\$	339
General and administrative expenses		2,431		2,402		2,280
Selling and distribution expenses		705		783		806
Stock-based compensation expense before income taxes		3,397		3,501		3,425
Income tax benefit		(918)		(888)		(1,117)
Stock-based compensation expense, net of income taxes	\$	2,479	\$	2,613	\$	2,308
Earnings per share impact:						
Basic - net income	\$	0.19	\$	0.20	\$	0.18
Diluted - net income	\$	0.19	\$	0.20	\$	0.18

Our stock-based compensation expense results from restricted stock awards, restricted stock units and stock issued under the Employee Stock Purchase Plan.

Restricted Stock Awards and Units: Restricted stock and restricted stock units granted to the executive officers and employees of DMC generally vest in one-third increments on the first, second, and third anniversary of the grant. Restricted stock granted to directors of DMC vest on the first anniversary of the date of grant. In 2008, we granted 90,000 restricted stock awards under a supplemental executive retirement plan, with 100% of these awards vesting on the fifth anniversary of the date of grant. The fair value of restricted stock and restricted stock unit awards are based on the fair value of DMC's stock on the date of grant and is amortized to compensation expense over the vesting period on a straight line basis.

Table of Contents

A summary of the activity of our nonvested shares of restricted stock for the years ended December 31, 2011, 2010, and 2009 is as follows:

	Shares		Weighted Average Grant Date Fair Value
Balance at December 31, 2008	267,075	\$	37.46
Granted	12,000		21.88
Vested	(80,425)		32.84
Balance at December 31, 2009	198,650	\$	38.39
Granted	104,000		19.95
Vested	(65,161)		29.26
Balance at December 31, 2010	237,489	\$	32.82
Granted	116,500		20.90
Vested	(90,660)		24.16
Forfeited	(1,500)		18.79
Balance at December 31, 2011	261,829	\$	30.59

A summary of the activity of our nonvested restricted stock units for the years ended December 31, 2011, 2010, and 2009 is as follows:

	Share Units		Weighted Average Grant Date Fair Value
Balance at December 31, 2008	22,750	\$	15.96
Vested	(7,584)		15.96
Balance at December 31, 2009	15,166	\$	15.96
Granted	28,000		20.44
Vested	(8,583)		15.97
Balance at December 31, 2010	34,583	\$	19.59
Granted	32,500		20.45
Vested	(13,085)		18.24
Balance at December 31, 2011	53,998	\$	20.43

As of December 31, 2011, there was \$3,066 and \$656 of total unrecognized stock-based compensation related to unvested restricted stock awards and restricted stock units, respectively. The cost is expected to be recognized over a weighted average period of 1.43 years and 1.66 years for the restricted stock awards and restricted stock units, respectively.

Stock Options: Our incentive stock options were granted at exercise prices that equaled the fair market value of the stock at the date of grant based upon the closing sales price of DMC's common stock on that date. Incentive stock options generally vested 25% annually and expired ten years from the date of grant. Non-statutory stock options were generally granted at exercise prices that equaled the fair market value of the stock at the date of grant. We have not granted options since 2006.

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

A summary of stock option activity for the years ended December 31, 2011, 2010, and 2009 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at December 31, 2008	105,750	\$ 5.24		
Exercised	(77,750)	3.39		
Balance at December 31, 2009	28,000	\$ 10.37		
Exercised	(8,300)	4.75		
Balance at December 31, 2010	19,700	\$ 12.74		
Exercised	(4,200)	4.71		
Balance at December 31, 2011	15,500	\$ 14.92	3.26	\$ 84
Exercisable at December 31, 2011	15,500	\$ 14.92	3.26	\$ 84

The intrinsic value of options exercised for the years ended December 31, 2011, 2010, and 2009 was \$74, \$98 and \$367, respectively. As of December 31, 2011 and 2010, there was no unrecognized stock-based compensation cost related to unvested stock options.

