

DYNAMIC MATERIALS CORP
Form 10-Q
April 28, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .

Commission file number 001-14775

DYNAMIC MATERIALS CORPORATION

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(Exact name of Registrant as Specified in its Charter)

Delaware
(State of Incorporation or Organization)

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

5405 Spine Road, Boulder, Colorado 80301

(Address of principal executive offices, including zip code)

(303) 665-5700

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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 under the Act). Yes No

The number of shares of Common Stock outstanding was 13,330,698 as of April 28, 2010.

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CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. In particular, we direct your attention to Part I, Item 1- Condensed Consolidated Financial Statements; Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations; Item 3 - Quantitative and Qualitative Disclosures About Market Risk; and Part II, Item 1A Risk Factors. We intend the forward-looking statements throughout this quarterly report on Form 10-Q and the information incorporated by reference herein to be covered by the safe harbor provisions for forward-looking statements. Statements contained in this report which are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. All projections, guidance and other statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, believe, plan, anticipate, estimate, expect, intend, and other phrases of similar meaning. The forward-looking information is based on information available as of the date of this quarterly report and on numerous assumptions and developments that are not within our control. Although we believe that our expectations as expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Factors that could cause actual results to differ materially include, but are not limited to, the following: changes in global economic conditions; the ability to obtain new contracts at attractive prices; the size and timing of customer orders and shipment; our ability to realize sales from our backlog; fluctuations in customer demand; fluctuations in foreign currencies; competitive factors; the timely completion of contracts; the timing and size of expenditures; the timely receipt of government approvals and permits; the price and availability of metal and other raw material; the adequacy of local labor supplies at our facilities; current or future limits on manufacturing capacity at our various operations; our ability to successfully integrate acquired businesses; the availability and cost of funds; and general economic conditions, both domestic and foreign, impacting our business and the business of the end-market users we serve. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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(Dollars in Thousands)

	March 31, 2011 (unaudited)	December 31, 2010
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,760	\$ 4,572
Accounts receivable, net of allowance for doubtful accounts of \$466 and \$378, respectively	28,700	27,567
Inventories	40,939	35,880
Prepaid expenses and other	4,884	3,659
Current deferred tax assets	1,223	1,057
Total current assets	80,506	72,735
PROPERTY, PLANT AND EQUIPMENT	69,139	66,734
Less - accumulated depreciation	(28,465)	(26,928)
Property, plant and equipment, net	40,674	39,806
GOODWILL, net	41,400	39,173
PURCHASED INTANGIBLE ASSETS, net	49,833	48,490
DEFERRED TAX ASSETS	449	248
OTHER ASSETS, net	861	941
TOTAL ASSETS	\$ 213,723	\$ 201,393

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

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

	March 31, 2011 (unaudited)	December 31, 2010
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 18,266	\$ 16,109
Accrued expenses	4,121	3,529
Dividend payable	533	529
Accrued income taxes	897	477
Accrued employee compensation and benefits	3,432	3,711
Customer advances	1,889	1,531
Lines of credit	3,477	2,621
Current maturities on long-term debt	9,423	9,596
Current portion of capital lease obligations	233	272
Current deferred tax liabilities	25	17
Total current liabilities	42,296	38,392
LONG-TERM DEBT	14,616	14,579
CAPITAL LEASE OBLIGATIONS	136	155
DEFERRED TAX LIABILITIES	12,369	12,083
OTHER LONG-TERM LIABILITIES	1,213	1,100
Total liabilities	70,630	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; 13,330,698 and 13,224,696 shares issued and outstanding, respectively	666	661
Additional paid-in capital	53,115	52,451
Retained earnings	88,427	88,210
Other cumulative comprehensive income (loss)	766	(6,398)
Total Dynamic Materials Corporation's stockholders' equity	142,974	134,924
Noncontrolling interest	119	160
Total stockholders' equity	143,093	135,084
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 213,723	\$ 201,393

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(Dollars in Thousands, Except Share Data)

(unaudited)

	Three months ended March 31,	
	2011	2010
NET SALES	\$ 45,574	\$ 30,357
COST OF PRODUCTS SOLD	35,272	23,373
Gross profit	10,302	6,984
COSTS AND EXPENSES:		
General and administrative expenses	3,675	3,145
Selling and distribution expenses	3,726	2,321
Amortization of purchased intangible assets	1,405	1,273
Total costs and expenses	8,806	6,739
INCOME FROM OPERATIONS	1,496	245
OTHER INCOME (EXPENSE):		
Other income (expense), net	(203)	141
Interest expense	(410)	(1,144)
Interest income	3	35
Equity in earnings of joint ventures		169
INCOME (LOSS) BEFORE INCOME TAXES	886	(554)
INCOME TAX PROVISION (BENEFIT)	148	(154)
NET INCOME (LOSS)	738	(400)
Less: Net income (loss) attributable to noncontrolling interest	(12)	12
NET INCOME (LOSS) ATTRIBUTABLE TO DYNAMIC MATERIALS CORPORATION	\$ 750	\$ (412)
INCOME (LOSS) PER SHARE:		
Basic	\$ 0.06	\$ (0.03)
Diluted	\$ 0.06	\$ (0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	13,045,600	12,690,510
Diluted	13,055,619	12,690,510

