

DYNAMIC MATERIALS CORP  
Form 10-K  
March 13, 2009

[QuickLinks](#) -- Click here to rapidly navigate through this document

**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, 2008

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES ACT OF 1934**

For the transition period from \_\_\_\_\_ to  
Commission file number 001-14775

**DYNAMIC MATERIALS CORPORATION**

(Exact name of Registrant as specified in its charter)

**Delaware** **84-0608431**  
(State of Incorporation or Organization) (I.R.S. Employer Identification No.)

**5405 Spine Road, Boulder, Colorado 80301**  
(Address of principal executive offices, including zip code)

**(303) 665-5700**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **Common Stock, \$.05 Par Value**

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 Section 15(d) of the Act. 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 ☐

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ☒

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 a 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 \$401,430,970 as of June 30, 2008.

The number of shares of Common Stock outstanding was 12,841,377 as of March 6, 2009.

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 2007 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, 2008.

---

**PART I**

**ITEM 1. Business**

**Overview**

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, Oilfield Products, and AMK Welding.

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, which were recently expanded through our 2007 acquisition of DYNAenergetics, are located in the United States, Germany, France, and Sweden.

Through our Oilfield Products segment, which we also refer to as "DYNAwell" or "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. DYNAwell also distributes a line of seismic products that support oil and gas exploration activities. DYNAwell's primary manufacturing and sales operations are located in Germany.

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 is the most versatile clad plate manufacturing technology. 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 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; 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 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 Metals 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 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 an oil well to connect it 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.

### **DYNWell End Use Markets**

DYNWell products are utilized to perform both perforating services which require shaped charges, detonators, boosters, detonating cords, and perforating guns and seismic prospecting. DYNWell manufactures and distributes a comprehensive array of perforating products. Our DYNWell 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.

### **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 DYNWell or 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. DYNWell 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, 2008, the Explosive Metalworking segment represented approximately 84% of our revenue. The four manufacturing plants and their respective shooting sites in Pennsylvania, Germany, France and Sweden 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.

***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.

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.



### **DYNAwell**

DYNAwell manufactures, markets, and sells perforating explosives and associated hardware and seismic explosives, for the international oil and gas industry. While DYNAwell has been producing detonating cords and 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, DYNAwell began manufacturing detonators for seismic exploration systems. Additionally, DYNAwell 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 DYNAwell 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, 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*

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 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, France, and Sweden. 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 Chief Executive Officer, 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.

#### **Oilfield Products**

##### *Suppliers and Raw Materials*

DYNWell 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. DYNWell's product line consists of complex products which require numerous high quality components. DYNWell 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*

DYNWell 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.

##### *Customer Profile*

Onshore and offshore oilfield service companies use our DYNWell 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 DYNWell 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. DYNWell's customer base includes clients from each of these categories.

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

### *Marketing, Sales, Distribution*

DYNWell's worldwide marketing and sales efforts for its oilfield and seismic products are based in Laatzen, Germany. DYNWell's sales concept 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 products and technologies. Currently, DYNWell sells its oilfield and seismic products through a U.S. distributor, Austin Explosives, and through trading joint ventures that are located in Russia (DYNAenergetics RUS), Kazakhstan (KazDYNAenergetics) and Canada (Canada Ltd.), ventures in which DYNAenergetics holds a majority interest.

### *Research and Development*

DYNWell 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. DYNWell won the important Spotlight on New Technology Award at the 2007 Offshore Technology Conference in Houston, Texas, for its newly developed No-Debris-Gun technology. Through this success, DYNWell 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.

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. In addition, AMK Welding has entered into a 5-year contract to provide welding services to the GE Energy Business of General Electric Company for up to six H System gas turbine engines per year. During the term of this contract, the customer has agreed to use AMK Welding for welding services for the first six H System gas turbine engines such customer manufactures each year. In the aircraft engine business, AMK Welding competes against a few small 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." or "EFI". 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 and its stock is currently listed on NASDAQ under the ticker symbol BOOM.

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.

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Through a series of transactions culminating in June 2000, SNPE, Inc. ("SNPE"), a US 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 PMP and Spin Forge, 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 November 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 (DYNAplat) and oilfield products (DYNAwell). This acquisition expanded the Company's explosive metalworking operations in Europe and added a complimentary business segment, oilfield products. During 2008 and with an effective date of January 1, 2008, the DYNAplat explosive metalworking assets and business operations of DYNAenergetics were transferred into Dynaplat GmbH & Co KG, a newly formed 100% owned operating subsidiary of the Company. DYNAenergetics retained the assets, operations and joint venture investments of the DYNAwell oilfield products business.

Our current explosive metalworking segment is comprised of the Company's US Clad operations as well as the assets and operations purchased in the Nobelclad and DYNAplat acquisitions. The oilfield products segment is comprised entirely of DYNAwell and its joint ventures. Our third segment is AMK Welding. Property locations for these operations are listed in detail in Item 2.

### Employees

As of December 31, 2008, we employed 408 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 408 permanent employees, 179 are U.S. based, 146 are based in Germany at the DYNAplat and DYNAWELL facilities, 66 are based in France at the Nobelclad facility and 17 are based in Sweden at Nitro Metall. Approximately 60% of our German-based employees are members of trade unions. About 40% 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 believe that we maintain liability insurance adequate to protect 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 DYNWell 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.

*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.

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

### Foreign and Domestic Operations and Export Sales

All of our sales are shipped from the manufacturing facilities located in the United States, Germany, France and 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, |                   |                   |
|                         | 2008                             | 2007              | 2006              |
| United States           | \$ 82,036                        | \$ 64,735         | \$ 56,395         |
| Germany                 | 24,449                           | 8,626             | 2,265             |
| South Korea             | 12,938                           | 16,904            | 3,080             |
| Canada                  | 11,685                           | 12,588            | 10,787            |
| Australia               | 11,307                           | 1,039             | 235               |
| France                  | 10,447                           | 5,280             | 4,791             |
| Italy                   | 9,517                            | 5,461             | 3,466             |
| China                   | 8,203                            | 10,790            | 1,055             |
| India                   | 7,237                            | 2,355             | 3,764             |
| Spain                   | 7,208                            | 3,492             | 2,465             |
| Netherlands             | 4,093                            | 3,033             | 1,967             |
| Russia                  | 3,604                            | 607               | 11,137            |
| South Africa            | 3,381                            | 674               | 790               |
| Belgium                 | 3,275                            | 6,727             | 2,546             |
| United Kingdom          | 3,184                            | 1,278             | 335               |
| Romania                 | 2,548                            | 480               |                   |
| Kazakhstan              | 2,418                            | 151               |                   |
| Mexico                  | 2,396                            | 1,082             | 1,230             |
| Switzerland             | 1,922                            | 665               | 152               |
| Malaysia                | 1,914                            | 2,154             | 358               |
| Norway                  | 1,699                            | 2,596             | 481               |
| Brazil                  | 1,590                            | 52                | 476               |
| Sweden                  | 1,388                            | 1,378             | 677               |
| Other foreign countries | 14,138                           | 13,028            | 5,020             |
| <b>Total</b>            | <b>\$ 232,577</b>                | <b>\$ 165,175</b> | <b>\$ 113,472</b> |

### 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](http://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](http://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 Industry***

**We have seen a recent slow down in some of our markets and anticipate sales will decline during 2009.**

During the fourth quarter of 2008, we have seen a slowdown in DMC Clad sales to some of the markets we serve and anticipate our sales to further decrease [approximately 12% - 20%] in 2009 from the amount we achieved in 2008. 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 the current worldwide economic downturn has affected many of these markets. Indeed, we have already seen a slowdown in the chemical, petrochemical and hydrometallurgy sectors. An economic slowdown in one or all of these industries whether due to traditional cyclicity, general economic conditions or other factors could impact capital expenditures within the industry. If demand from such 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. 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 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, France and Sweden. 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.**

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.

**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 DYNAwell***

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

The oil and gas industry is unpredictable and has historically been subject to occasional downturns. Demand for DYNAwell's 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 DYNAwell's economic success. Demand for oil and gas drives oil and gas field production and exploration, and with it the demand for services and products produced by DYNAwell. A variety of factors affect the demand for DYNAwell 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 DYNWell's clients, and consumption patterns of oil and gas.

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

DYNWell is subject to a number of environmental, health, and safety laws and regulations, the violation of which could result in significant penalties. DYNWell's 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 DYNWell endeavors to comply with all applicable laws and regulations, compliance with future laws and regulations may not be economically feasible or even possible.

**DYNWell's continued economic success depends on remaining at the forefront of innovation in the perforating industry.**

DYNWell's 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. DYNWell may be unable to remain an innovative leader in the perforation market segment or may be unable to retain top talent in the field.

***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. The current 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, decreased oil and gas well drilling will reduce the sales of our DYNWell products. Any decrease in the demand for gas turbines and airplane engines will reduce the demand for the work performed by our AMK division. While to date we have not experienced postponements or cancellations of projects important to us, we anticipate a slowing demand from our end-market customers. 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."

**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.

DYNAwell competes principally with perforating companies based in North and South America who produce and market perforating services and products. DYNAwell 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, DYNAwell must continue to provide innovative products 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.

**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.

DYNAwell, which is expected to contribute approximately 15% to our 2009 sales, has customers throughout the world. The Russian market is currently DYNAwell's largest market with more than 30% of its sales coming from that market. Economic or political instability in Russia could have a material adverse effect on DYNAwell's business and operating results.

AMK Welding, which is expected to contribute approximately 5% to our 2009 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 the United States 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 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 DIRE (Direction Régionale de l'Industrie, de la Recherche et de l'Environnement) and the Préfecture des Pyrénées Orientales. In Sweden, we and all our activities are subject to various safety and environmental regulations, including those established by the Work Environment Authority of Sweden in its Work Environment Act. In addition, our shooting operations in Germany, France and Sweden 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.

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 and Sweden, 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 Sweden, our purchase, transport, storage and use of explosives is governed by a permit issued to us by the Police Authority of the County of Varmland. 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, France and Sweden are located outdoors, our shooting facilities located in Pennsylvania and in Dillenburg, Germany are located in mines, which subjects 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 the U.S. 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, France, and Sweden, where some of our employees are unionized. The employees at our U.S. facilities, where the majority of 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 year. 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.

**As we regularly test the value of goodwill associated with our recent acquisitions, economic conditions may lead to a 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. At the end of 2008, we reviewed the carrying value of our goodwill. In reviewing the goodwill associated with the DYNAwell business we acquired in 2007, we estimated that the fair value of this business unit was only slightly greater than the carrying value of the associated net assets, including goodwill. While we did not recognize impairment of the DYNAwell goodwill during the 2008 fiscal year, we plan to review its carrying value again in the next few months. If the DYNAwell business does not perform as well as we expected when we estimated its fair value or if other conditions in the capital markets and general economy change the assumptions we used in this valuation, then we may be required to recognize an impairment of the goodwill associated with that business.

**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 unrealized 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 DYNAwell's functional currency is Euros, but its sales often occur in U.S. dollars. 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.

**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.

**ITEM 1B. Unresolved Staff Comments**

None.

**ITEM 2. Properties**

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.

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 have entered into new 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, 2010, 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, DYNAenergetics, has a manufacturing site in Troisdorf, Germany, and leases space for a sales office in Laatzen, Germany. Our German subsidiary, DYNAplat, has a manufacturing site Würgendorf and a shooting site in Dillenburg, Germany. Portions of these sites are leased and portions are owned. The lease expiration dates for our Troisdorf, Würgendorf, and Dillenburg manufacturing sites are February 28, 2011; December 31, 2010; and August 31, 2011, respectively. 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, 2011, and may be extended. Our Swedish subsidiary, Nitro Metall, owns the land and buildings housing its manufacturing operations in Likenas, Sweden. The buildings and land at the Nitro Metall shooting site in Likenas, Sweden, and the sales office in Filipstad, Sweden are leased. The lease in Filipstad is automatically renewed every year. The sites in Pennsylvania; Würgendorf, Germany; France; and Sweden are part of the Explosive Metalworking segment. The DYNAwell manufacturing sites are leased. These leases expire on

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

February 28, 2011. In addition, we own the land and buildings housing the operations of AMK Welding in South Windsor, Connecticut.

| Location                   | Facility Type                                                              | Facility Size                                               | Owned/Leased                    | Expiration Date of Lease<br>(if applicable)                       |
|----------------------------|----------------------------------------------------------------------------|-------------------------------------------------------------|---------------------------------|-------------------------------------------------------------------|
| Boulder, Colorado          | Corporate and Sales Office                                                 | 14,630 sq. ft.                                              | Leased                          | November 30, 2015, with renewal options through November 30, 2021 |
| Mt. Braddock, Pennsylvania | Clad Plate Manufacturing                                                   | 48,000 sq. ft.                                              | Owned                           |                                                                   |
| Dunbar, Pennsylvania       | Clad Plate Shooting Site                                                   | 322 acres                                                   | Leased                          | December 15, 2010, with renewal options through December 15, 2029 |
| Rivesaltes, France         | Clad Plate Manufacturing, Nobelclad Europe Sales and Administration Office | 53,000 sq. ft.                                              | Owned                           |                                                                   |
| Tautavel, France           | Clad Shooting Site                                                         | 114 acres                                                   | 107 acres owned, 7 acres leased | December 31, 2011                                                 |
| Likenas, Sweden            | Clad Plate Manufacturing                                                   | 26,000 sq. ft.                                              | Owned                           |                                                                   |
| Likenas, Sweden            | Clad Plate Shooting Site                                                   | 15 acres                                                    | Leased                          | January 1, 2016                                                   |
| Filipstad, Sweden          | Nitro Metall Sales Office                                                  | 850 sq. ft.                                                 | Leased                          | January 1, 2009 (renews annually)                                 |
| South Windsor, Connecticut | AMK Welding                                                                | 21,000 sq. ft.                                              | Owned                           |                                                                   |
| Troisdorf, Germany         | DYNAWELL, Manufacturing                                                    | 263,201 sq. ft.                                             | Leased                          | February 28, 2011                                                 |
| Würgendorf, Germany        | Dynaplat, Manufacturing                                                    | Land: 25 acres<br>Building: 20,312 sq. ft.<br>2,756 sq. ft. | Owned<br><br>Leased             | <br><br>December 31, 2010                                         |
| Dillenburg Germany         | Dynaplat Shooting site                                                     | 4 acres                                                     | Owned                           |                                                                   |
|                            |                                                                            | 9,849 sq. ft.                                               | Leased                          | August 31, 2011                                                   |
| Würgendorf, Germany        | Dynaplat Sales                                                             | 2,815 sq. ft.                                               | Leased                          | October 31, 2009                                                  |
|                            | DYNAenergetics Administration                                              | 2,799 sq. ft.                                               |                                 | January 31, 2011                                                  |
| Laatzen, Germany           | DYNAWELL Sales                                                             | 2,314 sq. ft.                                               | Leased                          | December 31, 2009                                                 |

### 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. Submission of Matters to a Vote of Security Holders

No matters were submitted to security holders for vote during the fourth quarter of the fiscal year ended December 31, 2008.



**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.

|                | <b>High</b> | <b>Low</b> |
|----------------|-------------|------------|
| <b>2008</b>    |             |            |
| First Quarter  |             |            |
|                | \$ 62.50    | \$ 38.97   |
| Second Quarter | \$ 49.85    | \$ 32.57   |
| Third Quarter  | \$ 33.94    | \$ 22.12   |
| Fourth Quarter | \$ 23.40    | \$ 10.82   |
| <b>2007</b>    |             |            |
| First Quarter  |             |            |
|                | \$ 35.90    | \$ 25.56   |
| Second Quarter | \$ 39.35    | \$ 32.19   |
| Third Quarter  | \$ 50.07    | \$ 37.50   |
| Fourth Quarter | \$ 66.30    | \$ 44.72   |

As of February 28, 2009, there were approximately 379 holders of record of our common stock.

We declared and paid a \$0.15 per share dividend in 2007 and 2008. We may pay annual 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.