The following table summarizes information about employee stock options outstanding and exercisable at December 31, 2011:

Range of Exercise Prices	Number of Options Outstanding at and Exercisable December 31, 2011	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
\$1.42 - \$1.42	500	1.96	\$ 1.42
\$4.87 - \$4.87	5,000	3.06	\$ 4.87
\$20.62 - \$20.62	10,000	3.42	\$ 20.62
	15,500	3.26	\$ 14.92

Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan (ESPP) which is authorized to issue up to 450,000 shares of which 22,772 shares remain available for future purchases. The offerings begin on the first day following each previous offering (Offering Date) and end six months from the offering date (Purchase Date). The ESPP provides that full time employees may authorize DMC to withhold up to 15% of their earnings, subject to certain limitations, to be used to purchase common stock of DMC at the lesser of 85% of the fair market value of DMC s common stock on the Offering Date or the Purchase Date. In connection with the ESPP, 8,688; 11,005; and 10,027 shares of our stock were purchased during the years ended December 31, 2011, 2010, and 2009, respectively. Our total stock-based compensation expense for 2011, 2010, and 2009 includes \$57, \$48, and \$72 respectively, in compensation expense associated with the ESPP.

401(k) Plan

We offer a contributory 401(k) plan to our employees. We make matching contributions equal to 100% of each employee's contribution up to 3% of qualified compensation and 50% of the next 2% of qualified compensation

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

contributed by each employee. Total DMC contributions were \$379, \$360, and \$316 for the years ended December 31, 2011, 2010 and 2009, respectively.

(7) INCOME TAXES

The domestic and foreign components of income before tax for our operations for the years ended December 31 are summarized below:

	2011		2010		2009
Domestic	\$ 12,550	\$	4,896	\$	16,451
Foreign	4,260		1,492		(3,468)
	\$ 16,810	\$	6,388	\$	12,983

The components of the provision for income taxes for the years ended December 31 are as follows:

	2011		2010		2009
Current - Federal	\$ 4,260	\$	2,089	\$	5,707
Current - State	137		(68)		282
Current - Foreign	1,559		820		1,173
	5,956		2,841		7,162
Deferred - Federal	(295)		(376)		(238)
Deferred - State	(24)		25		(92)
Deferred - Foreign					
Net operating losses	71		(784)		(4,867)
Other	(1,339)		(573)		2,413
	(1,587)		(1,708)		(2,784)
	\$ 4,369	\$	1,133	\$	4,378

A reconciliation of our income tax provision computed by applying the Federal statutory income tax rate of 35% in 2011, 2010, and 2009 to income before taxes for the years ended December 31 is as follows:

	2011		2010		2009
Federal income tax at statutory rate	\$ 5,900	\$	2,240	\$	4,525
State and local tax items not included below, net	209		(185)		(854)
Effect of difference between U.S. Federal and foreign tax rates	(554)		261		2,883
Permanent differences:					
Foreign interest expense	(784)		(651)		(927)
Book gain on step acquisition of joint ventures			(453)		
Foreign subsidiary earnings					(801)
Other	(135)		31		(235)
Current year tax credits	(142)		(12)		(163)
Other	(125)		(98)		(50)

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Provision for income taxes	\$	4,369	\$	1,133	\$	4,378
----------------------------	----	-------	----	-------	----	-------

70

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

Our deferred tax assets and liabilities at December 31, 2011 and 2010 consist of the following:

	2011	2010
Deferred tax assets:		
Income tax credit carryforward	\$ 1,015	\$ 1,008
Net foreign operating loss carryforward	6,196	6,267
Inventory differences	1,011	599
Allowance for doubtful accounts	111	109
Equity compensation	1,813	1,446
Vacation and other compensation accrual	261	203
Other, net	16	177
Deferred tax assets	10,423	9,809
Deferred tax liabilities:		
Purchased intangible assets	(14,027)	(15,308)
Depreciation and amortization	(2,469)	(2,455)
Investment in partnerships	(1,843)	(2,329)
Deferred profit	(383)	(512)
Deferred tax liabilities	(18,722)	(20,604)
Net deferred tax liabilities	\$ (8,299)	\$ (10,795)
Current deferred tax assets	\$ 1,469	\$ 1,057
Current deferred tax liabilities	(68)	(17)
Long-term deferred tax assets	485	248
Long-term deferred tax liabilities	(10,185)	(12,083)
Net deferred tax assets liabilities	\$ (8,299)	\$ (10,795)

As a result of stock-based compensation in 2011, 2010, and 2009, we (decreased) increased additional paid-in-capital by \$(35), \$(601), and \$90, respectively, for the tax impact. To the extent these adjustments reduced taxes currently payable; they are not reflected in the current income tax provision for those years.