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DIVIDENDS DECLARED PER COMMON SHARE	\$	0.04	\$	0.04
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	Dynamic Materials Corporation Stockholders				Other Cumulative Comprehensive Income/(Loss)	Non- Controlling Interest	Total
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings			
Balances, December 31, 2010	13,225	\$ 661	\$ 52,451	\$ 88,210	\$ (6,398)	\$ 160	\$ 135,084
Comprehensive income:							
Net income				750		(12)	738
Change in cumulative foreign currency translation adjustment					7,164	(71)	7,093
Comprehensive income						(83)	7,831
Shares issued in connection with stock compensation plans	106	5					5
Tax impact of stock-based compensation			(128)				(128)
Stock-based compensation			792				792
Dividends				(533)			(533)
Contribution from noncontrolling stockholder						42	42
Balances, March 31, 2011	13,331	\$ 666	\$ 53,115	\$ 88,427	\$ 766	\$ 119	\$ 143,093

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(Dollars in Thousands)

(unaudited)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) including noncontrolling interest	\$ 738	\$ (400)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation (including capital lease amortization)	1,356	1,154
Amortization of purchased intangible assets	1,405	1,273
Amortization of capitalized debt issuance costs	53	369
Stock-based compensation	792	792
Deferred income tax benefit	(586)	(830)
Equity in earnings of joint ventures		(169)
Change in:		
Accounts receivable, net	(8)	8,799
Inventories	(3,678)	(3,837)
Prepaid expenses and other	(1,040)	142
Accounts payable	1,460	2,123
Customer advances	283	6,082
Accrued expenses and other liabilities	542	(1,690)
Net cash provided by operating activities	1,317	13,808
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(1,087)	(764)
Change in other non-current assets	36	(4)
Net cash used in investing activities	(1,051)	(768)

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(Dollars in Thousands)

(unaudited)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on syndicated term loans		(15,374)
Payment on Nord LB term loans	(205)	(208)
Borrowings (repayments) on bank lines of credit, net	668	(441)
Payment on capital lease obligations	(76)	(74)
Payment of dividends	(529)	(515)
Contribution from noncontrolling stockholder	42	
Net proceeds from issuance of common stock to employees and directors	5	
Tax impact of stock-based compensation	(128)	2
Net cash used in financing activities	(223)	(16,610)
EFFECTS OF EXCHANGE RATES ON CASH	145	(483)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	188	(4,053)
CASH AND CASH EQUIVALENTS, beginning of the period	4,572	22,411
CASH AND CASH EQUIVALENTS, end of the period	\$ 4,760	\$ 18,358

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Currency Amounts in Thousands, Except Share and Per Share Data)

(unaudited)

1. BASIS OF PRESENTATION

The information included in the Condensed Consolidated Financial Statements is unaudited but includes all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the interim periods presented. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements that are included in our Annual Report filed on Form 10-K for the year ended December 31, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of Dynamic Materials Corporation (DMC) and its controlled subsidiaries. Only subsidiaries in which controlling interests are maintained are consolidated. 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.

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

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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 will exchange \$2,700 for Euros at an exchange rate of 1.269 U.S. dollars per Euros between January 18, 2011 and April 30, 2011. We have not designated this derivative as a cash flow hedge for accounting purposes and as such, gains and losses related to changes in its valuation are recorded in the statement of operations. During the three months ended March 31, 2011, we recorded a gain

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on this currency swap agreement of \$50. The gain is classified as other income (expense), net in our statement of operations.

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.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, trade accounts receivable and payable, and accrued expenses are considered to approximate fair value due to the short-term nature of these instruments. We estimate that a hypothetical 100 basis point decrease in our LIBOR/EURIBOR basis borrowing spread would increase the fair value of our long-term debt at March 31, 2011 by less than 2%. The majority of our debt was incurred in connection with the 2007 acquisition of DYNAenergetics.

Additionally, we have a foreign currency hedge agreement that we entered in September 2010 (see above), which is recorded at fair value. 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.

Our foreign currency hedge agreement is not exchange listed and is therefore valued with models that use Level 2 inputs. The degree to which our credit worthiness impacts the value requires management judgment, but as of March 31, 2011 and December 31, 2010, the impact of this assessment on the overall value of the derivatives was not significant and our valuation of the agreements is classified within Level 2 of the

hierarchy.

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We have recorded the fair value of our foreign currency hedge agreement as follows:

Derivative	March 31, 2011		December 31, 2010	
	Balance sheet location	Fair value	Balance sheet location	Fair value
Foreign currency hedge	Prepaid expenses and other	\$ 168	Prepaid expenses and other	\$ 118

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. A summary of related party transactions for the three months ended March 31, 2010 is summarized below:

	Sales to		Interest income from	
DYNAenergetics RUS	\$	502	\$	
Perfoline		19		10
Total	\$	521	\$	10

Earnings Per Share

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

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

	For the Three Months Ended March 31, 2011			For the Three Months Ended March 31, 2010		
	Income	Shares	EPS	Income	Shares	EPS
<u>Basic earnings per share:</u>						
Net income (loss) attributable to DMC	\$ 750			\$ (412)		
Less income allocated to RSAs	(15)					
Net income (loss) allocated to common stock for EPS calculation	\$ 735	13,045,600	\$ 0.06	\$ (412)	12,690,510	\$ (0.03)
Adjust shares for dilutives:						