## FINANCIAL PERFORMANCE

The following graph compares the performance of the common stock with the Nasdaq Non-Financial Stocks Index and the Nasdaq Composite (US) 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 31, 2003, in each of the Company, Nasdaq Non-Financial Stocks Index and the Nasdaq Composite (US) Index with investment weighted on the basis of market capitalization. Historical results are not necessarily indicative of future performance.

| Total Return Analysis                | 12/31/03 | 12/31/04 | 12/30/05   | 12/29/06   | 12/31/07   | 12/31/08   |
|--------------------------------------|----------|----------|------------|------------|------------|------------|
| <b>Dynamic Materials Corporation</b> | \$ 100   | \$407.48 | \$2,024.49 | \$1,904.08 | \$3,988.44 | \$1,313.61 |
| <b>Nasdaq Non-Financial Stocks</b>   | \$ 100   | \$107.85 | \$ 110.29  | \$ 120.94  | \$ 137.20  | \$ 62.83   |
| <b>Nasdaq Composite (US)</b>         | \$ 100   | \$108.84 | \$ 111.16  | \$ 122.11  | \$ 132.42  | \$ 63.80   |

**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.

| (Dollars in Thousands, Except Per Share Data)  |            |            |            |            |            |
|------------------------------------------------|------------|------------|------------|------------|------------|
| Year Ended December 31,                        |            |            |            |            |            |
|                                                | 2008       | 2007       | 2006       | 2005       | 2004       |
| <b>Statement of Operations</b>                 |            |            |            |            |            |
| Net sales                                      | \$ 232,577 | \$ 165,175 | \$ 113,472 | \$ 79,291  | \$ 54,165  |
| Cost of products sold                          | 161,732    | 110,168    | 71,439     | 55,856     | 40,559     |
| Gross profit                                   | 70,845     | 55,007     | 42,033     | 23,435     | 13,606     |
| Cost and expenses                              | 32,793     | 16,115     | 11,930     | 7,667      | 6,718      |
| Income from operations                         | 38,052     | 38,892     | 30,103     | 15,768     | 6,888      |
| Other (income) expense, net                    | 4,778      | 158        | (505)      | 163        | 524        |
| Income before income taxes                     | 33,274     | 38,734     | 30,608     | 15,605     | 6,364      |
| Income tax provision                           | 9,206      | 14,147     | 11,341     | 5,233      | 1,961      |
| Income from continuing operations              | 24,068     | 24,587     | 19,267     | 10,372     | 4,403      |
| Discontinued operations, net of tax            |            |            | 1,497      |            | (1,570)    |
| Net income                                     | \$ 24,068  | \$ 24,587  | \$ 20,764  | \$ 10,372  | \$ 2,833   |
| Income from continuing operations per share:   |            |            |            |            |            |
| Basic                                          | \$ 1.93    | \$ 2.03    | \$ 1.63    | \$ 0.92    | \$ 0.43    |
| Diluted                                        | \$ 1.91    | \$ 2.00    | \$ 1.58    | \$ 0.86    | \$ 0.41    |
| Net income per share:                          |            |            |            |            |            |
| Basic                                          | \$ 1.93    | \$ 2.03    | \$ 1.75    | \$ 0.92    | \$ 0.28    |
| Diluted                                        | \$ 1.91    | \$ 2.00    | \$ 1.70    | \$ 0.86    | \$ 0.27    |
| Weighted average number of shares outstanding: |            |            |            |            |            |
| Basic                                          | 12,445,685 | 12,083,851 | 11,841,373 | 11,290,053 | 10,269,080 |
| Diluted                                        | 12,579,598 | 12,293,158 | 12,213,075 | 12,086,884 | 10,968,090 |
| DIVIDENDS DECLARED PER COMMON SHARE            |            |            |            |            |            |
|                                                | \$ 0.15    | \$ 0.15    | \$ 0.15    | \$ 0.10    | \$         |
| <b>Financial Position</b>                      |            |            |            |            |            |
| Current assets                                 | \$ 90,768  | \$ 94,730  | \$ 63,847  | \$ 36,552  | \$ 26,246  |
| Total assets                                   | 229,219    | 240,899    | 84,973     | 55,311     | 43,753     |
| Current liabilities                            | 45,466     | 58,818     | 25,297     | 14,838     | 16,962     |
| Long-term debt                                 | 46,514     | 62,051     | 382        | 2,221      | 2,906      |
| Other non-current liabilities                  | 18,737     | 21,751     | 1,714      | 3,297      | 3,815      |
| Stockholders' equity                           | 118,502    | 98,279     | 57,580     | 34,955     | 20,070     |

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Selected unaudited quarterly financial data for the years ended December 31, 2008 and 2007, are presented below:

| (Dollars in Thousands, Except Per Share Data) |                            |                           |                                |                               |
|-----------------------------------------------|----------------------------|---------------------------|--------------------------------|-------------------------------|
| Year ended December 31, 2008                  |                            |                           |                                |                               |
|                                               | Quarter ended<br>March 31, | Quarter ended<br>June 30, | Quarter ended<br>September 30, | Quarter ended<br>December 31, |
| Net sales                                     | \$ 58,393                  | \$ 63,183                 | \$ 52,380                      | \$ 58,621                     |
| Gross profit                                  | \$ 17,711                  | \$ 19,049                 | \$ 17,025                      | \$ 17,060                     |
| Net income                                    | \$ 5,245                   | \$ 6,210                  | \$ 7,223                       | \$ 5,390                      |
| Net income per share basic                    | \$ 0.42                    | \$ 0.50                   | \$ 0.58                        | \$ 0.43                       |
| Net income per share diluted                  | \$ 0.42                    | \$ 0.49                   | \$ 0.57                        | \$ 0.43                       |

| Year ended December 31, 2007 |                            |                           |                                |                               |
|------------------------------|----------------------------|---------------------------|--------------------------------|-------------------------------|
|                              | Quarter ended<br>March 31, | Quarter ended<br>June 30, | Quarter ended<br>September 30, | Quarter ended<br>December 31, |
| Net sales                    | \$ 33,094                  | \$ 34,454                 | \$ 42,416                      | \$ 55,211                     |
| Gross profit                 | \$ 10,851                  | \$ 12,079                 | \$ 14,292                      | \$ 17,785                     |
| Net income                   | \$ 4,882                   | \$ 5,659                  | \$ 7,117                       | \$ 6,929                      |
| Net income per share basic   | \$ 0.41                    | \$ 0.47                   | \$ 0.59                        | \$ 0.57                       |
| Net income per share diluted | \$ 0.40                    | \$ 0.46                   | \$ 0.58                        | \$ 0.56                       |

The net income per share for the 2008 and 2007 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. The quarter ended December 31, 2007 includes the operating results of DYNAenergetics from the November 15, 2007 acquisition date through December 31, 2007.

### 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

Prior to late 2007, our business had been organized into two segments: Explosive Metalworking (which we also refer to as DMC Clad) and AMK Welding. On November 15, 2007, we acquired 100% ownership of a German company, DYNAenergetics. DYNAenergetics operates two distinct businesses which have historically been known as DYNaplat and DYNawell. DYNaplat is a manufacturer of explosion clad products similar to those manufactured by DMC Clad, and its operating results from the date of acquisition are included in our Explosive Metalworking segment. DYNawell manufactures a number of products for the perforation of oil and gas wells and also distributes a line of seismic products for oil and gas exploration activities. DYNawell's operating results from the date of acquisition are reported under a new segment that we have named "Oilfield Products."

In 2008, Explosive Metalworking accounted for 84% of our net sales and 91% of our income from continuing operations before consideration of stock-based compensation expense, which is not allocated to our business segments. Our Oilfield Products and AMK Welding segments accounted for 12% and 4%, respectively, of our 2008 net sales. In 2007 and 2006, Explosive Metalworking accounted for more than 94% and 95% of our net sales, respectively, and 97% and 96% of income from continuing operations, respectively.

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Our 2008 net sales, which include a full year of sales from the acquired DYNAenergetics' businesses, increased by \$67,402, or 40.8%, compared to 2007 net sales, which include sales from DYNAenergetics for the period from November 15 through December 31, 2007. The year-to-year consolidated net sales increase reflects sales increases of \$39,561 (25.5%) for our Explosive Metalworking segment, \$25,288 for our new Oilfield Products segment and \$2,553 (35.5%) for AMK Welding. Explosive Metalworking's 2008 and 2007 sales included sales contributions of \$30,763 and \$4,357, respectively, from DYNAenergetics' explosion clad business. Our income from continuing operations decreased by 2.2% to \$38,052 in 2008 from \$38,892 in 2007, reflecting a \$1,448 decline in Explosive Metalworking's operating income and an increase in stock-based compensation expense of \$1,936 that were partially offset by improvements of \$1,598 and \$946 in the operating income performance of Oilfield Products and AMK Welding, respectively. Reported consolidated operating income for 2008 and for 2007 include amortization expense of \$7,382 and \$1,191, respectively, relating to purchased intangible assets associated with the acquisition of DYNAenergetics. Our net income decreased by 2.1% to \$24,068 in 2008 from \$24,587 in 2007.

### *Impact of Current Economic Situation on the Company.*

The Company was only minimally impacted in 2008 by the global economic slow down. During the Fourth Quarter of 2008, our sales decreased slightly from historic levels. We expect our net consolidated sales in 2009 to decrease approximately 12% to 20% from the amount we achieved in 2008. In light of this expected slow down, we have deferred some of our previous planned capital expenditures and are continuing to carefully manage expenses. We expect continued strong, although somewhat reduced, cash flow from operations for 2009. As of December 31, 2008, we had over \$14 million in cash and cash equivalents as well as approximately \$43.8 million of borrowing capacity available under our current credit facilities.

### *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 booster sand 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.

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

### *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.

### *Discontinued operations*

On January 10, 2006, we sold our option rights to purchase the real estate previously used in a discontinued operation to the property owner for \$2,300. We recorded a pre-tax gain of approximately \$2,197 on this transaction, which was reported as discontinued operations, net of related taxes, in the first quarter of 2006. In December 2006, we sold remaining equipment of those discontinued operations to the company who had previously been leasing that equipment from us. The sale of this equipment resulted in an additional pre-tax gain on discontinued operations of \$228. We reported net of tax income of \$1,497 for the full year 2006 as a result of these two transactions.

### *Income taxes*

Our effective income tax rate decreased to 27.7% in 2008 from 36.5% in 2007. Income tax provisions on the earnings of Nobelclad, Nitro Metall, DYNAenergetics and our German and Luxembourg holding companies have been provided based upon the respective French, Swedish, German 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 effective tax rate on our projected consolidated pre-tax income to range between 30% and 32%.

### *Backlog*

We use backlog as a primary means of measuring the immediate outlook for our 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 \$97,247 at December 31, 2008, from \$100,000 at December 31, 2007. Despite only a small decrease in Explosive Metalworking backlog from December 31, 2007 to December 31, 2008, we are forecasting that our consolidated net sales for fiscal 2009 will decline between 12% and 20% from those reported in fiscal 2008. This anticipated sales decline is attributable to uncertainty associated with current global economic conditions, the slowdown we have already seen in the chemical, petrochemical and hydrometallurgy sectors, and the difficulty in predicting the timing of large orders.

# Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

## Year ended December 31, 2008 compared to Year Ended December 31, 2007

### Net sales

|           | 2008      | 2007      | Change   | Percentage Change |
|-----------|-----------|-----------|----------|-------------------|
| Net sales | \$232,577 | \$165,175 | \$67,402 | 40.8%             |

Net sales for 2008 increased 40.8% to \$232,577 from \$165,175 in 2007. Explosive Metalworking sales increased 25.5% to \$194,999 in 2008 (83.8% of total sales) from \$155,438 in 2007 (94.1% of total sales). The year-to-year increase in worldwide Explosive Metalworking sales is principally attributable to incremental sales from DYNAplat who contributed \$30,763 to 2008 sales as compared to \$4,357 for the period from November 15 through December 31, 2007. Sales from our legacy explosive metalworking businesses increased by 8.7% to \$164,236 in 2008 from \$151,081 in 2007, with this lower than expected increase reflecting slowing growth rates in several of the industries that this business segment serves.

Oilfield Products contributed \$27,833 to sales in 2008 (12.0% of total sales) compared to \$2,545 in 2007 (1.5% of total sales), with 2007 sales reflecting sales for the November 15 through December 31, 2007 time period.

AMK Welding contributed \$9,745 to 2008 sales (4.2% of total sales) versus sales of \$7,192 in 2007 (4.4% of total sales). The 35.5% increase in AMK Welding's sales reflects an increase of more than 60% in ground-based gas turbine sales. Ground power sales, which include a mix of production and development work, comprised more than 80% of AMK's 2008 sales as compared to approximately 66% in 2007. AMK's commercial and military aircraft sales, which represented approximately 15% of 2008 sales and approximately 32% of 2007 sales, decreased by more than 35% in 2008.

### Gross profit

|                                       | 2008     | 2007     | Change   | Percentage Change |
|---------------------------------------|----------|----------|----------|-------------------|
| Gross profit                          | \$70,845 | \$55,007 | \$15,838 | 28.8%             |
| Consolidated gross profit margin rate | 30.5%    | 33.3%    |          |                   |

Gross profit increased by 28.8% to \$70,845 in 2008 from \$55,007 in 2007. Our 2008 consolidated gross profit margin rate decreased to 30.5% from 33.3% in 2007. The gross profit margin for Explosive Metalworking decreased from 33.6% in 2007 to 30.3% in 2008. The gross profit margin for AMK Welding increased to 32.9% in 2008 from 30.8% in 2007, with this improvement being largely attributable to the 35.5% increase in AMK's sales volume as discussed above. Oilfield Products reported a gross margin of 31.9% on 2008 sales of \$27,833 as compared to a gross margin of 26.6% on its 2007 sales of \$2,545. Since 2007 sales covered only the period from November 15 through December 31, 2007, the gross margin reported by Oilfield Products in 2008 is considered more indicative of the going forward gross margin rate for this business.

The decreased year-to-date 2008 gross profit margin rates for Explosive Metalworking relates primarily to a higher proportion of sales by our European divisions in 2008 than in 2007 as a result of the DYNAenergetics acquisition. As mentioned above, DYNAplat contributed \$30,763 and \$4,357 to 2008 and 2007 sales, respectively. Historically, gross margins for our European explosion welding divisions, including those of the DYNAplat division, have generally been lower than those reported by our U.S. division. Sales by our European divisions in 2008 and 2007 represented 42.0% and 27.6%, respectively, of total Explosive Metalworking sales. During 2008 the gross margins that we reported in our quarterly financial statements ranged from a low of 29.4% in the fourth quarter to a high of 31.9% in the third quarter. We expect to see continued fluctuations in our quarterly gross margin rates during 2009 that result from anticipated fluctuations in quarterly sales volume and changes in product mix.

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Due to an expected decline in 2009 sales and resultant less favorable absorption of fixed manufacturing overhead expenses, we currently expect quarterly gross margins for Explosive Metalworking to be in a range of 27% to 29%.

### *General and administrative expenses*

|                                   | 2008      | 2007     | Change   | Percentage Change |
|-----------------------------------|-----------|----------|----------|-------------------|
| General & administrative expenses | \$ 14,256 | \$ 8,049 | \$ 6,207 | 77.1%             |
| Percentage of net sales           | 6.1%      | 4.9%     |          |                   |

General and administrative expenses increased by \$6,207, or 77.1%, to \$14,256 in 2008 from \$8,049 in 2007. Excluding incremental DYNAenergetics' general and administrative expenses of \$4,448 in 2008 and \$338 for the period from November 15 through December 31, 2007, our general and administrative expenses increased by \$2,097. This increase includes an increase of \$1,161 in stock-based compensation expense and an impact of \$467 from annual salary adjustments and staffing changes. As a percentage of net sales, general and administrative expenses increased to 6.1% in 2008 from 4.9% in 2007.

### *Selling expenses*

|                         | 2008      | 2007     | Change   | Percentage Change |
|-------------------------|-----------|----------|----------|-------------------|
| Selling expenses        | \$ 11,155 | \$ 6,875 | \$ 4,280 | 62.3%             |
| Percentage of net sales | 4.8%      | 4.2%     |          |                   |

Selling expenses, which include sales commissions of \$1,515 in 2008 and \$1,692 in 2007, increased by 62.3% to \$11,155 in 2008 from \$6,875 in 2007. Excluding incremental DYNAenergetics' selling expenses of \$3,669 in 2008 and \$527 for the period from November 15 through December 31, 2007, selling expenses increased by \$1,138. This increase reflects an increase in stock-based compensation expense of \$550, an impact of \$380 from annual salary adjustments and staffing changes and an increase in travel expenses of \$344 that were partially offset by a decrease in commissions of \$177. As a percentage of net sales, selling expenses increased to 4.8% in 2008 from 4.2% in 2007.