As of December 31, 2011, 2010 and 2009, income considered to be permanently reinvested in non-U.S. subsidiaries totaled approximately \$27,745, \$16,514 and \$15,883, respectively. Deferred income taxes have not been provided on this undistributed income, as we do not plan to initiate any action that would require the payment of U.S. income taxes on these earnings. It is not practical to estimate the amount of additional taxes that might be payable on these amounts of undistributed foreign income.

The components of the income tax credit carryforward as of December 31, 2011 are U.S. foreign tax credits of \$971 (which, if unused, expire between 2013 and 2019) and sundry state tax credits of \$44 (which, if unused, expire between 2012 and 2019). The components of the income tax credit carryforward as of December 31, 2010, are U.S. foreign tax credits of \$971 (which, if unused, expire between 2014 and 2019) and sundry state tax credits of \$37 (which, if unused, expire beginning in 2012 and 2016).

As of December 31, 2011 and 2010, we had no state net operating loss carryforwards. The foreign loss carryforwards are primarily from jurisdictions which do not impose a time limitation on such carryforwards.

At December 31, 2011 and 2010, the balance of unrecognized tax benefits was \$0. We recognize interest and penalties related to uncertain tax positions in operating expense. As of December 31, 2011 and 2010, our accrual for interest and penalties related to uncertain tax positions was \$0.

Table of Contents

DMC's U.S. Federal tax returns for the tax years 2008-2011 remain open to examination while most of DMC's state tax returns remain open to examination for the tax years 2007-2011. DMC's foreign tax returns remain open to examination for the tax years 2007-2011.

(8) BUSINESS SEGMENTS

Our business is organized in the following three segments: Explosive Metalworking, Oilfield Products, and AMK Welding. The Explosive Metalworking segment uses explosives to perform metal cladding and shock synthesis of industrial diamonds. The most significant product of this group is clad metal which is used in the fabrication of pressure vessels, heat exchangers, and transition joints for various industries, including upstream oil and gas, oil refinery, petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration, and similar industries. The Oilfield Products segment 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. AMK Welding utilizes a number of welding technologies to weld components for manufacturers of jet engine and ground-based turbines.

The accounting policies of all the segments are the same as those described in the summary of significant accounting policies. Our reportable segments 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.

Beginning in 2011, we changed our methodology of allocating corporate overhead to our business segments. In connection with this change, we no longer allocate certain corporate expenses that do not directly benefit our business segments. The business segment disclosure for the years ended December 31, 2010 and 2009 presented below reflects our new allocation methodology.

Segment information is presented for the years ended December 31, 2011, 2010 and 2009 as follows:

	Explosive Metalworking	Oilfield Products	AMK Welding	Total
As of and for the year ended December 31, 2011:				
Net sales	\$ 126,199	\$ 72,782	\$ 9,910	\$ 208,891
Depreciation and amortization	\$ 5,833	\$ 4,877	\$ 489	\$ 11,199
Income from operations	\$ 16,058	\$ 6,188	\$ 2,056	\$ 24,302
Unallocated amounts:				
Corporate expenses				(2,686)
Stock-based compensation				(3,397)
Other income				528
Interest expense				(1,945)
Interest income				8
Consolidated income before income taxes				\$ 16,810
Segment assets	\$ 102,473	\$ 92,070	\$ 6,006	\$ 200,549
Assets not allocated to segments:				
Cash and cash equivalents				5,276
Prepaid expenses and other assets				5,647
Deferred tax assets				1,954

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Consolidated total assets					\$	213,426		
Capital expenditures	\$	4,338	\$	2,904	\$	484	\$	7,726

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

	Explosive Metalworking	Oilfield Products	AMK Welding	Total
As of and for the year ended December 31, 2010:				
Net sales	\$ 98,570	\$ 45,332	\$ 10,837	\$ 154,739
Depreciation and amortization	\$ 5,891	\$ 4,351	\$ 471	\$ 10,713
Income from operations	\$ 7,461	\$ 2,426	\$ 2,617	\$ 12,504
Equity in earnings of joint ventures	\$	\$ 255	\$	\$ 255
Unallocated amounts:				
Corporate expenses				(2,214)
Stock-based compensation				(3,501)
Other income				2,316
Interest expense				(3,046)
Interest income				74
Consolidated income before income taxes			\$	6,388
Segment assets	\$ 96,344	\$ 89,169	\$ 5,403	\$ 190,916
Assets not allocated to segments:				
Cash and cash equivalents				4,572
Prepaid expenses and other assets				4,600
Deferred tax assets				1,305
Consolidated total assets			\$	201,393
Capital expenditures	\$ 2,407	\$ 832	\$ 288	\$ 3,527