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Stock-based compensation plans			10,019					
<u>Diluted earnings per share:</u>								
Net income (loss) attributable to DMC	\$	750		\$	(412)			
Less income allocated to RSAs		(15)						
Net income (loss) allocated to common stock for EPS calculation	\$	735	13,055,619	\$	0.06	\$	(412)	12,690,510 \$ (0.03)

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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 expands our Oilfield Products business, and positions the segment to capitalize on the long-term demand from the oil and gas industry. From January 1, 2011 through March 31, 2011, DYNAenergetics US, Inc. contributed incremental net sales of \$2,563 and an incremental net loss of \$38 after the elimination of intercompany sales and the related gross profit. On a standalone basis, DYNAenergetics US, Inc. reported sales of \$5,616 and net income of \$280 for the same period.

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:

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 amortized over 11 years. These amounts are included in Purchased Intangible Assets and are further discussed in Note 7.

Russian Joint Ventures

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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. We paid a combined \$2,065 for the respective 45% and 34.81% outstanding stakes in DYNAenergetics RUS and Perfoline. From January 1, 2011 through March 31, 2011, DYNAenergetics RUS and Perfoline contributed incremental net sales of \$946 and an incremental net loss of \$498 after the elimination of intercompany sales and the related gross profit. As

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standalone companies, these two entities reported sales of \$1,374 and a net loss of \$267 for the same period.

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).

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 7.

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The following table presents the pro-forma combined results of operations for the three months ended March 31, 2010 assuming (i) the acquisitions of AECO and the Russian joint ventures had occurred on January 1, 2010; (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) elimination of intercompany sales; and (v) increase in interest expense for borrowing 1,500 Euros (\$2,155 based on the January 1, 2010 exchange rate) to fund the acquisition of the Russian joint ventures:

	2010	
Net sales	\$	34,190
Income from operations	\$	321
Net loss attributable to DMC	\$	(421)
Net loss per share:		
Basic	\$	(0.03)
Diluted	\$	(0.03)

The pro-forma results above are not necessarily indicative of the operating results that would have actually occurred if the acquisitions 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 minority-owned 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 the ordinary course of business decisions. Operating results from January 1, 2010 through April 30, 2010 include our proportionate share of income from these unconsolidated joint ventures and for the three months ended March 31, 2010 our results include equity in earnings of joint ventures of \$169. 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 three months ended March 31, 2010 is as follows:

	2010	
Net sales	\$	1,734
Gross Profit	\$	416
Operating income	\$	170
Net income	\$	310

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The components of inventory are as follows at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Raw materials	\$ 12,216	\$ 12,001
Work-in-process	13,055	11,387
Finished goods	14,490	11,870
Supplies	1,178	622
	\$ 40,939	\$ 35,880

6. GOODWILL

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

	Explosive Metalworking Group	Oilfield Products	Total
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	(86)	(124)	(210)
Adjustment due to exchange rate differences	1,375	1,062	2,437
Goodwill balance at March 31, 2011	\$ 23,747	\$ 17,653	\$ 41,400

7. PURCHASED INTANGIBLE ASSETS

The following table presents details of our purchased intangible assets, other than goodwill, as of March 31, 2011:

	Gross	Accumulated Amortization	Net
Core technology	\$ 23,982	\$ (4,020)	\$ 19,962
Customer relationships	41,233	(12,703)	28,530
Trademarks / Trade names	2,570	(1,229)	1,341
Total intangible assets	\$ 67,785	\$ (17,952)	\$ 49,833

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The following table presents details of our purchased intangible assets, other than goodwill, 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 change in the gross value of our purchased intangible assets from December 31, 2010 to March 31, 2011 is due solely to the impact of foreign currency translation adjustments.

8. 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 March 31, 2011 and December 31, 2010, customer advances totaled \$1,889 and \$1,531 respectively, and originated from several customers.

9. DEBT

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

	March 31, 2011	December 31, 2010
Syndicated credit agreement revolving loan	\$ 1,974	\$ 1,060
Nord LB line of credit	1,503	1,561
	\$ 3,477	\$ 2,621

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

	March 31, 2011	December 31, 2010
Syndicated credit agreement term loan	\$ 22,247	\$ 22,247
Nord LB 3,000 Euro term loan	423	596
Loans with former owners of LRI	1,369	1,332

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		24,039		24,175
Less current maturities		(9,423)		(9,596)
Long-term debt	\$	14,616	\$	14,579

Loan Covenants and Restrictions

Our existing loan agreements include various covenants and restrictions, certain of which relate to the incurrence of additional indebtedness; mortgaging, pledging or disposition of major assets; limits on capital expenditures; and maintenance of specified financial ratios. On February 2, 2011, our credit facility was amended, retroactive to December 31, 2010, to revise the leverage ratios and fixed charge coverage ratios that we are required to satisfy on a quarterly basis throughout the remaining term of the credit facility. These revised ratios will ease our ability to

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comply with certain covenants of the credit agreement. As of March 31, 2011, we were in compliance with all financial covenants and other provisions of our debt agreements.