### *Amortization expenses*

|                                                     | 2008     | 2007     | Change   | Percentage Change |
|-----------------------------------------------------|----------|----------|----------|-------------------|
| Amortization expense of purchased intangible assets | \$ 7,382 | \$ 1,191 | \$ 6,191 | 519.8%            |
| Percentage of net sales                             | 3.2%     | 0.7%     |          |                   |

Amortization expense relates entirely to the amortization of values assigned to intangible assets in connection with the November 15, 2007 acquisition of DYNAenergetics. Amortization expense for 2008 includes \$2,055, \$3,694, \$1,232, and \$401 relating to values assigned to order backlog, customer relationships, core technology, and trademarks/trade names, respectively. Amortization expense for the period from November 15 through December 31, 2007, includes \$526, \$461, \$154, and \$50 relating to values assigned to order backlog, customer relationships, core technology and trademarks/trade names, respectively. Amortization expense for 2009 (as measured in Euros) is expected to approximate 3,620€, a reduction from the 2008 amount of 4,962€ due to the amortization of the acquired order backlog, which was fully amortized during 2008.



# Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

## Operating income

|                  | 2008     | 2007     | Change   | Percentage Change |
|------------------|----------|----------|----------|-------------------|
| Operating income | \$38,052 | \$38,892 | \$ (840) | (2.2)%            |

Income from operations of continuing operations ("Operating Income") decreased by 2.2% to \$38,052 in 2008 from \$38,892 in 2007. Explosive Metalworking reported operating income of \$37,454 in 2008 as compared to \$38,902 in 2007. This 3.7% decrease is largely attributable to the decline in gross margin rates from 33.6% in 2007 to 30.3% in 2008 and increased operating expenses of \$6,839 relating to the acquired DYNAplat business, including an increase of \$3,751 in amortization expense of purchased intangible assets. Operating results of Explosive Metalworking for 2008 and 2007 include \$4,596 and \$845, respectively, of amortization expense of purchased intangible assets.

Oilfield products reported operating income of \$1,472 in 2008 as compared to a loss from operations of \$126 for the period from November 15 through December 31, 2007. Operating results of Oilfield Products for 2008 and 2007 include \$2,786 and \$346, respectively, of amortization expense of purchased intangible assets.

AMK Welding reported operating income of \$2,363 in 2008, an increase of 66.8% from the \$1,417 that it reported in 2007, which increase follows the 35.5% sales increase.

Operating income in 2008 and 2007 includes \$3,237 and \$1,301, respectively, of stock-based compensation expense. This expense is not allocated to our business segments and thus is not included in the above 2008 and 2007 operating income totals for Explosive Metalworking, Oilfield Products, and AMK Welding. Stock-based compensation expense in 2009 is expected to approximate \$3,800.

## Interest income (expense), net

|                                | 2008      | 2007    | Change    | Percentage Change |
|--------------------------------|-----------|---------|-----------|-------------------|
| Interest income (expense), net | \$(4,783) | \$ (24) | \$(4,759) | NM                |

We recorded net interest expense of \$4,783 in 2008 compared to net interest expense of \$24 in 2007. Net interest expense in 2007 reflects interest expense of \$722 offset by interest income of \$698. During the first ten and one-half months of 2007, we were in a positive cash position and earned interest on investment of excess cash balances. In connection with acquisition of DYNAenergetics, we borrowed approximately \$65,000 under our new \$100,000 five-year credit facility, assumed approximately \$12,000 of DYNAenergetics' debt outstanding as of the acquisition date, and used approximately \$16,000 of our existing cash balances to finance the acquisition. As a result of this new indebtedness and a decrease in our cash position, we reported a significant amount of interest expense during the last six weeks of 2007 and throughout 2008.

## Income tax provision

|                      | 2008    | 2007     | Change    | Percentage Change |
|----------------------|---------|----------|-----------|-------------------|
| Income tax provision | \$9,206 | \$14,147 | \$(4,941) | (34.9)%           |
| Effective tax rate   | 27.7%   | 36.5%    |           |                   |

We recorded an income tax provision of \$9,206 in 2008 compared to \$14,147 in 2007. The effective tax rate decreased to 27.7% in 2008 from 36.5% in 2007. The 2008 and 2007 income tax provisions include \$7,656 and \$12,105, respectively, related to U.S. taxes, with the remainder relating to foreign taxes associated with the operations of Nobelclad and its Swedish subsidiary, Nitro Metall, as well as

the newly acquired DYNAenergetics operations. The 2008 effective tax rate of 27.7% represents a significant deviation from the expected full year 2008 effective tax rate of 32% to 33% that was disclosed at the end of the second quarter. The deviation arose primarily from the completion during the third quarter of an Internal Revenue Service examination and from adjustments that were identified during the third quarter 2008 preparation and filing of our 2007 federal and state tax returns. The closure of the Internal Revenue Service examination enabled the Company to record previously unrecognized tax benefits of approximately \$300 (net). The "book-to-return" adjustments favorably impacted the third quarter tax provision by approximately \$1,100 and related primarily to apportionment factors utilized to compute state income taxes. Largely as a result of these third quarter tax provision adjustments, our full year 2008 blended effective tax rate was reduced to 27.7%. Our blended effective tax rate for 2009 is expected to increase to a range from 30% to 32% based on projected pre-tax income.

#### Year ended December 31, 2007 compared to Year Ended December 31, 2006

##### *Net sales*

|           | 2007      | 2006      | Change   | Percentage Change |
|-----------|-----------|-----------|----------|-------------------|
| Net sales | \$165,175 | \$113,472 | \$51,703 | 45.6%             |

Net sales for 2007 increased 45.6% to \$165,175 from \$113,472 in 2006. Explosive Metalworking sales increased 43.4% to \$155,438 in 2007 (94.1% of total sales) from \$108,362 in 2006 (95.5% of total sales). The year-to-year increase in worldwide Explosive Metalworking sales was principally attributable to the improved economic condition of the industries that this business segment serves and also reflected sales of \$4,357 for the period November 15 through December 31, 2007 from the acquisition of DYNAenergetics.

Oilfield Products contributed \$2,545 to 2007 sales (1.5% of total sales) for the November 15 through December 31, 2007 time period.

AMK Welding contributed \$7,192 to 2007 sales (4.4% of total sales) versus sales of \$5,110 in 2006 (4.5% of total sales). The increase in AMK Welding's sales relates principally to increased revenues from H System ground-based gas turbine work.

##### *Gross profit*

|                                       | 2007     | 2006     | Change   | Percentage Change |
|---------------------------------------|----------|----------|----------|-------------------|
| Gross profit                          | \$55,007 | \$42,033 | \$12,974 | 30.9%             |
| Consolidated gross profit margin rate | 33.3%    | 37.0%    |          |                   |

Gross profit increased by 30.9% to \$55,007 in 2007 from \$42,033 in 2006. Our 2007 consolidated gross profit margin rate decreased to 33.3% from 37.0% in 2006. The gross profit margin for Explosive Metalworking decreased from 37.2% in 2006 to 33.6% in 2007. The gross profit margin for AMK Welding decreased to 30.8% in 2007 from 34.9% in 2006. AMK Welding's decreased year to date gross margin rate related to an increase in fixed manufacturing overhead expenses and changes in product mix. The increase in fixed manufacturing overhead expenses at AMK Welding was attributable to the recently completed facility expansion and staffing additions as AMK readies itself for anticipated increases in production levels during 2008. Oilfield Products reported a gross margin of 26.6% on its 2007 sales of \$2,545, which is considered to be within the range of normal for this business.

The decreased year to date gross margin rate for Explosive Metalworking relates primarily to changes in product mix during 2007 as compared to that for 2006. During 2007, the gross margins that

we reported in our quarterly financial statements ranged from a low of 32.3% in the fourth quarter to a high of 35.4% in the second quarter. Gross margins for our European operations, including those of the DYNAPlat division of DYNAenergetics, were generally lower than those reported by our U.S. operation. Inclusion of DYNAPlat's sales and cost of products sold for the period from November 15 through December 31, 2007 lowered Explosive Metalworking gross margins. During 2006, the gross margins that we reported in our quarterly financial statements ranged from a low of 33.4% in the third quarter to a high of 40.7% in the fourth quarter. The high fourth quarter gross margin reflects the impact of favorable margin levels on an \$11,000 contract that shipped during the quarter, which involved complex materials engineering and a tight delivery schedule.

#### *General and administrative expenses*

|                                   | 2007    | 2006    | Change  | Percentage Change |
|-----------------------------------|---------|---------|---------|-------------------|
| General & administrative expenses | \$8,049 | \$5,802 | \$2,247 | 38.7%             |
| Percentage of net sales           | 4.9%    | 5.1%    |         |                   |

General and administrative expenses increased by \$2,247 or 38.7%, to \$8,049 in 2007 from \$5,802 in 2006. This increase in general and administrative expenses edffing changes, an aggregate increase of \$435 in legal, consulting, audit, tax advisory, and investor relations expenses, an increase in stock-based compensation expense of \$395, and \$338 of DYNAenergetics' general and administrative expenses for the period from November 15 through December 31, 2007. As a percentage of net sales, general and administrative expenses decreased to 4.9% in 2007 from 5.1% in 2006.

#### *Selling expenses*

|                         | 2007    | 2006    | Change | Percentage Change |
|-------------------------|---------|---------|--------|-------------------|
| Selling expenses        | \$6,875 | \$6,128 | \$ 747 | 12.2%             |
| Percentage of net sales | 4.2%    | 5.4%    |        |                   |

Selling expenses, which include sales commissions of \$1,692 in 2007 and \$2,528 in 2006, increased by 12.2% to \$6,875 in 2007 from \$6,128 in 2006. The \$836 decrease in sales commissions was primarily attributable to large consulting fees and commissions paid in the fourth quarter of 2006 in connection with an \$11,000 order that shipped during the fourth quarter and which involved complex materials engineering and a tight delivery schedule. After excluding sales commissions, selling expenses increased from \$3,600 in 2006 to \$5,183 in 2007. This increase of \$1,583, or 44.0%, reflected an impact of \$324 from annual salary adjustments and staffing changes, a \$212 increase in accrued incentive compensation expense, an increase in stock-based compensation expense of \$149, and \$527 of DYNAenergetics' selling expenses for the period from November 15 through December 31, 2007. As a percentage of net sales, selling expenses decreased to 4.2% in 2007 from 5.4% in 2006. Excluding sales commissions, selling expenses as a percentage of sales decreased to 3.1% in 2007 from 3.2% in 2006.

#### *Amortization expenses*

|                                                     | 2007    | 2006 | Change  | Percentage Change |
|-----------------------------------------------------|---------|------|---------|-------------------|
| Amortization expense of purchased intangible assets | \$1,191 | \$   | \$1,191 | NA                |
| Percentage of net sales                             | 0.7%    | 0.0% |         |                   |

Amortization expense related entirely to the amortization of values assigned to intangible assets in connection with the November 15, 2007 acquisition of DYNAenergetics. Amortization expense for the

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

period from November 16 through December 31, 2007 included \$526, \$461, \$154 and \$50 relating to values assigned to order backlog, customer relationships, core technology and trademarks/trade names, respectively.

### *Operating income*

|                  | 2007     | 2006     | Change  | Percentage<br>Change |
|------------------|----------|----------|---------|----------------------|
| Operating income | \$38,892 | \$30,103 | \$8,789 | 29.2%                |

Operating income increased by 29.2% to \$38,892 in 2007 from \$30,103 in 2006. Explosive Metalworking reported operating income of \$38,902 in 2007 as compared to \$29,605 in 2006. This 31.4% increase was largely attributable to the 43.4% sales increase discussed above.

Oilfield products reported a loss from operations of \$126 for the period from November 15 through December 31, 2007.

AMK Welding reported operating income of \$1,417 in 2007, an increase of 22.4% from the \$1,158 that it reported in 2006, which increase follows the 40.7% sales increase.

Operating income in 2007 and 2006 includes \$1,301 and \$660, respectively, of stock-based compensation expense. This expense is not allocated to our business segments and thus is not included in the above 2007 and 2006 operating income totals for Explosive Metalworking, Oilfield Products and AMK Welding.

### *Interest income (expense), net*

|                                | 2007   | 2006  | Change  | Percentage<br>Change |
|--------------------------------|--------|-------|---------|----------------------|
| Interest income (expense), net | \$(24) | \$620 | \$(644) | NM                   |

We recorded net interest expense of \$24 in 2007 compared to net interest income of \$620 in 2006. Net interest expense in 2007 reflected interest expense of \$722 offset by interest income of \$698. During the first ten and one-half months of 2007 and throughout 2006, we were in a positive cash position and earned interest on investment of excess cash balances. In connection with acquisition of DYNAenergetics, we borrowed approximately \$65,000 under our new \$100,000 five-year credit facility, assumed approximately \$12,000 of DYNAenergetics' debt outstanding as of the acquisition date, and used approximately \$16,000 of our existing cash balances to finance the acquisition. As a result of this new indebtedness and a decrease in our cash position, we reported a significant amount of interest expense during the last six weeks of 2007.

### *Income tax provision*

|                      | 2007     | 2006     | Change  | Percentage<br>Change |
|----------------------|----------|----------|---------|----------------------|
| Income tax provision | \$14,147 | \$11,341 | \$2,806 | 24.7%                |
| Effective tax rate   | 36.5%    | 37.1%    |         |                      |

We recorded an income tax provision of \$14,147 in 2007 compared to \$11,341 in 2006. The effective tax rate decreased to 36.5% in 2007 from 37.1% in 2006. The 2007 and 2006 income tax provisions included \$12,105 and \$8,167, respectively, related to U.S. taxes, with the remainder relating to foreign taxes associated with the operations of Nobelclad and its Swedish subsidiary, Nitro Metall, as well as the newly acquired DYNAenergetics operations.

*Income from discontinued operations*

|                                     | 2007 | 2006     | Change    | Percentage<br>Change |
|-------------------------------------|------|----------|-----------|----------------------|
| Income from discontinued operations | \$   | \$ 1,497 | \$(1,497) | NA                   |

We completed the divestiture of our Spin Forge division in September 2004. Under the principal divestiture agreement, we sold the assets of the Spin Forge division to a third party, excluding certain equipment and real estate which were leased or subleased to the buyer. We held a purchase option on the Spin Forge real estate that allowed us to purchase the real estate for \$2,880, a price that was below the real estate's appraised value. We completed the sale of the purchase option on the Spin Forge real estate on January 10, 2006. The option rights were sold to the property owner for \$2,300 on January 10, 2006. We recorded a pre-tax gain of approximately \$2,197 on this transaction, which was reported in discontinued operations, net of related taxes. In December 2006, the third party purchaser of the Spin Forge business purchased the majority of the leased equipment while the remainder of the leased assets was liquidated by the Company. These transactions resulted in a pre-tax gain of \$228, which was recorded in discontinued operations, net of related taxes.

**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. Prior to the November 15, 2007 acquisition of DYNAenergetics, we had no outstanding borrowings under our \$10,000 revolving credit facility with a U.S. bank although we did have term debt outstanding of 290 Euros (approximately \$425) under a term loan with a French bank. In connection with the acquisition of DYNAenergetics, we terminated our \$10,000 revolving credit facility and entered into a five-year syndicated credit agreement. The credit agreement, which provides for term loans of \$45,000 and 14,000 Euros and revolving loans of \$25,000 and 7,000 Euros, is through a syndicate of seven banks. The credit facility in the approximate amount of \$100,000 expires on November 16, 2012. As of the acquisition closing date and as of December 31, 2007, term loans of \$45,000 and 14,000 Euros were outstanding under the new credit facility. Additionally, we assumed outstanding debt obligations of DYNAenergetics, including lines of credit loans and term loans in the amounts of \$7,587 and \$3,517, respectively, as of December 31, 2007. As of December 31, 2008, term loans of \$40,500 and 12,600 Euros (\$17,763) were outstanding under the credit facility and \$2,365 was outstanding under term loan obligations of DYNAenergetics. There were no outstanding borrowings under revolving credit or line of credit agreements as of December 31, 2008. We have approximately \$43,800 available for borrowing under these facilities.

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 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

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

specified financial ratios. As of December 31, 2008, we were in compliance with all financial covenants and other provisions of our debt agreements.