	Explosive Metalworking	Oilfield Products	AMK Welding	Total
As of and for the year ended December 31, 2009:				
Net sales	\$ 134,096	\$ 21,764	\$ 9,038	\$ 164,898
Depreciation and amortization	\$ 5,988	\$ 3,662	\$ 456	\$ 10,106
Income (loss) from operations	\$ 23,301	\$ (3,074)	\$ 1,671	\$ 21,898
Equity in earnings of joint ventures	\$	\$ 221	\$	\$ 221
Unallocated amounts:				
Corporate expenses				(2,235)
Stock-based compensation				(3,425)
Other expense				(219)
Interest expense				(3,473)
Interest income				216
Consolidated income before income taxes			\$	12,983
Segment assets	\$ 114,501	\$ 76,325	\$ 5,715	\$ 196,541
Assets not allocated to segments:				
Cash and cash equivalents				22,411
Prepaid expenses and other assets				3,840
Deferred tax assets				2,384
Consolidated total assets			\$	225,176
Capital expenditures	\$ 3,017	\$ 743	\$ 157	\$ 3,917

Table of Contents

The geographic location of our property, plant and equipment, net of accumulated depreciation, is as follows:

	As of December 31,		
	2011	2010	2009
United States	\$ 21,810	\$ 20,784	\$ 21,393
Germany	9,924	9,234	10,388
France	5,767	5,742	6,402
Canada	2,339	2,145	2,311
Rest of the world	1,562	1,901	1,558
Total	\$ 41,402	\$ 39,806	\$ 42,052

All of our sales are from products shipped from our manufacturing facilities and distribution centers located in the United States, Germany, France, Canada, Sweden (subsequently closed during 2011), Russia and Kazakhstan. The following represents our net sales based on the geographic location of the customer:

	For the years ended December 31,		
	2011	2010	2009
United States	\$ 81,410	\$ 44,587	\$ 62,955
South Korea	29,951	10,309	5,424
Canada	24,151	29,907	12,991
Germany	12,960	25,109	11,702
Russia	8,658	7,067	4,649
France	3,828	5,425	5,788
Rest of the world	47,933	32,335	61,389
Total	\$ 208,891	\$ 154,739	\$ 164,898

During the years ended December 31, 2011, 2010, and 2009, no one customer accounted for more than 10% of total net sales.

(9) COMMITMENTS AND CONTINGENCIES

We lease certain office space, equipment, storage space, vehicles and other equipment under various non-cancelable lease agreements. Certain of these leases (primarily equipment related) are recorded as capital leases. Amortization expense associated with the capital leases is combined with depreciation expense of fixed assets. Details of capitalized leased assets as of December 31, 2011 and 2010 are as follows:

	2011	2010
Manufacturing equipment and tooling	\$ 364	\$ 1,368
Furniture, fixtures and computer equipment	57	107
Total	421	1,475

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Less: Accumulated amortization		(300)		(841)
Net capitalized leased assets	\$	121	\$	634

Table of Contents

Future minimum rental commitments under non-cancelable leases are as follows:

	Capital Leases	Operating Leases
Year ended December 31 -		
2012	\$ 72	\$ 1,639
2013	54	1,290
2014	23	760
2015		565
2016		244
Thereafter		196
Total minimum payments	149	\$ 4,694
Amounts representing interest	(13)	
Present value of net minimum lease payments	136	
Current portion of capital lease obligations	(66)	
Capital lease obligations	\$ 70	

Total rental expense included in operations was \$2,973, \$2,295, and \$1,713 for the years ended December 31, 2011, 2010, and 2009, respectively.

During 2008, we entered into a license agreement and a risk allocation agreement related to our U.S. Explosive Metalworking business. These agreements provide us with the ability to perform our explosive shooting process at a second shooting site in Pennsylvania. Future minimum payments required to be made by us under these agreements are as follows:

Year ended December 31 -		
2012	\$	239
2013		239
2014		239
2015		239
2016		239
Thereafter		478
Total minimum payments	\$	1,673

In the normal course of business, we are party to various contractual disputes and claims. After considering our evaluations by legal counsel regarding pending actions, we are of the opinion that the outcome of such actions will not have a material adverse effect on the financial position or results of operations.