10. 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 three months ended March 31, 2010 presented below reflects our new allocation methodology.

Segment information is presented for the three months ended March 31, 2011 and 2010 as follows:

	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the three months ended March 31, 2011:				
Net sales	\$ 26,074	\$ 17,056	\$ 2,444	\$ 45,574
Depreciation and amortization	\$ 1,459	\$ 1,180	\$ 122	\$ 2,761
Income from operations	\$ 1,554	\$ 924	\$ 468	\$ 2,946
Unallocated amounts:				
Corporate expenses				(658)
Stock-based compensation				(792)
Other expense				(203)
Interest expense				(410)
Interest income				3
Consolidated income before income taxes				\$ 886

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	Explosive Metalworking Group	Oilfield Products	AMK Welding	Total
For the three months ended March 31, 2010:				
Net sales	\$ 21,306	\$ 7,006	\$ 2,045	\$ 30,357
Depreciation and amortization	\$ 1,367	\$ 945	\$ 115	\$ 2,427
Income (loss) from operations	\$ 1,838	\$ (460)	\$ 260	\$ 1,638
Equity in earnings of joint ventures	\$	\$ 169	\$	169
Unallocated amounts:				
Corporate expenses				(601)
Stock-based compensation				(792)
Other income				141
Interest expense				(1,144)
Interest income				35
Consolidated loss before income taxes				\$ (554)

During the three months ended March 31, 2011 and 2010, no one customer accounted for more than 10% of total net sales.

11. COMPREHENSIVE INCOME (LOSS)

Our comprehensive income (loss) for the three months ended March 31, 2011 and 2010 was as follows:

	Three Months Ended March 31,	
	2011	2010
Net income (loss) including noncontrolling interest	\$ 738	\$ (400)
Derivative valuation, net of tax of \$0 and \$99		105
Change in cumulative foreign currency translation adjustment	7,093	(5,651)
Total comprehensive income (loss)	7,831	(5,946)
Comprehensive income (loss) attributable to noncontrolling interest	(83)	
Comprehensive income (loss) attributable to DMC	\$ 7,914	\$ (5,946)

Other cumulative comprehensive income (loss) as of March 31, 2011 and December 31, 2010 consisted entirely of currency translation adjustment.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our historical consolidated financial statements and notes, as well as the selected historical consolidated financial data that are included in our Annual Report filed on Form 10-K for the year ended December 31, 2010.

Unless stated otherwise, all currency amounts in this discussion are presented in thousands (000 \$).

Executive Overview

Our business is organized into three segments: Explosive Metalworking (which we also refer to as DMC Clad), Oilfield Products and AMK Welding. For the three months ended March 31, 2011, Explosive Metalworking accounted for 57% of our net sales and 53% 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 38% and 5%, respectively, of our first quarter 2011 net sales, and 31% and 16%, respectively, of our income from operations before unallocated corporate expenses and stock-based compensation expense.

Our net sales for the three months ended March 31, 2011 increased by \$15,217, or 50.1%, compared to the same period of 2010. The year-to-year consolidated net sales increase reflects a sales increase of \$4,768 (22.4%) for our Explosive Metalworking segment and sales increases of \$10,050 (143.4%) for our Oilfield Products segment and \$399 (19.5%) for AMK Welding. Excluding incremental sales of \$3,509 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 \$6,541 or 93.4% from its first quarter 2010 net sales. Our consolidated income from operations increased to \$1,496 for the three months ended March 31, 2011 from \$245 in the same period of 2010. This \$1,251 increase reflects increases of \$1,384 and \$208 in the operating income reported by our Oilfield Products and AMK Welding segments, respectively, which were partially offset by a decline in the operating income reported by our Explosive Metalworking segment of \$284 and an increase in unallocated corporate expenses of \$57. Reported consolidated operating income for the three month periods ended March 31, 2011 and 2010 includes amortization expense of \$1,405 and \$1,273, respectively, relating to purchased intangible assets associated with our acquisitions of DYNAenergetics, DYNAenergetics Canada, DYNAenergetics US, and the Russian joint ventures. We reported net income of \$750 for the three months ended March 31, 2011 compared to a net loss of \$412 for the same period of 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 already 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, we

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believe that our Explosive Metalworking segment is well-positioned to benefit as global economic conditions improve.

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 increasing modestly to \$58,530 at March 31, 2011. Based upon the improvement in our March 31, 2011 Explosive Metalworking backlog and expected year over year increases in 2011 sales for both our Oilfield and AMK Welding business segments, we believe that our 2011 consolidated net sales could increase by 24% to 28% from the \$154,739 in consolidated net sales that we reported in 2010.

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.

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.

Table of Contents*Income taxes*

Our effective income tax rate decreased to 16.7% for the three months ended March 31, 2011 from 27.8% for first quarter of 2010 and 17.7% for the full year 2010. Income tax provisions on the earnings of Nobelclad, Nitro Metall, Dynaplat, DYNAenergetics, DYNAenergetics Canada, DYNAenergetics RUS, Perfoline, and our German and Luxembourg holding companies have been provided based upon the respective French, Swedish, German, Canadian, Russian and Luxembourg 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 25% and 28% in 2011 before returning to normalized level of 28% to 30% in subsequent years.