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, 2008:

|                                   | Payment Due by Period<br>As of December 31, 2008 |                  |                  |                         | Total           |
|-----------------------------------|--------------------------------------------------|------------------|------------------|-------------------------|-----------------|
|                                   | Less<br>than<br>1 Year                           | 1 - 3<br>Years   | 4 - 5<br>Years   | More<br>than<br>5 Years |                 |
| Total long-debt obligations(1)    | \$ 14,450                                        | \$ 24,138        | \$ 22,040        | \$                      | \$60,628        |
| Interest expense(2)               | 2,993                                            | 4,001            | 986              |                         | 7,980           |
| Capital lease obligations(3)      | 179                                              | 221              | 132              | 24                      | 556             |
| Operating lease obligations(4)    | 934                                              | 1,156            | 478              | 328                     | 2,896           |
| License agreements obligations(5) | 232                                              | 464              | 464              | 1,160                   | 2,320           |
| Purchase obligations(6)           | 23,415                                           |                  |                  |                         | 23,415          |
| <b>Total</b>                      | <b>\$42,203</b>                                  | <b>\$ 29,980</b> | <b>\$ 24,100</b> | <b>\$ 1,512</b>         | <b>\$97,795</b> |

- 
- (1) Amounts represent future cash payments on our debt obligations and are reflected in accompanying Consolidated Balance Sheets.
- (2) Amounts represent future cash payments of interest expense on our debt obligations. December 31, 2008 interest rates assumed for variable rate debt.
- (3) 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.
- (4) The operating lease obligations presented reflect future minimum lease payments due under non-cancelable portions of our leases as of December 31, 2008. Our operating lease obligations are described in Note 9 of the Notes to Consolidated Financial Statements.
- (5) The license agreements obligations presented reflect future minimum payments due under non-cancelable portions of our agreements as of December 31, 2008. Our license agreements obligations are described in Note 9 of the Notes to Consolidated Financial Statements.
- (6) 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.

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 2008 totaled \$34,003. Significant sources of operating cash flow included net income of \$24,068; non-cash depreciation and amortization expense of \$12,192; and stock-based compensation of \$3,237. Deferred income tax benefits of \$2,079 and negative net changes in working capital of \$3,141 partly offset these sources of operating cash flows. Negative cash flows from changes in working capital included increases in prepaid expenses and decreases in accounts payable, customer advances, and accrued expenses and other liabilities of \$2,802; \$6,706; \$1,833; and \$1,143, respectively. These were partly offset by decreases in restricted cash, accounts receivables, and inventories of \$371; \$4,061; and \$4,911, respectively.

Net cash flows provided by operating activities for 2007 totaled \$18,684. Significant sources of operating cash flow included net income of \$24,587; non-cash depreciation and amortization expense of \$3,377; and stock-based compensation of \$1,301. Negative net changes in working capital of \$10,200



partly offset these sources of operating cash flows. Negative cash flows from changes in working capital included increases in accounts receivable and inventories and decreases in accrued expenses and other liabilities of \$9,670; \$6,386; and \$1,072, respectively, which were partly offset by decreases in restricted cash and increases in accounts payable and customer advances of \$3,059; \$1,429; and \$1,916, respectively.

Net cash flows provided by operating activities for 2006 totaled \$16,557. Significant sources of operating cash flow included net income of \$20,764; non-cash depreciation and amortization expense of \$1,419; \$2,115 from provision for deferred income taxes; and stock-based compensation of \$660. Negative net changes in working capital of \$6,904 partly offset these sources of operating cash flows. Negative cash flows from changes in working capital included increases in restricted cash, accounts receivable and inventories of \$3,059; \$5,046; and \$6,424, respectively, which were partly offset by increases in accounts payable and accrued expenses and other liabilities of \$5,509 and \$2,483, respectively.

*Cash flows from investing activities*

Net cash flows used in investing activities for 2008 totaled \$10,464 and consisted primarily of \$9,925 in capital expenditures and \$559 of cash paid for additional acquisition costs in connection with the acquisition of DYNAenergetics.

Net cash flows used in investing activities for 2007 totaled \$90,290 and consisted primarily of \$81,224 of cash paid in connection with the acquisition of DYNAenergetics (net of cash acquired) and \$8,979 in capital expenditures.

Net cash flows used in investing activities for 2006 totaled \$2,745 and consisted primarily of \$8,650 in capital expenditures that were partly offset by \$1,950 from the sale of marketable securities and \$3,665 in cash provided by discontinued operations that related to proceeds from the sale of the Spin Forge real estate purchase option and the sale of the Spin Forge leased assets.

*Cash flows from financing activities*

Net cash flows used in financing activities for 2008 totaled \$17,249. Significant uses of cash for financing activities included repayments of DYNAenergetics' bank lines of credit of \$7,579; \$6,282 for scheduled term loan principal payments under our syndicated credit agreement; payment of annual dividends of \$1,894; \$1,045 in principal payments on our Nord LB term loans; and \$426 on a final principal payment on a term loan with a French bank. Sources of cash flow from financing activities included \$441 in net proceeds from the issuance of common stock relating to the exercise of stock options and \$143 for excess tax benefits related to stock option exercises.

Net cash flows provided by financing activities for 2007 totaled \$62,292 and consisted primarily of \$65,480 borrowed under the syndicated credit agreement to help fund the acquisition of DYNAenergetics. Additional sources of cash flow from financing activities included \$891 in net proceeds from the issuance of common stock relating to the exercise of stock options and \$402 for excess tax benefits related to stock option exercises. These sources of cash flow were partially offset by a payment of annual dividends of \$1,821, a payment of deferred debt issuance costs of \$1,534, principal payment of \$397 on a term loan with a French bank, a \$258 principal payment on a Nord LB term loan and net repayments on bank lines of credit of \$524.

Net cash flows used in financing activities for 2006 totaled \$2,178. Significant uses of cash for financing activities included payment of annual dividends of \$1,766, a \$364 principal payment on a term loan with a French bank, and final principal payments on the industrial development revenue bond in the amount of \$1,720, including \$1,630 that was redeemed in advance of scheduled maturity dates. Sources of cash flow from financing activities included \$585 in net proceeds from the issuance of



common stock relating to the exercise of stock options and \$1,154 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. Interpretation of the existing rules must be done 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, inventory valuation and impact of foreign currency exchange rate risks. 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, the Company 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 accounted for our business acquisition in accordance with the provisions of SFAS No. 141, *Business Combinations*, using the purchase method of accounting. We allocated 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 identified and attributed values and estimated lives to the intangible assets acquired. These determinations involved 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 required considerable judgment. Our estimates and assumptions were 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 based 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*

In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), we test goodwill for impairment on a "reporting unit" level as defined by reference to SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, 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.

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 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 has not resulted in a determination that any of our goodwill is impaired; however, the passing margin of the first step of our goodwill impairment testing relative to the Oilfield Products business segment as of December 31, 2008 was minimal (estimated fair value was less than

10% greater than the carrying value). Future impairment is possible and will occur if (i) the unit's operating results underperform what we have estimated or (ii) additional volatility of the capital markets cause us to raise the 16 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 in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. 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. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

#### *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 account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS 109"), which requires the recognition of 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.

*Stock-Based Compensation Expense*

We account for stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"). Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is estimated at the grant date based on the value of the award and is recognized as expense ratably over the requisite service period of the award. The fair value of restricted stock awards is based on the fair value of the Company's stock on the date of grant. Determining the appropriate fair value model and calculating the fair value of stock options at the grant date requires judgment, including estimating stock price volatility, forfeiture rates, and expected option life.

**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 financial condition and its results of operations and businesses. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will," "continue," "project," and similar expressions, as well as statements in the future tense, identify forward-looking statements.

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.

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

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**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS No. 157 was initially effective for financial statements issued for fiscal years beginning after November 15, 2007. The FASB issued a staff position statement ("FSP") in February 2008 that deferred the required interpretation date of SFAS 157 for certain assets and liabilities. The adoption of SFAS 157 in 2008 did not have a material impact on the Company's results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. This Statement permits entities to measure many financial instruments and certain other items at fair value. This election is made on an instrument-by-instrument basis and is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective for fiscal years beginning after November 15, 2007. The Company did not elect the fair value option for any of its existing financial assets and liabilities in 2008.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements*, an amendment of ARB No. 51. These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS Nos. 141(R) and 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. Thus, we are required to adopt these Standards on January 1, 2009. Earlier adoption is prohibited. SFAS Nos. 141(R) is applicable to business combinations occurring after adoption and therefore, will not impact the current operations. SFAS 160 is effective prospectively, except for certain retrospective disclosure requirements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS 161 requires additional disclosures related to the use of derivative instruments, the accounting for derivatives and how derivatives impact financial statements. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of adopting SFAS No. 161 on our consolidated financial statements.

#### **ITEM 7A. Quantitative and Qualitative Disclosure 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. Through the use of interest rate swaps, we aim to stabilize funding costs by managing the exposure created by the differing maturities and interest rate structures of our assets and liabilities. See Note 5 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 47%, 28%, and 34% of total sales for the years ended 2008, 2007, and 2006, respectively.

**ITEM 8. Financial Statements and Supplementary Data**

**DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**As of December 31, 2008 and 2007 and for Each of the Three Years Ended  
December 31, 2008, 2007 and 2006**

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

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

**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, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of Dynamic Materials Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dynamic Materials Corporation and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Dynamic Materials Corporation's internal control over financial reporting as of December 31, 2008, 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 12, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Denver, Colorado  
March 12, 2009



**DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2008 AND 2007****(Dollars in Thousands)**

|                                                                                              | <b>2008</b>       | <b>2007</b>       |
|----------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                                                                                |                   |                   |
| <b>CURRENT ASSETS:</b>                                                                       |                   |                   |
| Cash and cash equivalents                                                                    | \$ 14,360         | \$ 9,045          |
| Restricted cash                                                                              |                   | 371               |
| Accounts receivable, net of allowance for doubtful accounts of \$614 and \$534, respectively | 34,719            | 39,833            |
| Inventories                                                                                  | 35,300            | 41,628            |
| Prepaid expenses and other                                                                   | 2,956             | 2,022             |
| Related party receivable and loan                                                            | 2,611             | 1,103             |
| Current deferred tax assets                                                                  | 822               | 728               |
| Total current assets                                                                         | 90,768            | 94,730            |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>                                                         | 58,454            | 49,590            |
| Less Accumulated depreciation                                                                | (17,997)          | (14,144)          |
| Property, plant and equipment, net                                                           | 40,457            | 35,446            |
| GOODWILL, net                                                                                | 43,066            | 45,862            |
| PURCHASED INTANGIBLE ASSETS, net                                                             | 52,264            | 61,914            |
| DEFERRED TAX ASSETS                                                                          | 245               | 42                |
| OTHER ASSETS, net                                                                            | 1,449             | 1,544             |
| INVESTMENT IN JOINT VENTURES                                                                 | 970               | 1,361             |
| <b>TOTAL ASSETS</b>                                                                          | <b>\$ 229,219</b> | <b>\$ 240,899</b> |

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

## DYNAMIC MATERIALS CORPORATION &amp; SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2008 AND 2007

(Dollars in Thousands, Except Share Data)

|                                                                                                                                    | 2008              | 2007              |
|------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                        |                   |                   |
| <b>CURRENT LIABILITIES:</b>                                                                                                        |                   |                   |
| Accounts payable                                                                                                                   | \$ 15,402         | \$ 22,590         |
| Accrued expenses                                                                                                                   | 6,324             | 8,566             |
| Accrued income taxes                                                                                                               | 846               | 1,212             |
| Accrued employee compensation and benefits                                                                                         | 5,579             | 5,521             |
| Customer advances                                                                                                                  | 2,685             | 4,593             |
| Related party accounts payable and loans                                                                                           | 17                | 325               |
| Lines of credit - current                                                                                                          |                   | 7,587             |
| Current maturities on long-term debt                                                                                               | 14,450            | 8,035             |
| Current portion of capital lease obligations                                                                                       | 163               | 389               |
| <br>Total current liabilities                                                                                                      | <br>45,466        | <br>58,818        |
| <b>LONG-TERM DEBT</b>                                                                                                              | <b>46,178</b>     | <b>61,530</b>     |
| <b>CAPITAL LEASE OBLIGATIONS</b>                                                                                                   | <b>336</b>        | <b>521</b>        |
| <b>DEFERRED TAX LIABILITIES</b>                                                                                                    | <b>16,986</b>     | <b>20,604</b>     |
| <b>OTHER LONG-TERM LIABILITIES - RELATED PARTY</b>                                                                                 | <b>303</b>        |                   |
| <b>OTHER LONG-TERM LIABILITIES</b>                                                                                                 | <b>1,448</b>      | <b>1,147</b>      |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES</b>                                                                                      |                   |                   |
| <br>Total liabilities                                                                                                              | <br>110,717       | <br>142,620       |
| <b>STOCKHOLDERS' EQUITY:</b>                                                                                                       |                   |                   |
| Preferred stock, \$.05 par value; 4,000,000 shares authorized; no issued and outstanding shares                                    |                   |                   |
| Common stock, \$.05 par value; 25,000,000 shares authorized; 12,780,877 and 12,433,768 shares issued and outstanding, respectively | 639               | 622               |
| Additional paid-in capital                                                                                                         | 42,050            | 38,246            |
| Retained earnings                                                                                                                  | 78,042            | 55,868            |
| Other cumulative comprehensive income (expense)                                                                                    | (2,229)           | 3,543             |
| <br>Total stockholders' equity                                                                                                     | <br>118,502       | <br>98,279        |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                  | <b>\$ 229,219</b> | <b>\$ 240,899</b> |

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

## DYNAMIC MATERIALS CORPORATION &amp; SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Dollars in Thousands, Except Share Data)

|                                                        | 2008       | 2007       | 2006       |
|--------------------------------------------------------|------------|------------|------------|
| NET SALES                                              | \$ 232,577 | \$ 165,175 | \$ 113,472 |
| COST OF PRODUCTS SOLD                                  | 161,732    | 110,168    | 71,439     |
| Gross profit                                           | 70,845     | 55,007     | 42,033     |
| COSTS AND EXPENSES:                                    |            |            |            |
| General and administrative expenses                    | 14,256     | 8,049      | 5,802      |
| Selling expenses                                       | 11,155     | 6,875      | 6,128      |
| Amortization expense of purchased intangible assets    | 7,382      | 1,191      |            |
| Total costs and expenses                               | 32,793     | 16,115     | 11,930     |
| INCOME FROM OPERATIONS OF CONTINUING OPERATIONS        | 38,052     | 38,892     | 30,103     |
| OTHER INCOME (EXPENSE):                                |            |            |            |
| Other expense                                          | (269)      | (158)      | (115)      |
| Interest expense                                       | (5,472)    | (722)      | (84)       |
| Interest income                                        | 642        | 692        | 704        |
| Related party interest income                          | 47         | 6          |            |
| Equity in earnings of joint ventures                   | 274        | 24         |            |
| INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS | 33,274     | 38,734     | 30,608     |
| INCOME TAX PROVISION                                   | 9,206      | 14,147     | 11,341     |
| INCOME FROM CONTINUING OPERATIONS                      | 24,068     | 24,587     | 19,267     |
| INCOME FROM DISCONTINUED OPERATIONS, net of tax        |            |            | 1,497      |
| NET INCOME                                             | \$ 24,068  | \$ 24,587  | \$ 20,764  |
| INCOME PER SHARE BASIC:                                |            |            |            |
| Continuing operations                                  | \$ 1.93    | \$ 2.03    | \$ 1.63    |
| Discontinued operations                                |            |            | 0.12       |
| Net income                                             | \$ 1.93    | \$ 2.03    | \$ 1.75    |
| INCOME PER SHARE DILUTED:                              |            |            |            |
| Continuing operations                                  | \$ 1.91    | \$ 2.00    | \$ 1.58    |
| Discontinued operations                                |            |            | 0.12       |
| Net income                                             | \$ 1.91    | \$ 2.00    | \$ 1.70    |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING          |            |            |            |
| Basic                                                  | 12,445,685 | 12,083,851 | 11,841,373 |
| Diluted                                                | 12,579,598 | 12,293,158 | 12,213,075 |

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

|                                               |    |      |    |      |    |      |
|-----------------------------------------------|----|------|----|------|----|------|
| ANNUAL DIVIDENDS DECLARED PER COMMON<br>SHARE | \$ | 0.15 | \$ | 0.15 | \$ | 0.15 |
|-----------------------------------------------|----|------|----|------|----|------|