(10) SUBSEQUENT EVENT - UNAUDITED

On January 3, 2012, we acquired the assets and operating business of Texas-based TRX Industries, Inc. (TRX), a manufacturer of perforating guns, for a purchase price of \$10,194. TRX, which will operate as a division of DYNAenergetics US, has been a long-term supplier to DYNAenergetics US and, in recent years, accounted for a rapidly growing percentage of its perforating gun purchases.

Table of Contents

The acquisition of TRX was structured as an asset purchase in an all-cash transaction. The purchase price was allocated to tangible and identifiable intangible assets based on their fair values as determined by appraisals performed as of the acquisition date. The allocation of the preliminary purchase price to the assets of TRX was as follows:

Current assets	\$	2,702
Property, plant and equipment		2,227
Intangible assets		5,265
Deferred tax assets		40
Total assets acquired		10,234
Current liabilities		40
Total liabilities assumed		40
Net assets acquired	\$	10,194

We acquired identifiable finite-lived intangible assets as a result of the acquisition of TRX. The finite-lived intangible assets acquired were classified as customer relationships and were valued at \$5,265, which is being amortized over 11 years.

For the year ended December 31, 2011, TRX had net sales and operating income of approximately \$11,600 and \$2,900, respectively. Approximately 40% of TRX's net sales and operating income relates to shipments to our DYNAenergetics US subsidiary. These results are not necessarily indicative of the future results of TRX following its integration into our company.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in or disagreements with accountants on accounting and financial disclosure for the fiscal year ended December 31, 2011.

ITEM 9A. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on such evaluation, such officers have concluded that our disclosure controls and procedures are effective at the reasonable assurance level as of the end of the period covered by this Annual Report. There have been no changes in internal control over financial reporting during the fourth quarter of 2011.

Table of Contents

Management's Report on Internal Control over Financial Reporting

The management of Dynamic Materials Corporation and subsidiaries (DMC) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of DMC's management, including its Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of DMC's internal control over financial reporting as of December 31, 2011 based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In designing and evaluating the internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on that evaluation, management concluded that DMC's internal control over financial reporting was effective as of December 31, 2011.

DMC's internal control over financial reporting as of December 31, 2011, has also been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report which is included elsewhere herein.

/s/ Yvon Pierre Cariou
Yvon Pierre Cariou
President and Chief Executive Officer
March 9, 2012

/s/ Richard A. Santa
Richard A. Santa
Senior Vice President and Chief Financial Officer
March 9, 2012

Table of Contents

Report of Independent Registered Public Accounting Firm

The Stockholders and the

Board of Directors of Dynamic Materials Corporation:

We have audited Dynamic Materials Corporation and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Dynamic Materials Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Dynamic Materials Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Dynamic Materials Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 of Dynamic Materials

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Corporation and subsidiaries and our report dated March 9, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado

March 9, 2012

Table of Contents

ITEM 9B. Other Information

Not applicable.

Table of Contents

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Item 10 incorporates information by reference to our Proxy Statement for the 2012 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2011.

ITEM 11. Executive Compensation

Item 11 incorporates information by reference to our Proxy Statement for the 2012 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2011.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Item 12 incorporates information by reference to our Proxy Statement for the 2012 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2011.

For information regarding securities authorized for issuance under our equity compensation plans see the Proxy Statement for our 2012 Annual Meeting of Shareholders, which information is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Item 13 incorporates information by reference to our Proxy Statement for the 2012 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2011.

ITEM 14. Principal Accountant Fees and Services

Item 14 incorporates information by reference to our Proxy Statement for the 2012 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2011.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

See Index to Financial Statements in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

(a)(2) Financial Statement Schedules

See Schedule II beginning on page 84 of this Annual Report on Form 10-K.

(a)(3) Exhibits

Exhibit Number	Description
3.1	Certificate of Incorporation of the Company (incorporated by reference to the Company's Quarterly report on Form 10-Q/A for the quarter ended March 31, 2004).