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 increased to \$58,530 at March 31, 2011 from \$56,539 at December 31, 2010 and \$41,154 at September 30, 2010.

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010*Net sales*

	Three Months Ended March 31,				Percentage Change
	2011	2010	Change		
<u>Net sales</u>	\$ 45,574	\$ 30,357	\$ 15,217		50.1%

Net sales for the first quarter of 2011 increased 50.1% to \$45,574 from \$30,357 for the first quarter of 2010. Explosive Metalworking sales increased 22.4% to \$26,074 for the three months ended March 31, 2011 (57% of total sales) from \$21,306 for the same period of 2010 (70% of total sales). The decrease in Explosive Metalworking's proportionate contribution to consolidated net sales reflects a quicker recovery from the economic recession in our Oilfield Products business than in our core Explosive Metalworking business as well as the benefit of incremental 2011 sales for our Oilfield Products segment that resulted from 2010 acquisitions as further discussed below.

Oilfield Products contributed \$17,056 to first quarter 2011 sales (38% of total sales), which represents a 143.4% increase from sales of \$7,006 for the first quarter of 2010 (23% of total sales). Excluding incremental sales of \$3,509 from our acquisition of Austin Explosives and step acquisition of two Russian joint ventures, the first quarter 2011 sales increase for Oilfield Products was \$6,541 or 93.4%.

AMK Welding contributed \$2,444 to first quarter 2011 sales (5% of total sales), versus sales of \$2,045 for the first quarter of 2010 (7% of total sales), an increase of 19.5%.

Table of Contents*Gross profit*

	Three Months Ended March 31,			Change	Percentage Change
	2011	2010			
Gross profit	\$ 10,302	\$ 6,984	\$ 3,318	47.5%	
<u>Consolidated gross profit margin rate</u>	22.6%	23.0%			

Gross profit increased by 47.5% to \$10,302 for the three months ended March 31, 2011 from \$6,984 for the three months ended March 31, 2010. Our first quarter 2011 consolidated gross profit margin rate decreased to 22.6% from the 23.0% gross margin that we reported for the first quarter of 2010. The gross profit margin for Explosive Metalworking decreased from 21.9% in the first quarter of 2010 to 17.2% in the first quarter of 2011. Oilfield Products reported a gross margin of 30.2% in the first quarter of 2011 compared to a gross margin of 27.5% in the first quarter of 2010. The gross profit margin for AMK Welding increased to 29.7% in the first quarter of 2011 from 22.5% in the first quarter of 2010.

The decrease in the first quarter 2011 gross profit margin rate for our Explosive Metalworking segment relates principally to unfavorable changes in product mix as compared to the first quarter of 2010 and the negative impact that the extremely competitive pricing environment that existed during the last part of 2010 had on orders that shipped during the first quarter of 2011. Additionally, the gross margin performance in the first quarter of 2010 gross margin included the positive benefit of a sizeable order that shipped during the quarter and that involved customer-supplied metal. 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' first quarter 2011 gross margin relates principally to the significant sales increase discussed above, favorable changes in product/customer mix, and the incremental margin on intercompany sales to former distributors in the U.S. and Russia that were acquired during the second quarter of 2010 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.

Based upon the expected contribution to 2011 consolidated net sales by each of our three business segments, we expect our consolidated full year 2011 gross margin to be in a range of 24% to 26%.

General and administrative expenses

	Three Months Ended March 31,			Change	Percentage Change
	2011	2010			
General and administrative expenses	\$ 3,675	\$ 3,145	\$ 530	16.9%	
<u>Percentage of net sales</u>	8.1%	10.4%			

General and administrative expenses increased by \$530, or 16.9%, to \$3,675 for the three months ended March 31, 2011 from \$3,145 for the same period of 2010. Excluding incremental general and administrative expenses of \$372 that resulted from the acquisition of Austin Explosives and the Russian joint ventures, our general and administrative expenses increased by \$158 or 5.0%. This increase includes an increase in outside service fees of \$127, increases of \$61

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and \$38 in salaries and accrued incentive compensation, respectively, and an increase of \$40 in stock-based compensation. These increases were partially offset by a net decrease of \$108 in all other expense categories that reflects tight controls over discretionary spending. As a percentage of net sales, general and administrative expenses decreased to 8.1% in the first quarter of 2011 from 10.4% in the first quarter of 2010.

Selling and distribution expenses

	Three Months Ended March 31,			Change	Percentage Change
	2011	2010	2010		
Selling and distribution expenses	\$ 3,726	\$ 2,321	\$ 1,405	60.5%	
<u>Percentage of net sales</u>	8.2%	7.6%			

Selling and distribution expenses, which include sales commissions of \$593 in the first quarter of 2011 and \$298 in the first quarter of 2010, increased by 60.5% to \$3,726 in the first quarter of 2011 from \$2,321 in the first quarter of 2010. Excluding incremental selling and distribution expenses of \$963 that resulted from the acquisitions of Austin Explosives and the Russian joint ventures, our selling and distribution expenses increased by \$442 or 19.1%. This increase in our selling and distribution expenses includes increased selling and distribution expenses of \$176 at our U.S. divisions and \$267 at our foreign divisions.