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

## DYNAMIC MATERIALS CORPORATION &amp; SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Amounts in Thousands)

|                                                                   | Common Stock |        | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Other<br>Cumulative<br>Comprehensive<br>Income/(loss) | Total     | Comprehensive<br>Income<br>for the Period |
|-------------------------------------------------------------------|--------------|--------|----------------------------------|----------------------|-------------------------------------------------------|-----------|-------------------------------------------|
|                                                                   | Shares       | Amount |                                  |                      |                                                       |           |                                           |
| Balances, December 31, 2005                                       | 11,759       | \$ 588 | \$ 19,778                        | \$ 14,104            | \$ 485                                                | \$ 34,955 |                                           |
| Shares issued for stock option exercises                          | 168          | 8      | 492                              |                      |                                                       | 500       |                                           |
| Restricted stock awards                                           | 52           | 3      | (3)                              |                      |                                                       |           |                                           |
| Shares issued in connection with the employee stock purchase plan | 3            |        | 85                               |                      |                                                       | 85        |                                           |
| Excess tax benefit related to stock options                       |              |        | 1,154                            |                      |                                                       | 1,154     |                                           |
| Stock-based compensation                                          |              |        | 660                              |                      |                                                       | 660       |                                           |
| Dividends paid                                                    |              |        |                                  | (1,766)              |                                                       | (1,766)   |                                           |
| Net income                                                        |              |        |                                  | 20,764               |                                                       | 20,764    | 20,764                                    |
| Change in cumulative foreign currency translation adjustment      |              |        |                                  |                      | 1,228                                                 | 1,228     | 1,228                                     |
| Balances, December 31, 2006                                       | 11,982       | 599    | 22,166                           | 33,102               | 1,713                                                 | 57,580    | 21,992                                    |
| Shares issued for DYNAenergetics acquisition                      | 251          | 13     | 13,496                           |                      |                                                       | 13,509    |                                           |
| Shares issued for stock option exercises                          | 161          | 8      | 738                              |                      |                                                       | 746       |                                           |
| Restricted stock awards                                           | 34           | 2      | (2)                              |                      |                                                       |           |                                           |
| Shares issued in connection with the employee stock purchase plan | 6            |        | 145                              |                      |                                                       | 145       |                                           |
| Excess tax benefit related to stock options                       |              |        | 402                              |                      |                                                       | 402       |                                           |
| Stock-based compensation                                          |              |        | 1,301                            |                      |                                                       | 1,301     |                                           |
| Dividends paid                                                    |              |        |                                  | (1,821)              |                                                       | (1,821)   |                                           |
| Net income                                                        |              |        |                                  | 24,587               |                                                       | 24,587    | 24,587                                    |
| Derivative valuation, net of tax of \$90                          |              |        |                                  |                      | (147)                                                 | (147)     | (147)                                     |
| Change in cumulative foreign currency translation adjustment      |              |        |                                  |                      | 1,977                                                 | 1,977     | 1,977                                     |
| Balances, December 31, 2007                                       | 12,434       | 622    | 38,246                           | 55,868               | 3,543                                                 | 98,279    | 26,417                                    |
| Shares issued for stock option exercises                          | 82           | 4      | 265                              |                      |                                                       | 269       |                                           |
| Restricted stock awards                                           | 257          | 13     | (13)                             |                      |                                                       |           |                                           |
| Shares issued in connection with the employee stock purchase plan | 8            |        | 172                              |                      |                                                       | 172       |                                           |
| Excess tax benefit related to stock options                       |              |        | 143                              |                      |                                                       | 143       |                                           |
| Stock-based compensation                                          |              |        | 3,237                            |                      |                                                       | 3,237     |                                           |
| Dividends paid                                                    |              |        |                                  | (1,894)              |                                                       | (1,894)   |                                           |
| Net income                                                        |              |        |                                  | 24,068               |                                                       | 24,068    | 24,068                                    |
| Derivative valuation, net of tax of \$430                         |              |        |                                  |                      | (739)                                                 | (739)     | (739)                                     |
|                                                                   |              |        |                                  |                      | (5,033)                                               | (5,033)   | (5,033)                                   |

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

Change in cumulative foreign  
currency translation adjustment

|                             |        |    |     |    |        |    |        |    |         |    |         |    |        |
|-----------------------------|--------|----|-----|----|--------|----|--------|----|---------|----|---------|----|--------|
| Balances, December 31, 2008 | 12,781 | \$ | 639 | \$ | 42,050 | \$ | 78,042 | \$ | (2,229) | \$ | 118,502 | \$ | 18,296 |
|-----------------------------|--------|----|-----|----|--------|----|--------|----|---------|----|---------|----|--------|

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

## DYNAMIC MATERIALS CORPORATION &amp; SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Dollars in Thousands)

|                                                                                  | 2008      | 2007      | 2006      |
|----------------------------------------------------------------------------------|-----------|-----------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                     |           |           |           |
| Net income                                                                       | \$ 24,068 | \$ 24,587 | \$ 20,764 |
| Adjustments to reconcile net income to net cash provided by operating activities |           |           |           |
| Income from discontinued operations, net of tax                                  |           |           | (1,497)   |
| Depreciation (including capital lease amortization)                              | 4,531     | 2,156     | 1,369     |
| Amortization of purchased intangible assets                                      | 7,382     | 1,191     |           |
| Amortization of capitalized debt issuance costs                                  | 279       | 30        | 50        |
| Stock-based compensation                                                         | 3,237     | 1,301     | 660       |
| Deferred income tax provision (benefit)                                          | (2,079)   | (357)     | 2,115     |
| Equity in earnings of joint ventures                                             | (274)     | (24)      |           |
| Change in                                                                        |           |           |           |
| Restricted cash                                                                  | 371       | 3,059     | (3,059)   |
| Accounts receivable, net                                                         | 4,061     | (9,670)   | (5,046)   |
| Inventories                                                                      | 4,911     | (6,386)   | (6,424)   |
| Prepaid expenses and other                                                       | (2,802)   | 524       | (459)     |
| Accounts payable                                                                 | (6,706)   | 1,429     | 5,509     |
| Customer advances                                                                | (1,833)   | 1,916     | 92        |
| Accrued expenses and other liabilities                                           | (1,143)   | (1,072)   | 2,483     |
| Net cash provided by operating activities                                        | 34,003    | 18,684    | 16,557    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                     |           |           |           |
| Acquisition of DYNAenergetics, net of cash acquired                              | (559)     | (81,224)  |           |
| Acquisition of property, plant and equipment                                     | (9,925)   | (8,979)   | (8,650)   |
| Sale of marketable securities                                                    |           |           | 1,950     |
| Loan to related party                                                            |           |           | (1,206)   |
| Repayment on loan to related party                                               |           |           | 1,206     |
| Change in other non-current assets                                               | 20        | (87)      | 290       |
| Payment received on other receivables related to discontinued operations         |           |           | 576       |
| Cash flows provided by investing activities of discontinued operations           |           |           | 3,089     |
| Net cash used in investing activities                                            | (10,464)  | (90,290)  | (2,745)   |

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

## DYNAMIC MATERIALS CORPORATION &amp; SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Dollars in Thousands)

|                                                                       | 2008      | 2007      | 2006      |
|-----------------------------------------------------------------------|-----------|-----------|-----------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                          |           |           |           |
| Borrowed under syndicated credit agreement                            |           | 65,480    |           |
| Payment on syndicated credit agreement                                | (6,282)   |           |           |
| Payment on term loan with French bank                                 | (426)     | (397)     | (364)     |
| Payment on Nord LB term loans                                         | (1,045)   | (258)     |           |
| Repayments on bank lines of credit, net                               | (7,579)   | (524)     |           |
| Repayments on related party lines of credit, net                      |           |           | (48)      |
| Payment on industrial development revenue bond                        |           |           | (1,720)   |
| Payment of capital lease obligations                                  | (389)     | (34)      |           |
| Payment of dividends                                                  | (1,894)   | (1,821)   | (1,766)   |
| Payment of deferred debt issuance costs                               | (218)     | (1,534)   |           |
| Change in other long-term liabilities                                 |           | 87        | (19)      |
| Net proceeds from issuance of common stock to employees and directors | 441       | 891       | 585       |
| Excess tax benefit related to exercise of stock options               | 143       | 402       | 1,154     |
| Net cash provided by (used in) financing activities                   | (17,249)  | 62,292    | (2,178)   |
| <b>EFFECTS OF EXCHANGE RATES ON CASH</b>                              | (975)     | 473       | 489       |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>           | 5,315     | (8,841)   | 12,123    |
| CASH AND CASH EQUIVALENTS, beginning of the period                    | 9,045     | 17,886    | 5,763     |
| CASH AND CASH EQUIVALENTS, end of the period                          | \$ 14,360 | \$ 9,045  | \$ 17,886 |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>              |           |           |           |
| Cash paid during the period for                                       |           |           |           |
| Interest                                                              | \$ 5,037  | \$ 454    | \$ 118    |
| Income taxes, net                                                     | \$ 11,838 | \$ 14,960 | \$ 9,066  |
| <b>NON-CASH FINANCING ACTIVITY:</b>                                   |           |           |           |
| Common stock issued for acquisition of DYNAenergetics                 | \$        | \$ 13,509 | \$        |
| Debt assumed in acquisition of DYNAenergetics                         | \$        | \$ 11,833 | \$        |

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



**DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

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

**(1) ORGANIZATION AND BUSINESS**

Dynamic Materials Corporation (the "Company") was incorporated in the state of Colorado in 1971 and reincorporated in the state of Delaware during 1997. The Company is headquartered in Boulder, Colorado and has manufacturing facilities in the United States, Germany, France, and Sweden. Customers are located throughout the world. The Company 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. The Company has four wholly-owned operating subsidiaries, Nobelclad Europe S.A. ("Nobelclad"), Nitro Metall Aktiebolag ("Nitro Metall"), DYNAenergetics, and Dynaplat. DYNAenergetics and Dynaplat were acquired in 2007 as described below. In addition, the Company has three wholly owned holding companies (Dynamic Materials Luxembourg S.ar.l 1, Dynamic Materials Luxembourg S.ar.l 2 and DYNAenergetics Holding GmbH) which were established in connection with the acquisition of DYNAenergetics.

*2007 Acquisition*

On November 15, 2007, the Company and a newly-formed subsidiary, DYNAenergetics Holding GmbH (the "Purchaser"), entered into a Purchase, Sale and Assignment Agreement (the "Purchase Agreement") with Rolf Rospek, Patrick Xylander, Uwe Gessel, and Oag Beteiligungs-GmbH, a German limited liability company (collectively the "Sellers"). Pursuant to the terms of the Purchase Agreement, on November 15, 2007, the Purchaser acquired 100% of the issued and outstanding shares of DYNAenergetics Beteiligungs-GmbH and all of the interests in DYNAenergetics GmbH and Co. KG (collectively, "DYNAenergetics") from the Sellers. The Company's statement of operations include the effect of the DYNAenergetics acquisition from the November 15, 2007, closing date. See Note 3 for additional disclosures regarding this acquisition. Effective January 1, 2008, the explosive metalworking business of DYNAenergetics was transferred into Dynaplat GmbH & Co KG ("Dynaplat"), a newly formed 100% owned operating subsidiary of the Company. DYNAenergetics retains the operations of the DYNAwell business.

*SNPE, Inc. Transactions*

On June 14, 2000, the Company's stockholders approved a Stock Purchase Agreement ("the Agreement") between the Company and SNPE, Inc. ("SNPE"), a wholly owned subsidiary of SNPE S.A. (Groupe SNPE). The closing of the transaction, which was held immediately following stockholder approval, resulted in a payment from SNPE of \$5,800 to the Company in exchange for 4,218,182 shares of the Company's common stock at a price of \$1.375 per share causing SNPE to become a 50.8% stockholder of the Company on the closing date. As of December 31, 2005, SNPE owned 5,926,982 shares or 50.4% of the Company's common stock. On May 15, 2006, in an underwritten public offering, SNPE sold all of its shares of the Company's common stock. Following the sale, four members of the Company's board of directors, each of whom had represented SNPE, resigned from the board. All transaction expenses were paid by SNPE.

**DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2008**

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

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation*

The Consolidated Financial Statements include the accounts of the Company 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 the Company's foreign operations is the applicable local currency for each affiliate company. Assets and liabilities of foreign subsidiaries 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. 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 the Company's 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.

*Cash and Cash Equivalents and Restricted Cash*

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

In September 2007, DYNAenergetics entered into an agreement with Skandifinaz Bank AG in Germany to sell certain accounts receivables to the bank. The agreement, which was terminated in December 2007, provided for a maximum of 4,000 Euros (\$5,892 as of December 31, 2007) in receivables to be sold and required the Company to keep 250 Euros (\$371 as of December 31, 2007) on deposit with the bank as guarantee. Had the bank been unsuccessful in collecting any of the

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

purchased receivables, it had recourse with the Company for up to this 250 Euros held on deposit. Accordingly the 250 Euros held on deposit with the bank was classified as restricted cash as of December 31, 2007. As of December 31, 2008, these receivables have been paid in full.

*Allowance for Doubtful Accounts*

The Company estimates its allowance for doubtful accounts based on historical rates of write-offs of uncollectible receivables and its 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, 2008 and 2007:

|                 | 2008      | 2007      |
|-----------------|-----------|-----------|
| Raw materials   | \$ 11,610 | \$ 13,744 |
| Work-in-process | 18,950    | 23,699    |
| Finished goods  | 3,903     | 3,564     |
| Supplies        | 837       | 621       |
|                 | \$ 35,300 | \$ 41,628 |

Shipping and handling costs incurred by the Company 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. 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 their lease term of the asset) as follows:

|                                             |                  |
|---------------------------------------------|------------------|
| Buildings and improvements                  | 15 -<br>30 years |
| Manufacturing equipment and tooling         | 3 -<br>15 years  |
| Furniture, fixtures, and computer equipment | 3 -<br>10 years  |
| Other                                       | 3 -<br>10 years  |

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment consist of the following at December 31, 2008 and 2007:

|                                            | 2008     | 2007     |
|--------------------------------------------|----------|----------|
| Land                                       | \$ 2,164 | \$ 1,679 |
| Buildings and improvements                 | 17,265   | 17,117   |
| Manufacturing equipment and tooling        | 26,673   | 23,785   |
| Furniture, fixtures and computer equipment | 4,956    | 3,840    |
| Other                                      | 2,658    | 993      |
| Construction in process                    | 4,738    | 2,176    |
|                                            | \$58,454 | \$49,590 |

*Asset Impairments*

The Company reviews its long-lived assets to be held and used by the Company for impairment whenever events or changes in circumstances indicate their carrying amount may not be recoverable. In so doing, the Company estimates 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 held-for-sale, if any, are reported at the lower of carrying amount or fair value less cost to sell.

*Goodwill*

Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses acquired. Under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), goodwill is no longer required to be amortized; however, the carrying value of goodwill must be tested annually for impairment on a reporting unit level. The Company's policy is to test goodwill in the fourth quarter of each year unless circumstances indicate impairment during an intervening period. The Company tests 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. The Company estimates 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 management's 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. Management validates its estimates of fair value under the income approach by comparing the values to fair value estimates using a market approach.

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Management then compares 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, the Company recognizes an impairment loss for the excess.

The Company's impairment testing has not resulted in a determination that any of its goodwill is impaired; however, the passing margin of the first step of the goodwill impairment testing relative to the Oilfield Products business segment as of December 31, 2008 was minimal (estimated fair value was less than 10% greater than the carrying value). Future impairment is possible and will occur if (i) the unit's operating results underperform what the Company has estimated or (ii) additional volatility of the capital markets cause the Company to raise the 16 percent discount rate utilized in its discounted cash flow analysis or decrease the multiples utilized in its market-based analysis.

The use of different estimates or assumptions within the discounted cash flow model when determining the fair value of the Company's 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.