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Table of Contents

3.2	Bylaws of the Company (incorporated by reference to the Company's Quarterly report on Form 10-Q/A for the quarter ended March 31, 2004).
10.1	Amended and Restated Credit Agreement dated as of December 21, 2011, by and among the Company, the US borrowers party thereto, the Euro borrowers party thereto, the Canadian borrowers party thereto, the guarantors party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as US administrative agent, J.P. Morgan Europe Limited, as Euro administrative agent, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian administrative agent, KeyBank National Association, as syndication agent, Wells Fargo Bank, National Association, as documentation agent, and JPMorgan Chase Bank, N.A., as sole bookrunner and lead arranger.
10.2	Employment Agreement, dated as of April 23, 2008, by and between the Company and Yvon Cariou, as amended (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2009). *
10.3	Employment Agreement, dated as of April 23, 2008, by and between the Company and Richard A. Santa, as amended (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2009). *
10.4	Employment Agreement, dated as of April 23, 2008, by and between the Company and John G. Banker, as amended (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2009). *
10.5	Employment Agreement dated January 19, 2011, among DYNAenergetics Holding GmbH, the Company and Rolf Rospek (incorporated by reference to the Company's Form 8-K filed with the Commission on January 24, 2011). *
10.6	Dynamic Materials Corporation 2006 Stock Incentive Plan (incorporated by reference to the Company's Form 10-Q filed with the Commission on November 2, 2006). *
10.7	Dynamic Materials Corporation Performance-Based Plan (incorporated by reference to Appendix A to the Company's Proxy Statement filed with the Commission on April 23, 2009). *
10.8	Form of Executive Officer Restricted Stock Award Agreement (incorporated by reference to the Company's Form 8-K filed with the Commission on June 12, 2007). *
10.9	Form of Non-Executive Director Restricted Stock Award Agreement (incorporated by reference to the Company's Form 8-K filed with the Commission on June 12, 2007). *
10.10	Form of Indemnification Agreement (incorporated by reference to the Company's Form 8-K filed with the Commission on January 24, 2011). *
21.1	Subsidiaries of the Company.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
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 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 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 Annual Report on Form 10-K of Dynamic Materials Corporation. For the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statement of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.**

* Management contract or compensatory plan or arrangement.

** 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.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DYNAMIC MATERIALS CORPORATION

March 9, 2012
By: /s/ Richard A. Santa
Richard A. Santa
Senior Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Yvon Pierre Cariou Yvon Pierre Cariou	President and Chief Executive Officer (Principal Executive Officer)	March 9, 2012
/s/ Richard A. Santa Richard A. Santa	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 9, 2012
/s/ John G. Banker John G. Banker	Senior Vice President, Customers and Technology (Executive Officer)	March 9, 2012
/s/ Rolf Rospek Rolf Rospek	Chief Executive Officer, DYNAenergetics (Executive Officer)	March 9, 2012
/s/ Dean K. Allen Dean K. Allen	Chairman and Director	March 9, 2012
/s/ Robert A. Cohen Robert A. Cohen	Director	March 9, 2012
/s/ James J. Ferris James J. Ferris	Director	March 9, 2012
/s/ Richard P. Graff Richard P. Graff	Director	March 9, 2012
/s/ Bernard Hueber Bernard Hueber	Director	March 9, 2012
/s/ Gerard Munera	Director	March 9, 2012

Gerard Munera

Table of Contents

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

INDEX TO SCHEDULE II

AS OF DECEMBER 31, 2011

	PAGE
<u>Schedule II (a)</u>	84
<u>Schedule II (b)</u>	84
<u>Schedule II (c)</u>	84

Table of Contents

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

SCHEDULE II(a) - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at beginning of period	Additions charged to income	Accounts receivable written off	Other Adjustments	Balance at end of period
Year ended -					
December 31, 2009	\$ 614	\$	\$	\$ (224)	\$ 390
December 31, 2010	\$ 390	\$	\$	\$ (12)	\$ 378
December 31, 2011	\$ 378	\$ 267	\$ (149)	\$ (72)	\$ 424

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

SCHEDULE II(b) - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

WARRANTY RESERVE

	Balance at beginning of period	Additions charged to income	Repairs allowed	Other Adjustments	Balance at end of period
Year ended -					
December 31, 2009	\$ 353	\$ 50	\$ (105)	\$	\$ 298
December 31, 2010	\$ 298	\$ 463	\$ (164)	\$	\$ 597
December 31, 2011	\$ 597	\$ 756	\$ (761)	\$	\$ 592

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

SCHEDULE II(c) - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

INVENTORY RESERVE

	Balance at beginning of period	Additions charged to income	Inventory write-offs	Balance at end of period
Year ended -				

Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

December 31, 2009	\$	190	\$	214	\$	(148)	\$	256
December 31, 2010	\$	256	\$	210	\$	(241)	\$	225
December 31, 2011	\$	225	\$	77	\$	(145)	\$	157