The \$176 increase in our U.S. selling and distribution expenses reflects increases of \$132 and \$88 for sales commissions and bad debt expense, respectively, and a net decrease of \$44 in other spending categories. The \$267 increase in our foreign divisions selling and distribution expenses reflects increases of \$182 and \$162 for salary expense and sales commissions, respectively, and a net decrease of \$76 in other spending categories. As a percentage of net sales, selling and distribution expenses increased to 8.2% in the first quarter of 2011 from 7.6% in the first quarter of 2010. 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

	Three Months Ended March 31,			Change	Percentage Change
	2011	2010	2010		
Amortization of purchased intangible assets	\$ 1,405	\$ 1,273	\$ 132	10.4%	
<u>Percentage of net sales</u>	3.1%	4.2%			

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 the three months ended March 31, 2010 includes \$1,064, \$292, and \$49 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively. Amortization expense for the three months ended March 31, 2010 includes \$883, \$296 and \$94 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 2011, and 2011 amortization expense (as measured in Canadian dollars)

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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 235 in 2011, and 2011 amortization expense associated with the Austin Explosives acquisition is expected to approximate \$435.

Operating income

	Three Months Ended March 31,			Change	Percentage Change
	2011	2010			
<u>Operating income</u>	\$ 1,496	\$ 245	\$ 1,251	510.6%	

Income from operations (operating income) increased by five-fold to \$1,496 in the first quarter of 2011 from \$245 in the first quarter of 2010.

Explosive Metalworking reported operating income of \$1,554 in the first quarter of 2011 as compared to \$1,838 in the first quarter of 2010. This 15.5% decrease is largely attributable to the 21.5% decline in the gross margin rate discussed above. Operating results of Explosive Metalworking for the three months ended March 31, 2011 and 2010 include \$546 and \$598, respectively, of amortization expense of purchased intangible assets.

Oilfield Products reported operating income of \$924 in the first quarter of 2011 as compared to an operating loss of \$460 in the first quarter of 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 the three months ended March 31, 2011 and 2010 include \$859 and \$675, respectively, of amortization expense of purchased intangible assets.

AMK Welding reported operating income of \$468 in the first quarter of 2011, an increase of 80.0% from the \$260 that it reported in the first quarter of 2010. The improvement in AMK s operating income is largely attributable to the 19.5% sales increase and the 32.1% increase in the gross margin rate discussed above.

Our consolidated operating income for the three months ended March 31, 2011 and 2010 includes \$658 and \$601, respectively, of unallocated corporate expenses and \$792 in each period of stock-based compensation expense. These expenses are not allocated to our business segments and thus are not included in the above first quarter operating income or loss totals for our Explosive Metalworking, Oilfield Products, and AMK Welding business segments.

*Other income (expense), net***Three Months Ended**

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	March 31,				Change	Percentage Change
	2011	2010				
<u>Other income (expense), net</u>	\$ (203)	\$ 141	\$	\$	(344)	(244.0)%

We reported net other expense of \$203 in the first quarter of 2011 compared to net other income of \$141 in the first quarter of 2010. Our 2011 net other expense of \$203 includes net realized and unrealized foreign exchange losses of \$311, offset by a gain of \$50 on our currency swap agreement and net other income items aggregating \$58. Our 2010 net other income of \$141 relates principally to realized and unrealized foreign exchange gains recorded by our Swedish and German subsidiaries.

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	Three Months Ended March 31,				Percentage Change
	2011	2010	Change		
<u>Interest income (expense), net</u>	\$ (407)	\$ (1,109)	\$ 702		(63.3)%

We recorded net interest expense of \$407 in the first quarter of 2011 compared to net interest expense of \$1,109 in the first quarter of 2010. Our first quarter 2010 interest expense included 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 our first quarter 2011 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.

Income tax provision (benefit)

	Three Months Ended March 31,				Percentage Change
	2011	2010	Change		
<u>Income tax provision (benefit)</u>	\$ 148	\$ (154)	\$ 302		(196.1)%
<u>Effective tax rate</u>	16.7%	27.8%			

We recorded an income tax provision of \$148 in the first quarter of 2011 compared to an income tax benefit of \$154 in the first quarter of 2010. The effective tax rate decreased to 16.7% in the first quarter of 2011 from 27.8% in the first quarter of 2010 and 17.7% for the full year 2010. Our consolidated income tax provision for the three months ended March 31, 2011 and 2010 included \$476 and \$386, respectively, related to U.S. taxes, with the remainder relating to net foreign tax benefits of \$328 and \$540 for the three months ended March 31, 2011 and 2010, respectively, associated with our foreign operations and holding companies.

We expect our blended effective tax rate for 2011 to range from 25% to 28% based on projected pre-tax income.