*Purchased Intangible Assets*

The Company accounts for purchased intangible assets which include core technology, customer relationships, order backlog and trademarks/trade names in accordance with SFAS No. 142. Impairment, if any, is calculated based upon management 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 period of the intangible assets by asset category are as follows:

|                          |          |
|--------------------------|----------|
| Core technology          | 20 years |
| Customer relationships   | 9 years  |
| Trademarks / Trade names | 9 years  |
|                          | within   |
| Order backlog Dynaplat   | 1 year   |

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table presents details of intangible assets as of December 31, 2008:

|                          | Gross     | Accumulated<br>Amortization | Net       |
|--------------------------|-----------|-----------------------------|-----------|
| Core technology          | \$ 23,596 | \$ (1,327)                  | \$ 22,269 |
| Customer relationships   | 31,837    | (3,980)                     | 27,857    |
| Trademarks / Trade names | 2,570     | (432)                       | 2,138     |
| Oder backlog Dynaplat    | 2,396     | (2,396)                     |           |
| Total intangible assets  | \$ 60,399 | \$ (8,135)                  | \$ 52,264 |

The following table presents details of intangible assets as of December 31, 2007:

|                          | Gross     | Accumulated<br>Amortization | Net       |
|--------------------------|-----------|-----------------------------|-----------|
| Core technology          | \$ 24,653 | \$ (154)                    | \$ 24,499 |
| Customer relationships   | 33,263    | (461)                       | 32,802    |
| Trademarks / Trade names | 2,685     | (50)                        | 2,635     |
| Oder backlog Dynaplat    | 2,504     | (526)                       | 1,978     |
| Total intangible assets  | \$ 63,105 | \$ (1,191)                  | \$ 61,914 |

The decrease in the gross value of our purchased intangible assets from December 31, 2007, to December 31, 2008 is due to the impact of foreign currency translation.

Expected future amortization of intangible assets is as follows:

| For the years ended December 31 |           |
|---------------------------------|-----------|
| 2009                            | \$ 5,102  |
| 2010                            | 5,079     |
| 2011                            | 4,920     |
| 2012                            | 4,920     |
| 2013                            | 4,920     |
| Thereafter                      | 27,323    |
|                                 | \$ 52,264 |

*Other Assets*

Included in other assets are net deferred debt issuance costs of \$1,360 and \$1,498 as of December 31, 2008 and 2007, respectively, which relate to the new syndicated credit agreement the Company entered into for the acquisition of DYNAenergetics. These costs are being amortized over a five-year period which is the term of the syndicated credit agreement.

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Customer Advances*

On occasion, the Company requires customers to make advance payments prior to the shipment of their orders in order to keep customers' credit at acceptable levels. As of December 31, 2008 and 2007, customer advances totaled \$2,685 and \$4,593, 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 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, the Company will account for such anticipated loss.

*Net Income Per Share*

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted EPS recognizes the potential dilutive effects of dilutive securities. The following represents a reconciliation of the numerator and denominator used in the calculation of basic and diluted EPS:

|                                                     | For the year ended<br>December 31, 2008 |            | Per<br>share<br>Amount |
|-----------------------------------------------------|-----------------------------------------|------------|------------------------|
|                                                     | Income                                  | Shares     |                        |
| Basic earnings per share:                           |                                         |            |                        |
| Net income                                          | \$24,068                                | 12,445,685 | \$ 1.93                |
| Dilutive effect of options to purchase common stock |                                         | 108,717    |                        |
| Dilutive effect of restricted stock awards          |                                         | 25,196     |                        |
| Diluted earnings per share:                         |                                         |            |                        |
| Net income                                          | \$24,068                                | 12,579,598 | \$ 1.91                |

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

|                                                     | For the year ended<br>December 31, 2007 |            |                        |
|-----------------------------------------------------|-----------------------------------------|------------|------------------------|
|                                                     | Income                                  | Shares     | Per<br>share<br>Amount |
| Basic earnings per share:                           |                                         |            |                        |
| Net income                                          | \$24,587                                | 12,083,851 | \$ 2.03                |
| Dilutive effect of options to purchase common stock |                                         | 189,284    |                        |
| Dilutive effect of restricted stock awards          |                                         | 20,023     |                        |
| Diluted earnings per share:                         |                                         |            |                        |
| Net income                                          | \$24,587                                | 12,293,158 | \$ 2.00                |

|                                                     | For the year ended<br>December 31, 2006 |            |                        |
|-----------------------------------------------------|-----------------------------------------|------------|------------------------|
|                                                     | Income                                  | Shares     | Per<br>share<br>Amount |
| Basic earnings per share:                           |                                         |            |                        |
| Net income                                          | \$20,764                                | 11,841,373 | \$ 1.75                |
| Dilutive effect of options to purchase common stock |                                         | 371,408    |                        |
| Dilutive effect of restricted stock awards          |                                         | 294        |                        |
| Diluted earnings per share:                         |                                         |            |                        |
| Net income                                          | \$20,764                                | 12,213,075 | \$ 1.70                |

*Derivative Financial Instruments*

The Company uses interest rate swap agreements to manage its interest rate risk on significant portions of its variable rate term loan debt. The Company's accounting method for its interest rate swap agreements involves designating the derivative arrangement as a hedge in accordance with accounting principals 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 the Company's policy to execute such arrangements with creditworthy banks.

On November 15, 2007, the Company entered into an interest rate swap agreement that effectively converted the LIBOR based variable rate borrowings under the \$45,000 term loan to a fixed rate of 6.34%. The Company had designated the swap agreement as an effective cash flow hedge with matched terms in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, 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. As of December 31, 2007, the fair value of the swap agreement was a liability of \$147, net of tax of \$90. The swap agreement expired



on November 16, 2008.

**DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2008**

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

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

On November 17, 2008, the Company entered into a new two-year interest rate swap agreement. Similar to the interest rate swap agreement described above, this new agreement effectively converts the LIBOR based variable rate US borrowings to a fixed rate of 4.87% and the Company has designated this new swap agreement as an effective cash flow hedge with matched terms in accordance with SFAS No. 133. As of December 31, 2008, the fair value of the swap agreement was a liability of \$886, net of tax of \$520.

*Fair Value of Financial Instruments*

The carrying values of cash and cash equivalents, trade accounts receivable and payable, accrued expenses, and notes receivable are considered to approximate fair value due to the short-term nature of these instruments. We estimate that a hypothetical 200 basis point increase in our LIBOR/EURIBOR basis borrowing spread would decrease the fair value of our long-term debt by less than 5%. The majority of the Company's debt was incurred in connection with the recent acquisition of DYNAenergetics.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). Although this statement does not require any new fair value measurements, in certain cases its application has changed previous practice in determining fair value. SFAS 157 became effective for the Company beginning January 1, 2008 as it relates to fair value measurements of financial assets and liabilities and non-financial assets and liabilities that are recognized at fair value in its financial statements on a recurring basis (at least annually). It will be effective beginning January 1, 2009 for certain other non-financial assets and non-financial liabilities.

SFAS 157 defines fair value 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. It establishes a 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.

SFAS 157 assigns the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As discussed above, the Company uses interest rate swap agreements to mitigate interest rate risk on portions of its variable rate term loan debt. These swap agreements are not exchange listed and are therefore valued with models that use Level 2 inputs. The degree to which the Company's credit worthiness impacts the value does require some management judgment but as of December 31, 2008, the impact of this assessment on the overall value of the outstanding interest rate swap was not significant and the Company's valuation of the agreement is classified within Level 2 of the hierarchy.

*Income Taxes*

The Company recognizes 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. The Company recognizes 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*

In 2006 Nobelclad purchased explosives used in its cladding operation from Nobel Explosifs France. Nobel Explosifs France was a wholly owned subsidiary of Groupe SNPE, the parent company of SNPE who was the Company's former majority stockholder. For the period ended May 15, 2006 (the date SNPE sold its shares of the Company), these purchases totaled \$406.

The Company also has related party transactions with its unconsolidated joint ventures, as well as with the minority shareholder of one of its consolidated joint ventures. A summary of related party balances as of December 31, 2008 and 2007 is summarized below:

|                           | As of December 31, 2008                       |                                            |                                 | As of December 31, 2007                       |                                            |
|---------------------------|-----------------------------------------------|--------------------------------------------|---------------------------------|-----------------------------------------------|--------------------------------------------|
|                           | Accounts<br>receivable<br>from<br>and loan to | Accounts<br>payable to<br>and loan<br>from | Other<br>long-term<br>loan from | Accounts<br>receivable<br>from<br>and loan to | Accounts<br>payable to<br>and loan<br>from |
| Perfoline                 | \$ 449                                        | \$ 17                                      | \$                              | \$ 523                                        | \$ 120                                     |
| DYNAenergetics RUS        | 1,582                                         |                                            |                                 | 449                                           |                                            |
| KazDYNAenergetics         |                                               |                                            |                                 | 131                                           |                                            |
| Minority Interest Partner | 580                                           |                                            | 303                             |                                               | 205                                        |
| <b>Total</b>              | <b>\$ 2,611</b>                               | <b>\$ 17</b>                               | <b>\$ 303</b>                   | <b>\$ 1,103</b>                               | <b>\$ 325</b>                              |

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of those transactions for 2008 and for the period of November 16, 2007 through December 31, 2007 is summarized below:

|                           | 2008     |                      | 2007     |                      |
|---------------------------|----------|----------------------|----------|----------------------|
|                           | Sales to | Interest income from | Sales to | Interest income from |
| Perfoline                 | \$ 166   | \$ 47                | \$       | \$ 6                 |
| DYNAenergetics RUS        | 3,453    |                      | 445      |                      |
| KazDYNAenergetics         |          |                      | 58       |                      |
| Minority Interest Partner | 2,728    |                      | 176      |                      |
| Total                     | \$6,347  | \$ 47                | \$ 679   | \$ 6                 |

*Concentration of Credit Risk*

Financial instruments, which potentially subject the Company to a concentration of credit risk, consist primarily of cash, restricted cash, cash equivalents, and accounts receivable. Generally, the Company does not require collateral to secure receivables. At December 31, 2008, the Company has no significant financial instruments with off-balance sheet risk of accounting losses, such as options contracts or other foreign currency hedging arrangements.

*Other Cumulative Comprehensive Income*

Other cumulative comprehensive income (loss) as of December 31, 2008, 2007, and 2006 consisted of the following:

|                                                                                          | 2008      | 2007    | 2006    |
|------------------------------------------------------------------------------------------|-----------|---------|---------|
| Currency translation adjustment                                                          | \$(1,343) | \$3,690 | \$1,713 |
| Interest rate swap valuation adjustment, net of tax of \$520, \$90 and \$0, respectively | (886)     | (147)   |         |
|                                                                                          | \$(2,229) | \$3,543 | \$1,713 |

*Recent Accounting Pronouncements*

In September 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS No. 157 was initially effective for financial statements issued for fiscal years beginning after November 15, 2007. The FASB issued a staff position statement ("FSP") in February 2008 that deferred the required interpretation date of SFAS 157 for certain assets and liabilities. The adoption by the Company of SFAS 157 in 2008 did not have a material impact on the Company's results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. This Statement permits

**DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2008**

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

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

entities to measure many financial instruments and certain other items at fair value. This election is made on an instrument-by-instrument basis and is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective for fiscal years beginning after November 15, 2007. The Company did not elect the fair value option for any of its existing financial assets and liabilities in 2008.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements*, an amendment of ARB No. 51. These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS Nos. 141(R) and 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. Thus, we are required to adopt these Standards on January 1, 2009. Earlier adoption is prohibited. SFAS Nos. 141(R) is applicable to business combinations occurring after adoption and therefore, will not impact the current operations. SFAS 160 is effective prospectively, except for certain retrospective disclosure requirements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS 161 requires additional disclosures related to the use of derivative instruments, the accounting for derivatives and how derivatives impact financial statements. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of adopting SFAS No. 161 on our consolidated financial statements.

*Reclassifications*

Certain prior year balances in the consolidated financial statements and notes have been reclassified to conform to the 2008 presentation.

**(3) ACQUISITION**

As discussed in Note 1, the Company completed its acquisition of DYNAenergetics on November 15, 2007. From the date of acquisition through December 31, 2007, DYNAenergetics manufactured clad metal plates and various explosives-related oilfield products and operated under two business segments: Explosive Metalworking and Oilfield Products. Effective January 1, 2008, the Company split off the Explosive Metalworking business of DYNAenergetics into its newly formed subsidiary, Dynaplat. DYNAenergetics retains the Oilfield Products business. The acquisition enhances the Company's ability to address growing worldwide demand for clad metal plates and expands the Company's position in the global explosion welding market. The addition of the Oilfield Products business segment augments the Company's involvement in specialized explosive manufacturing processes and position the Company within the growing international oil and gas services industry.

As part of the Oilfield Products business segment, the Company has several joint ventures, some of which are unconsolidated and accounted for under the equity method (see Note 4).

The acquisition was valued at \$112,703 and was financed by (i) the payment of \$81,783 in cash, net of cash acquired of \$1,870 and transaction related taxes of \$3,708 (2,530 Euros) due from one of the

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (3) ACQUISITION (Continued)

sellers and withheld by the Purchaser, (ii) the issuance of 251,041 shares of common stock of the Company (valued at \$13,509), and (iii) the assumption of approximately \$11,833 (8,074 Euros) of DYNAenergetics debt. The cash portion of the purchase price was financed using proceeds from the new syndicated credit agreement (see Note 5) and existing available cash.

The purchase price of the acquisition was allocated to the Company's tangible and identifiable intangible assets based on their fair values as determined by appraisals performed as of the acquisition date. The excess of the purchase price over the tangible and identifiable intangible assets was recorded as goodwill. The allocation of the purchase price to the assets and liabilities of DYNAenergetics was as follows:

|                                   |                   |
|-----------------------------------|-------------------|
| Current assets                    | \$ 30,222         |
| Property, plant and equipment     | 8,139             |
| Intangible assets                 | 62,794            |
| Goodwill                          | 45,360            |
| Investment in joint ventures      | 1,324             |
| Other assets                      | 11                |
| <b>Total assets acquired</b>      | <b>147,850</b>    |
| Current liabilities               | 14,524            |
| Long term debt                    | 11,833            |
| Deferred tax liabilities          | 19,520            |
| Other long term liabilities       | 1,096             |
| Minority interest                 | 10                |
| <b>Total liabilities acquired</b> | <b>46,983</b>     |
| <b>Net assets acquired</b>        | <b>\$ 100,867</b> |

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

|                                | <b>Value</b>     | <b>Weighted<br/>Average<br/>Amortization<br/>Period</b> |
|--------------------------------|------------------|---------------------------------------------------------|
| Core technology                | \$ 24,531        | 20 years                                                |
| Customer relationships         | 33,099           | 9 years                                                 |
| Trademarks / Trade names       | 2,672            | 9 years                                                 |
| Order backlog Dynaplat         | 2,492            | Within<br>1 year                                        |
| <b>Total intangible assets</b> | <b>\$ 62,794</b> |                                                         |

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

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (3) ACQUISITION (Continued)

The Company acquired Goodwill in the amount of \$45,360 as a result of the acquisition of DYNAenergetics. The amount of goodwill assigned to each reportable segment is as follows:

|                        | Value           |
|------------------------|-----------------|
| Explosive Metalworking | \$25,187        |
| Oilfield Products      | 20,173          |
| <b>Total goodwill</b>  | <b>\$45,360</b> |

Goodwill as of December 31, 2008 amounts to \$43,066; and the change from December 31, 2007, reflects the impact of foreign currency translation and subsequent purchase price adjustments resulting from the compilation of additional acquisition related expenses.

The following table presents the pro-forma combined results of operations assuming (i) the acquisition had occurred on January 1, 2007; (ii) pro-forma amortization expense of the purchased intangible assets; and (iii) pro-forma interest expense assuming the Company utilized its syndicated credit agreement to finance the acquisition:

|                                                 | For the year ended<br>December 31,<br>2007      2006<br>(Unaudited) |            |
|-------------------------------------------------|---------------------------------------------------------------------|------------|
| Net sales                                       | \$ 222,004                                                          | \$ 152,299 |
| Income from operations of continuing operations | \$ 43,229                                                           | \$ 30,054  |
| Net income                                      | \$ 24,676                                                           | \$ 16,385  |
| Net income per share:                           |                                                                     |            |
| Basic                                           | \$ 2.01                                                             | \$ 1.35    |
| Diluted                                         | \$ 1.97                                                             | \$ 1.31    |

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

Operating results include the Company's proportionate share of income from unconsolidated joint ventures, accounted for under the equity method. These investments (all of which resulted from the acquisition of DYNAenergetics and pertain to the Company's Oilfield Products business segment) include the following: (1) 65.19% interest in Perfoline, which is a Russian manufacturer of perforating gun systems and (2) 55% interest in DYNAenergetics RUS which is a Russian trading company that sells the Company's oilfield products. Due to certain minority interest veto rights that allow the minority interest shareholders to participate in ordinary course of business decisions, these joint ventures have been accounted for under the equity method instead of being consolidated in these

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (4) INVESTMENT IN JOINT VENTURES (Continued)

financial statements. Investments in these joint ventures totaled \$970 and \$1,361 as of December 31, 2008 and 2007.