Adjusted EBITDA

	Three Months Ended March 31,				Percentage Change
	2011	2010	Change		
<u>Adjusted EBITDA</u>	\$ 5,061	\$ 3,452	\$ 1,609		46.6%

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 three months ended March 31, 2011 and 2010 was

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\$3,553 and \$3,219, respectively, and represents 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

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

	Three Months Ended		
	March 31,		
	2011		2010
Net income (loss) attributable to DMC	\$	750	\$ (412)
Interest expense		410	1,144
Interest income		(3)	(35)
Provision for income taxes		148	(154)
Depreciation		1,356	1,154
Amortization of purchased intangible assets		1,405	1,273
EBITDA		4,066	2,970
Stock-based compensation		792	792
Other (income) expense, net		203	(141)
Equity in earnings of joint ventures			(169)
Adjusted EBITDA	\$	5,061	\$ 3,452

Adjusted EBITDA increased 46.6% to \$5,061 in the first quarter of 2011 from \$3,452 in the first quarter of 2010 primarily due to the increase in operating income of \$1,251.

Liquidity and Capital Resources

We have historically financed our operations from a combination of internally generated cash flow, revolving credit borrowings, various long-term debt arrangements, and the issuance of common stock. We believe that cash flow from operations and funds available under our current credit facilities and any future replacement thereof will be sufficient to fund the working capital, debt 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

In connection with the acquisition of DYNAenergetics in 2007, we entered into a five-year syndicated credit agreement. The credit agreement, which provided term loans of \$45,000 and 14,000 Euros and revolving credit loan availability of \$25,000 and 7,000 Euros, is through a syndicate of seven banks.

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There are two significant financial covenants under our credit facility, the leverage ratio and fixed charge coverage ratio requirements. As a result of the slowdown in our business during 2009 which continued into the early part of 2010, we were concerned about our ability to comply with these financial covenants as of March 31, 2010 and subsequent quarters of 2010. In an effort to alleviate this concern and remain in compliance with financial covenants as of March 31, 2010 and in future periods, we made a March prepayment of the remaining principal balance due under our bank syndicated Euro term loan in the amount of \$12,498 (9,020 Euros) and, on April 19, 2010, amended the credit agreement to exclude scheduled principal payments under the Euro term loan from fixed charge coverage ratio computations for March 31, 2010 and forward. As we reached

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the end of 2010 and completed our 2011 budget, we were once again concerned about our ability to remain in compliance with financial covenants as of December 31, 2010 and in future quarterly periods of 2011. To address this concern, on February 2, 2011, we amended the credit agreement to reduce the minimum fixed charge coverage ratio requirement to 0.9 to 1.0 for the trailing four quarter period ended December 31, 2010 and 1.0 to 1.0 for any trailing four quarter period thereafter. The February 2, 2011 amendment also increased the maximum leverage ratio for any trailing four quarter period ending after September 30, 2011 to 1.25 to 1.0 from 1.0 to 1.0, and increased maximum annual capital expenditure limits for 2011 and 2012 from \$8 million for both years to \$10 million for 2011 and \$14 million for 2012.

The leverage ratio is defined in the credit facility as Consolidated Funded Indebtedness at the balance sheet date as compared to Consolidated EBITDA, which is defined as earnings before provisions for income taxes, interest expense, depreciation and amortization, extraordinary, non-recurring charges and other non-cash charges, for the previous twelve months. For the three months ended March 31, 2011 and the year ended December 31, 2010, Consolidated EBITDA approximated the Adjusted EBITDA that we reported for the respective periods. As of March 31, 2011, the maximum leverage ratio permitted by our credit facility was 1.5 to 1.0. The actual leverage ratio as of March 31, 2011 was 1.24 to 1.5. The maximum leverage ratio permitted as of June 30, September 30 and December 31, 2011 is 1.5 to 1.0, 1.5 to 1.0 and 1.25 to 1.0, respectively.

The fixed charge ratio, as defined in the credit facility, means, for any period, the ratio of Earnings Available for Fixed Charges to Fixed Charges. Earnings Available for Fixed Charges equals Consolidated EBITDA plus lease expenses minus cash income taxes and maintenance capital expenditures. Fixed Charges equals the sum of cash interest expense, lease expense, scheduled principal payments and cash dividends. As of March 31, 2011, the minimum fixed charge ratio permitted by our credit facility was 1.0 to 1.0. The actual fixed charge ratio as of March 31, 2011 was 1.22 to 1.0. The minimum fixed charge coverage ratio permitted for the twelve month periods ending June 30, September 30 and December 31, 2011 is 1.0 to 1.0.

As of March 31, 2011, a U.S. dollar term loan of \$22,247 was outstanding under our credit facility, \$423 was outstanding under term loan obligations of DYNAenergetics and \$1,369 was outstanding under loan agreements with the former owners of LRI. We had \$1,974 outstanding on our revolving credit borrowings under our syndicated credit agreement and \$1,503 outstanding under our separate DYNAenergetics line of credit agreements. We had no outstanding balances under the line of credit assumed with the acquisition of LRI. While we had approximately \$42,422 of unutilized revolving credit loan capacity as of March 31, 2011 under our various credit facilities, future borrowings are subject to compliance with financial covenants that could significantly limit availability.

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

Our principal cash flows related to debt obligations and other contractual obligations and commitments have not materially changed since December 31, 2010.