Summarized unaudited financial information for the joint ventures accounted for under the equity method as of December 31, 2008 and 2007 and for the year 2008 and the period from November 15, 2007 through December 31, 2007 is as follows:

|                                     | December 31,<br>2008 | December 31,<br>2007 |
|-------------------------------------|----------------------|----------------------|
| Current assets                      | \$ 4,667             | \$ 4,148             |
| Noncurrent assets                   | 714                  | 666                  |
| <b>Total assets</b>                 | <b>\$ 5,381</b>      | <b>\$ 4,814</b>      |
| Current liabilities                 | \$ 2,064             | \$ 1,400             |
| Noncurrent liabilities              | 830                  | 1,048                |
| Equity                              | 2,487                | 2,366                |
| <b>Total liabilities and equity</b> | <b>\$ 5,381</b>      | <b>\$ 4,814</b>      |

|                                      | 2008    | 2007    |
|--------------------------------------|---------|---------|
| Net sales                            | \$8,535 | \$1,377 |
| Operating income                     | \$1,154 | \$ 199  |
| Net income                           | \$ 606  | \$ 135  |
| Equity in earnings of joint ventures | \$ 274  | \$ 24   |

## (5) DEBT

Lines of credit consist of the following at December 31, 2008 and 2007:

|                                        | 2008      | 2007      |
|----------------------------------------|-----------|-----------|
| Commerzbank revolving line of credit   | \$        | \$ 3,225  |
| Commerzbank line of credit             |           | 1,473     |
| Deutsche Bank revolving line of credit |           | 680       |
| Nord LB line of credit                 |           | 2,209     |
|                                        |           | 7,587     |
| Less current portion                   |           | (7,587)   |
| <b>Long-term lines of credit</b>       | <b>\$</b> | <b>\$</b> |





## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (5) DEBT (Continued)

Long-term debt consists of the following at December 31, 2008 and 2007:

|                                            | 2008      | 2007      |
|--------------------------------------------|-----------|-----------|
| Syndicated credit agreement term loan      | \$ 40,500 | \$ 45,000 |
| Syndicated credit agreement Euro term loan | 17,763    | 20,621    |
| Euro term loan French bank                 |           | 427       |
| Nord LB 3,000 Euro term loan               | 2,326     | 3,314     |
| Nord LB 500 Euro term loan                 | 39        | 203       |
|                                            | 60,628    | 69,565    |
| Less current maturities                    | (14,450)  | (8,035)   |
| Long-term debt                             | \$ 46,178 | \$ 61,530 |

*Lines of Credit with German Banks*

In connection with its November 15, 2007 acquisition of DYNAenergetics, the Company assumed four lines of credit with three German banks. These lines of credit provided a total borrowing capacity of 7,500 Euros and were also used by the Company to issue bank guarantees to its customers to secure advance payments made by them. During 2008, two of these lines of credit (with a total borrowing capacity of 1,500 Euros) expired. The remaining two lines of credit had no outstanding borrowings as of December 31, 2008. As of December 31, 2008, Bank guarantees secured by the lines of credit totaled 463 Euros (\$653 based upon the December 31, 2008 exchange rate). The remaining two lines of credit, which each have a borrowing capacity of 3,000 Euros, bear interest at EURIBOR based variable rates with a weighted average interest rate at December 31, 2008 of 5.37%. One of the lines of credit has open-ended terms but can be cancelled by the bank at any time while the other one expires on June 30, 2009.

*Swedish Bank Line of Credit*

The Company maintains a 4,000 Swedish Krona line of credit (\$516 based upon the December 31, 2008 exchange rate) with a Swedish bank for its Nitro Metall operations. As of December 31, 2008 and 2007, there were no outstanding borrowings under this line of credit. Borrowings under the line of credit are secured by real estate used in Nitro Metall's operations. This line of credit carries an interest rate equal to the basic rate stipulated by the Central Bank of Sweden ("Repo Rate"), which was 2.0% as of December 31, 2008. Consistent with previous years, the line of credit expired on December 31, 2008, and was renewed on January 1, 2009, for an additional one year term.

*Syndicated Credit Agreement*

In connection with the acquisition of DYNAenergetics, the Company entered into a five-year syndicated credit agreement on November 15, 2007. The credit agreement, which provides for term loans of \$45,000 and 14,000 Euros and revolving loans of \$25,000 and 7,000 Euros, is through a syndicate of seven banks, with JP Morgan Chase Bank, N.A. acting as administrative agent for the U.S. Dollar loans and JP Morgan Europe Ltd. acting as administrative agent for the Euro loans. The credit facility expires on November 16, 2012.

**DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2008**

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

**(5) DEBT (Continued)**

**U.S. Dollar Loans:** At the Company's option, borrowings under the \$45,000 term loan and the \$25,000 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 LIBOR loans. ABR loans bear interest at the defined ABR rate plus .25% (at the Company's current leverage ratio) and LIBOR loans bear interest at the applicable LIBOR rate plus 1.75% (at the Company's current leverage ratio). As of December 31, 2008, all borrowings under the \$45,000 term loan are set with the one month LIBOR option bearing interest at an all-in rate of 4.47%. The \$45,000 term loan requires annual minimum principal payments beginning with \$4,500 paid on November 16, 2008, and ending with \$18,000 due on November 16, 2012. As of December 31, 2008, there were no borrowings under the \$25,000 revolving loan.

**Euro Loans:** At the Company's option, borrowings under the 14,000 Euro term loan and 7,000 Euro revolving loan can be based on one, two, three, or six month EURIBOR rates and bear interest at the applicable EURIBOR rate plus 1.75% (at the Company's current leverage ratio). As of December 31, 2008, the borrowings under the Euro term loan are based on the three month EURIBOR option bearing interest at an all-in rate of 5.651%. The Euro term loan requires annual minimum principal payments beginning with 1,400 Euros paid on November 16, 2008 with a final payment of 5,600 Euros due on November 16, 2012. As of December 31, 2008, there were no borrowings under the 7,000 Euro revolving loan.

The \$45,000 and 14,000 Euro term loans are both subject to additional formula-based annual principal payments if certain excess cash flow measures are met. As of December 31, 2008, the Company has classified \$3,854 as current in accordance with this provision of the agreement.

The syndicated credit facility is secured by the assets of the Company including accounts receivable, inventory, and fixed assets.

*Term Loan French Bank*

In June 2001, Nobelclad obtained a term loan from a French bank that provided for borrowings of 1,448 Euros which was paid in full in June 2008.

*Nord LB Euro Term Loans*

In connection with its November 15, 2007, acquisition of DYNAenergetics, the Company assumed two Euro term loans with Nord LB. The first is a 3,000 Euro (\$4,229 based on the December 31, 2008 exchange rate) term loan that DYNAenergetics obtained in September 2006. This loan, which bears interest at a fixed rate of 5.375%, requires quarterly principal payments of 150 Euros (\$211 based on the December 31, 2008 exchange rate) plus interest and matures with the final payment in September 2011. Borrowings outstanding under this term loan agreement totaled \$2,326 as of December 31, 2008. DYNAenergetics obtained a second term loan from Nord LB for 500 Euros (\$705 based on the December 31, 2008 exchange rate) in February 2003. The term loan bears interest at a fixed rate of 5.57% and requires quarterly principal and interest payments of 29 Euros (\$41 based on the December 31, 2008 exchange rate) through February 2009. Borrowings outstanding under this term loan agreement totaled \$39 as of December 31, 2008.

**DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2008**

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

**(5) DEBT (Continued)**

*Loan Covenants and Restrictions*

The Company's 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. As of December 31, 2008, the Company was in compliance with all financial covenants and other provisions of its debt agreements.

*Scheduled Debt Maturity*

The Company's debt matures as follows:

| Year ended December 31 |          |
|------------------------|----------|
| 2009                   | 14,450   |
| 2010                   | 10,556   |
| 2011                   | 13,582   |
| 2012                   | 22,040   |
|                        | \$60,628 |

**(6) STOCK OWNERSHIP AND BENEFIT PLANS**

Through its 1997 Equity Incentive Plan ("1997 Plan"), the Company had provided for grants of both incentive stock options and non-statutory stock options. On September 21, 2006, the Company's stockholders approved, and the Company 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, 2008, the only awards granted under the 2006 Plan were 345,750 shares of restricted stock leaving 596,750 shares available for future grant.

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (6) STOCK OWNERSHIP AND BENEFIT PLANS (Continued)

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

|                                                       | 2008     | 2007     | 2006    |
|-------------------------------------------------------|----------|----------|---------|
| Cost of products sold                                 | \$ 393   | \$ 168   | \$ 71   |
| General and administrative expense                    | 2,049    | 888      | 493     |
| Selling expense                                       | 795      | 245      | 96      |
| Stock-based compensation expense before income taxes  | 3,237    | 1,301    | 660     |
| Income tax benefit                                    | (1,213)  | (232)    | (148)   |
| Stock-based compensation expense, net of income taxes | \$ 2,024 | \$ 1,069 | \$ 512  |
| Earnings per share impact:                            |          |          |         |
| Basic net income                                      | \$ 0.16  | \$ 0.09  | \$ 0.04 |
| Diluted net income                                    | \$ 0.16  | \$ 0.09  | \$ 0.04 |

The Company's stock-based compensation expense results from stock option grants, restricted stock awards and stock issued under the Employee Stock Purchase Plan.

**Stock Options:** Under the 1997 Plan, 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 the Company'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. These options vested over periods ranging from one to four years and had expiration dates ten years from the date of grant. As of December 31, 2008, no options have been granted under the 2006 Plan.

The fair value for the single option award granted since January 1, 2006 was estimated on the date of grant using a Black-Scholes option-pricing model with the following assumptions: a risk free interest rate of 4.35%; an expected volatility factor of 86.6%; an expected dividend yield of .375%; and an expected life of 4 years. The computation of expected volatility was based on historical volatility from the previous four years, based on the current expected life of outstanding options. The computation of expected life was based on historical exercise patterns. The interest rate for periods within the contractual life of the award was based on the U.S. Treasury yield curve in effect at the time of grant. The fair value of the option granted during the year ended December 31, 2006 was \$22.30. Each grant is valued as a single award, and compensation expense is recognized on a straight-line basis over the vesting period.

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (6) STOCK OWNERSHIP AND BENEFIT PLANS (Continued)

A summary of stock option activity for the years ended December 31, 2008, 2007, and 2006 is as follows:

|                                  | Options   | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|-----------|------------------------------------------|---------------------------------------------------------|---------------------------------|
| Balance at December 31, 2005     | 588,426   | \$ 4.77                                  |                                                         |                                 |
| Granted                          | 20,000    | 35.21                                    |                                                         |                                 |
| Exercised                        | (167,400) | 2.99                                     |                                                         |                                 |
| Cancelled                        | (74,426)  | 12.08                                    |                                                         |                                 |
| Balance at December 31, 2006     | 366,600   | \$ 5.76                                  |                                                         |                                 |
| Granted                          |           |                                          |                                                         |                                 |
| Exercised                        | (160,600) | 4.65                                     |                                                         |                                 |
| Cancelled                        | (15,000)  | 35.21                                    |                                                         |                                 |
| Balance at December 31, 2007     | 191,000   | \$ 4.39                                  |                                                         |                                 |
| Granted                          |           |                                          |                                                         |                                 |
| Exercised                        | (82,250)  | 3.27                                     |                                                         |                                 |
| Cancelled                        | (3,000)   | 4.87                                     |                                                         |                                 |
| Balance at December 31, 2008     | 105,750   | \$ 5.24                                  | 5.49                                                    | \$ 1,501                        |
| Exercisable at December 31, 2008 | 63,750    | \$ 5.49                                  | 5.38                                                    | \$ 894                          |

The intrinsic value of options exercised for the years ended December 31, 2008, 2007, and 2006 was \$2,628, \$5,220 and \$5,141, respectively. As of December 31, 2008, there was \$8 of total unrecognized stock-based compensation cost related to unvested stock options. The cost is expected to be recognized over a weighted average period of 0.06 years.

The following table summarizes information about employee stock options outstanding and exercisable at December 31, 2008:

| Range of Exercise Prices | Options Outstanding                                               |                                                                     |                                          | Options Exercisable                                 |                                          |
|--------------------------|-------------------------------------------------------------------|---------------------------------------------------------------------|------------------------------------------|-----------------------------------------------------|------------------------------------------|
|                          | Number of<br>Options<br>Outstanding<br>at<br>December 31,<br>2008 | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>in Years | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable<br>at<br>December 31,<br>2008 | Weighted<br>Average<br>Exercise<br>Price |
| \$1.13 - \$1.42          | 13,000                                                            | 3.93                                                                | \$ 1.18                                  | 13,000                                              | \$ 1.18                                  |
| \$1.48 - \$1.68          | 21,250                                                            | 5.14                                                                | \$ 1.56                                  | 21,250                                              | \$ 1.56                                  |
| \$4.87 - \$4.87          | 61,500                                                            | 5.78                                                                | \$ 4.87                                  | 19,500                                              | \$ 4.87                                  |
| \$20.62 - \$20.62        | 10,000                                                            | 6.42                                                                | \$ 20.62                                 | 10,000                                              | \$ 20.62                                 |
|                          | 105,750                                                           | 5.49                                                                | \$ 5.24                                  | 63,750                                              | \$ 5.49                                  |

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (6) STOCK OWNERSHIP AND BENEFIT PLANS (Continued)

Restricted Stock Awards: Restricted stock granted to the executive officers and employees of the Company vests in one-third increments on the first, second, and third anniversary of the grant. Restricted stock granted to directors of the Company vests on the first anniversary of the date of grant. The fair value of the restricted stock awards is based on the fair value of the Company's stock on the date of grant and is amortized to compensation expense over the vesting period on a straight line basis.

A summary of the activity of our nonvested shares of restricted stock for the years ended December 31, 2008, 2007, and 2006 was as follows:

|                              | Shares   | Weighted<br>Average<br>Grant Date<br>Fair Value |
|------------------------------|----------|-------------------------------------------------|
| Balance at December 31, 2005 |          | \$                                              |
| Granted                      | 52,250   | 33.27                                           |
| Balance at December 31, 2006 | 52,250   | \$ 33.27                                        |
| Granted                      | 34,500   | 35.92                                           |
| Vested                       | (15,094) | 33.19                                           |
| Forfeited                    | (2,000)  | 32.24                                           |
| Balance at December 31, 2007 | 69,656   | \$ 34.63                                        |
| Granted                      | 259,000  | 35.91                                           |
| Vested                       | (38,831) | 34.64                                           |
| Balance at December 31, 2008 | 289,825  | \$ 35.77                                        |

As of December 31, 2008, there was \$8,044 of total unrecognized stock-based compensation related to unvested restricted stock awards. The cost is expected to be recognized over a weighted average period of 2.81 years.

*Employee Stock Purchase Plan*

The Company has an Employee Stock Purchase Plan ("ESPP") which is authorized to issue up to 450,000 shares of which 52,492 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 the Company to withhold up to 15% of their earnings, subject to certain limitations, to be used to purchase common stock of the Company at the lesser of 85% of the fair market value of the Company's common stock on the Offering Date or the Purchase Date. In connection with the ESPP, 7,859; 5,628; and 3,429 shares of the Company's stock were purchased during the years ended December 31, 2008, 2007, and 2006, respectively. The Company's total stock-based compensation expense for 2008, 2007, and 2006 includes \$76, \$46, and \$28 respectively, in compensation expense associated with the ESPP.

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (6) STOCK OWNERSHIP AND BENEFIT PLANS (Continued)

*401(k) Plan*

The Company offers a contributory 401(k) plan to its employees. The Company makes matching contributions equal to 100% of each employee's contribution up to 3% and 50% of the next 2% contributed by each employee. Total Company contributions were \$323, \$287, and \$217 for the years ended December 31, 2008, 2007 and 2006, respectively.