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Cash flows from operating activities

Net cash flows provided by operating activities for the first quarter of 2011 totaled \$1,317. Our first quarter 2011 operating cash flow reflects net income of \$738 and the benefit of certain non-cash charges, including depreciation and amortization expense of \$2,814 and stock-based compensation of \$792. Operating cash flow in the first quarter of 2011 was reduced by a deferred income tax benefit of \$586 and net negative changes in working capital of \$2,441. Negative cash flows from changes in working capital included increases in inventories and prepaid expenses of \$3,678, and \$1,040, respectively. These were partly offset by increases in accounts payable, customer advances and accrued expenses and other liabilities of \$1,460, \$283 and \$542, respectively. The increase in inventories relates to an increase in work-in-process inventories in our Explosive Metalworking segment to meet second quarter shipment requirements on a couple of larger orders included in our March 31, 2011 backlog and an increase in finished goods inventories in our Oilfield Products segment required by the increase in business activity this segment has experienced in recent months. The increase in accounts payable follows the increase in inventory levels.

Net cash flows provided by operating activities for the first quarter of 2010 totaled \$13,808. Our strong first quarter 2010 operating cash flow reflects the benefit of certain non-cash charges, including depreciation and amortization expense of \$2,796 and stock-based compensation of \$792, and net positive changes in various components of working capital aggregating \$11,619. Operating cash flow in the first quarter of 2010 was reduced by a net loss including noncontrolling interest of \$400 and a deferred income tax benefit of \$830. Net positive changes in working capital included decreases in accounts receivable of \$8,799 and increases in accounts payable and customer advances of \$2,123 and \$6,082, respectively. These positive changes in working capital were partially offset by increases in inventory of \$3,837 and a decrease in accrued expenses of \$1,690.

Cash flows from investing activities

Net cash flows used by investing activities for the first quarter of 2011 and 2010 totaled \$1,051 and \$768, respectively, and consisted almost entirely of capital expenditures.

Cash flows from financing activities

Net cash flows used in financing activities for the first quarter of 2011 totaled \$223, which included payment of quarterly dividends of \$529, \$205 in principal payments on our Nord LB term loan, \$128 for the negative tax impact of stock-based compensation and payment on capital lease obligations of \$76. Sources of cash flow from financing activities included net borrowings on bank lines of credit of \$668, a contribution of \$42 from our noncontrolling stockholder and \$5 in net proceeds from the issuance of common stock relating to the exercise of stock options.

Net cash flows used in financing activities for the first quarter of 2010 were \$16,610, which 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, \$441 of net repayments on bank lines of credit, \$208 in principal payments on Nord LB term loans, payment of quarterly dividends of \$515 and payment on capital lease obligations of \$74.

Payment of Dividends

On March 9, 2011, our board of directors declared a quarterly cash dividend of \$.04 per share which was paid on April 15, 2011. The dividend totaled \$533 and was payable to shareholders of record as of March 31, 2011. We paid a quarterly cash dividend of \$.04 per share in the first quarter of 2010.

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We may continue to pay quarterly dividends in the future subject to capital availability and periodic determinations that cash dividends are in compliance with our debt covenants and are in the best interests of our stockholders, but we cannot assure you that such payments will continue. Future dividends may be affected by, among other items, our views on potential future capital requirements, future business prospects, debt covenant compliance, changes in federal income tax laws, or any other factors that our board of directors deems relevant. Any decision to pay cash dividends is and will continue to be at the discretion of board of directors.

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, impact of foreign currency exchange rate risks, income taxes, and stock-based compensation expense. 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-

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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 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. 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 as described further below. Impairments are expensed when incurred. Specifically, we test for impairment as follows:

Goodwill

We test 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 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.

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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, we allocate the fair value of the reporting unit 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

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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 impairment testing in the fourth quarter of 2010 did not result in a determination that any of our goodwill was impaired. The fair value of the Oilfield Products reporting unit was \$109.7 million at December 31, 2010 compared to its carrying value of \$73.6 million. A discount rate of 17% was utilized in the income approach component of the model used to measure fair value. 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.

Intangible assets subject to amortization

An intangible asset that is subject to amortization is reviewed when impairment indicators are present. We compare the expected undiscounted future operating cash flows associated with finite-lived assets to their respective carrying values to determine if the asset is fully recoverable. If the expected future operating cash flows 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.

Impact of foreign currency exchange rate risks

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.

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

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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.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no events that materially affect our quantitative and qualitative disclosure about market risk from that reported in our Annual Report on Form 10-K for the year ended December 31, 2010.

ITEM 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is accurately recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of March 31, 2011, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level. There have been no changes in our internal controls during the quarter ended March 31, 2011 or in other factors that could materially affect our internal controls over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls will prevent all errors and all fraud. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. As a result of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the disclosure controls and procedures are met.

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Part II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no significant changes in the risk factors identified as being attendant to our business in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Removed and Reserved

None.

Item 5. Other Information

None.

Item 6.

Exhibits

- 31.1 Certification of the President and Chief Executive Officer pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the 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.

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DYNAMIC MATERIALS CORPORATION
(Registrant)

Date: April 28, 2011

/s/ Richard A. Santa
Richard A. Santa, Senior Vice President and Chief
Financial Officer (Duly Authorized Officer and
Principal Financial and Accounting Officer)