## (7) INCOME TAXES

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

|          | 2008     | 2007     | 2006     |
|----------|----------|----------|----------|
| Domestic | \$25,861 | \$32,551 | \$20,638 |
| Foreign  | 7,413    | 6,183    | 9,970    |
|          | \$33,274 | \$38,734 | \$30,608 |

The components of the provision for income taxes for the Company's continuing operations for the years ended December 31 are as follows:

|                                           | 2008     | 2007     | 2006     |
|-------------------------------------------|----------|----------|----------|
| Current Federal                           | \$ 8,600 | \$10,641 | \$ 5,341 |
| Current State                             | (139)    | 1,592    | 783      |
| Current Foreign                           | 3,315    | 2,271    | 3,182    |
|                                           | 11,776   | 14,504   | 9,306    |
| Deferred Federal                          | (767)    | (105)    | 1,922    |
| Deferred State                            | (38)     | (23)     | 121      |
| Deferred Foreign                          |          |          |          |
| Tax benefits allocated to reduce Goodwill | 569      | 353      |          |
| Other                                     | (2,334)  | (582)    | (8)      |
|                                           | (2,570)  | (357)    | 2,035    |
|                                           | \$ 9,206 | \$14,147 | \$11,341 |



## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (7) INCOME TAXES (Continued)

A reconciliation of the Company's income tax provision for continuing operations computed by applying the Federal statutory income tax rate of 35% in 2008, 2007, and 2006 to income before taxes for the years ended December 31 is as follows:

|                                                                 | 2008      | 2007      | 2006      |
|-----------------------------------------------------------------|-----------|-----------|-----------|
| Federal income tax at statutory rate                            | \$ 11,646 | \$ 13,557 | \$ 10,713 |
| State tax items not included below, net                         | (238)     | 1,030     | 629       |
| Effect of difference between U.S. Federal and Foreign tax rates | 720       | 131       | (217)     |
| Permanent differences                                           | (546)     | (198)     | 245       |
| Tax on foreign dividend received                                |           |           | 634       |
| Tax credits resulting from examination of federal tax returns   | 79        |           |           |
| Current year tax credits                                        | (1,716)   | (177)     | (635)     |
| Changes in valuation allowance                                  | (170)     | (82)      | (2)       |
| Recognition of previously unrecognized tax benefits             | (380)     |           |           |
| Other                                                           | (189)     | (114)     | (26)      |
| Provision for income taxes                                      | \$ 9,206  | \$ 14,147 | \$ 11,341 |

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (7) INCOME TAXES (Continued)

The Company's deferred tax assets and liabilities at December 31, 2008 and 2007 consist of the following:

|                                                   | 2008        | 2007        |
|---------------------------------------------------|-------------|-------------|
| Deferred tax assets:                              |             |             |
| Income tax credit carryforward                    | \$ 1,073    | \$ 417      |
| Net operating loss carryforward                   | 616         | 404         |
| Inventory differences                             | 309         | 47          |
| Allowance for doubtful accounts                   | 127         | 114         |
| Equity compensation                               | 811         | 225         |
| Vacation and other compensation accrual           | 361         | 334         |
| Capital lease obligations                         | 104         | 281         |
| Other, net                                        | 744         | 261         |
| Deferred tax assets                               | 4,145       | 2,083       |
| Deferred tax liabilities:                         |             |             |
| Purchased intangible assets                       | (16,834)    | (19,175)    |
| Depreciation and amortization                     | (2,011)     | (1,605)     |
| Investment in partnerships and joint ventures     | (1,219)     | (464)       |
| Foreign income taxable in future periods          |             | (147)       |
| Deferred profit                                   |             | (414)       |
| Deferred tax liabilities                          | (20,064)    | (21,805)    |
| Net deferred tax assets / (liabilities)           | (15,919)    | (19,722)    |
| Valuation allowance                               |             | (112)       |
| Net deferred tax assets / (liabilities)           | \$ (15,919) | \$ (19,834) |
| Net current deferred tax assets / (liabilities)   | \$ 822      | \$ 728      |
| Net long-term deferred tax assets / (liabilities) | (16,741)    | (20,562)    |
| Net deferred tax assets / (liabilities)           | \$ (15,919) | \$ (19,834) |

As a result of stock option activity in 2008, 2007, and 2006, the Company recorded tax benefits of \$143, \$402, and \$1,154, respectively, directly to additional paid in capital. Thus, these tax benefits, which reduce taxes currently payable, are not reflected in the current income tax provision for those years.

As of December 31, 2008 and 2007, income considered to be permanently reinvested in non-U.S. subsidiaries totaled approximately \$14,969 and \$9,709, respectively. Deferred income taxes have not been provided on this undistributed income, as the Company does 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. As a result of providing current Federal and state income taxes on other remaining undistributed foreign

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (7) INCOME TAXES (Continued)

earnings as of December 31, 2007, \$43 is included in permanent differences reported in the above income tax rate reconciliations for 2007. As of December 31, 2008, there is no other remaining undistributed foreign income; thus, the permanent differences for reported in the above rate reconciliations for 2008 include a benefit of \$147, from reversing the prior provisions for this income.

The components of the income tax credit carryforward as of December 31, 2008, are foreign tax credits of \$1,046 (which, if unused, expire between 2012 and 2018) and sundry state tax credits of \$27 (which expire beginning in 2012). The components of the income tax credit carryforward as of December 31, 2007 are foreign tax credits of \$370 (which, if unused, expire in 2012 and 2016) and research related tax credits of \$47 (which expire beginning in 2013).

As of December 31, 2008, the Company has no state net operating loss carryforwards. The foreign loss carryforwards are primarily from jurisdictions which do not impose a time limitation on such carryforwards.

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB No. 109 ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in tax positions. FIN 48 seeks to harmonize certain accounting practices associated with the recognition and measurement of income taxes. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. On the adoption date of January 1, 2007, the Company had \$394 of unrecognized tax benefits, all of which would affect our effective tax rate if recognized. At December 31, 2008, the balance of unrecognized tax benefits is \$9 and relates to uncertain state tax positions. The unrecognized tax benefits have been included in other long-term liabilities in 2008. The Company has identified no uncertain tax position for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the 12 months following the date of adoption of FIN 48. A summary of the movements in the Company's unrecognized tax benefits for the years ended December 31, 2008 and 2007 is as follows:

|                                             | 2008   | 2007   |
|---------------------------------------------|--------|--------|
| Balance at January 1                        | \$ 389 | \$ 394 |
| Adoption of FIN 48 (effect January 1, 2007) |        | 394    |
| Reductions for tax positions of prior years |        | (5)    |
| Settlements                                 | (380)  |        |
| Balance at December 31                      | \$ 9   | \$389  |

The Company recognizes interest and penalties related to uncertain tax positions in operating expense. As of December 31, 2008, the Company's accrual for interest and penalties related to uncertain tax positions is insignificant.

The Company's U.S. Federal tax returns for the tax years 2005 - 2008 remain open to examination while most of the Company's state tax returns remain open to examination for the tax years 2004 - 2008. The Company's foreign tax returns remain open to examination for the tax years 2003 - 2008.

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (8) BUSINESS SEGMENTS

Following the November 15, 2007, acquisition of DYNAenergetics, the Company 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. The Company's 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.

Segment information is presented for the years ended December 31, 2008, 2007 and 2006 as follows:

|                                                 | Explosive<br>Metalworking<br>Group | Oilfield<br>Products | AMK<br>Welding | Total      |
|-------------------------------------------------|------------------------------------|----------------------|----------------|------------|
| As of and for the year ended December 31, 2008: |                                    |                      |                |            |
| Net sales                                       | \$ 194,999                         | \$ 27,833            | \$ 9,745       | \$ 232,577 |
| Depreciation and amortization                   | \$ 7,585                           | \$ 3,893             | \$ 435         | \$ 11,913  |
| Income from operations of continuing operations | \$ 37,454                          | \$ 1,472             | \$ 2,363       | \$ 41,289  |
| Equity in earnings of joint ventures            | \$                                 | \$ 274               | \$             | 274        |
| Unallocated amounts:                            |                                    |                      |                |            |
| Stock-based compensation                        |                                    |                      |                | (3,237)    |
| Other expense                                   |                                    |                      |                | (269)      |
| Interest expense                                |                                    |                      |                | (5,472)    |
| Interest income                                 |                                    |                      |                | 689        |
| Consolidated income before income taxes         |                                    |                      |                | \$ 33,274  |
| Segment assets                                  | \$ 134,665                         | \$ 69,397            | \$ 5,325       | \$ 209,387 |
| Assets not allocated to segments:               |                                    |                      |                |            |
| Cash and cash equivalents                       |                                    |                      |                | 14,360     |
| Prepaid expenses and other assets               |                                    |                      |                | 4,405      |
| Deferred tax assets                             |                                    |                      |                | 1,067      |
| Consolidated total assets                       |                                    |                      |                | \$ 229,219 |
| Capital expenditures                            | \$ 8,859                           | \$ 879               | \$ 187         | \$ 9,925   |



## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (8) BUSINESS SEGMENTS (Continued)

|                                                 | Explosive<br>Metalworking<br>Group | Oilfield<br>Products | AMK<br>Welding | Total      |
|-------------------------------------------------|------------------------------------|----------------------|----------------|------------|
| As of and for the year ended December 31, 2007: |                                    |                      |                |            |
| Net sales                                       | \$ 155,438                         | \$ 2,545             | \$ 7,192       | \$ 165,175 |
| Depreciation and amortization                   | \$ 2,591                           | \$ 451               | \$ 305         | \$ 3,347   |
| Income from operations of continuing operations | \$ 38,902                          | \$ (126)             | \$ 1,417       | \$ 40,193  |
| Equity in earnings of joint ventures            | \$                                 | \$ 24                | \$             | 24         |
| Unallocated amounts:                            |                                    |                      |                |            |
| Stock-based compensation                        |                                    |                      |                | (1,301)    |
| Other expense                                   |                                    |                      |                | (158)      |
| Interest expense                                |                                    |                      |                | (722)      |
| Interest income                                 |                                    |                      |                | 698        |
| Consolidated income before income taxes         |                                    |                      |                | \$ 38,734  |
| Segment assets                                  | \$ 146,348                         | \$ 74,190            | \$ 6,031       | \$ 226,569 |
| Assets not allocated to segments:               |                                    |                      |                |            |
| Cash and cash equivalents                       |                                    |                      |                | 9,045      |
| Restricted cash                                 |                                    |                      |                | 371        |
| Prepaid expenses and other assets               |                                    |                      |                | 4,144      |
| Deferred tax assets                             |                                    |                      |                | 770        |
| Consolidated total assets                       |                                    |                      |                | \$ 240,899 |
| Capital expenditures                            | \$ 7,196                           | \$ 92                | \$ 1,691       | \$ 8,979   |

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (8) BUSINESS SEGMENTS (Continued)

|                                                 | Explosive<br>Metalworking<br>Group | AMK<br>Welding | Total      |
|-------------------------------------------------|------------------------------------|----------------|------------|
| As of and for the year ended December 31, 2006: |                                    |                |            |
| Net sales                                       | \$ 108,362                         | \$ 5,110       | \$ 113,472 |
| Depreciation                                    | \$ 1,150                           | \$ 219         | \$ 1,369   |
| Income from operations of continuing operations | \$ 29,605                          | \$ 1,158       | \$ 30,763  |
| Unallocated amounts:                            |                                    |                |            |
| Stock-based compensation                        |                                    |                | (660)      |
| Other expense                                   |                                    |                | (115)      |
| Interest expense                                |                                    |                | (84)       |
| Interest income                                 |                                    |                | 704        |
| Consolidated income before income taxes         |                                    |                | \$ 30,608  |
| Segment assets                                  | \$ 57,271                          | \$ 4,618       | \$ 61,889  |
| Assets not allocated to segments:               |                                    |                |            |
| Cash and cash equivalents                       |                                    |                | 17,886     |
| Restricted cash                                 |                                    |                | 3,059      |
| Prepaid expenses and other assets               |                                    |                | 1,431      |
| Current deferred tax assets                     |                                    |                | 708        |
| Consolidated total assets                       |                                    |                | \$ 84,973  |
| Capital expenditures                            | \$ 7,342                           | \$ 1,308       | \$ 8,650   |

The geographic location of the Company's property, plant and equipment, net of accumulated depreciation, is as follows:

|               | As of December 31, |          |          |
|---------------|--------------------|----------|----------|
|               | 2008               | 2007     | 2006     |
| United States | \$22,840           | \$22,056 | \$16,242 |
| Germany       | 9,465              | 7,998    |          |
| France        | 6,463              | 3,810    | 3,298    |
| Sweden        | 1,578              | 1,499    | 720      |
| Canada        | 76                 | 83       |          |
| Kazakhstan    | 35                 |          |          |
| Total         | \$40,457           | \$35,446 | \$20,260 |

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (8) BUSINESS SEGMENTS (Continued)

All of the Company's sales are shipped from the manufacturing locations located in the United States, France, Sweden, and Germany. The following represents the Company's net sales based on the geographic location of the customer:

|                         | For the years ended December 31, |           |           |
|-------------------------|----------------------------------|-----------|-----------|
|                         | 2008                             | 2007      | 2006      |
| United States           | \$ 82,036                        | \$ 64,735 | \$ 56,395 |
| Germany                 | 24,449                           | 8,626     | 2,265     |
| South Korea             | 12,938                           | 16,904    | 3,080     |
| Canada                  | 11,685                           | 12,588    | 10,787    |
| Australia               | 11,307                           | 1,039     | 235       |
| France                  | 10,447                           | 5,280     | 4,791     |
| Italy                   | 9,517                            | 5,461     | 3,466     |
| China                   | 8,203                            | 10,790    | 1,055     |
| India                   | 7,237                            | 2,355     | 3,764     |
| Spain                   | 7,208                            | 3,492     | 2,465     |
| Netherlands             | 4,093                            | 3,033     | 1,967     |
| Russia                  | 3,604                            | 607       | 11,137    |
| South Africa            | 3,381                            | 674       | 790       |
| Belgium                 | 3,275                            | 6,727     | 2,546     |
| United Kingdom          | 3,184                            | 1,278     | 335       |
| Romania                 | 2,548                            | 480       |           |
| Kazakhstan              | 2,418                            | 151       |           |
| Mexico                  | 2,396                            | 1,082     | 1,230     |
| Switzerland             | 1,922                            | 665       | 152       |
| Malaysia                | 1,914                            | 2,154     | 358       |
| Norway                  | 1,699                            | 2,596     | 481       |
| Brazil                  | 1,590                            | 52        | 476       |
| Sweden                  | 1,388                            | 1,378     | 677       |
| Other foreign countries | 14,138                           | 13,028    | 5,020     |
| Total                   | \$232,577                        | \$165,175 | \$113,472 |

During the years ended December 31, 2008, 2007, and 2006, no one customer accounted for more than 10% of total net sales.



## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (9) COMMITMENTS AND CONTINGENCIES

The Company leases 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 the capital leased assets as of December 31, 2008 are as:

|                                            | 2008   | 2007  |
|--------------------------------------------|--------|-------|
| Manufacturing equipment and tooling        | \$ 780 | \$815 |
| Furniture, fixtures and computer equipment | 128    | 134   |
| Total                                      | 908    | 949   |
| Less: Accumulated amortization             | (429)  | (37)  |
| Net capitalized leased assets              | \$ 479 | \$912 |

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

|                                              | Capital<br>Leases | Operating<br>Leases |
|----------------------------------------------|-------------------|---------------------|
| Year ended December 31                       |                   |                     |
| 2009                                         | \$ 179            | \$ 934              |
| 2010                                         | 120               | 772                 |
| 2011                                         | 101               | 384                 |
| 2012                                         | 74                | 239                 |
| 2013                                         | 58                | 239                 |
| Thereafter                                   | 24                | 328                 |
| Total minimum payments                       | 556               | \$ 2,896            |
| Amounts representing interest                | (57)              |                     |
| Present value of net minimum lease payments  | 499               |                     |
| Current portion of capital lease obligations | (163)             |                     |
| Capital lease obligations                    | \$ 336            |                     |

Total rental expense included in operations was \$1,341, \$687, and \$596 for the years ended December 31, 2008, 2007, and 2006, respectively.

During 2008, the Company entered into a license agreement and a risk allocation agreement related to its U.S. Explosive Metalworking business. These agreements provide the Company with the

## DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

(Currency Amounts in Thousands, Except Per Share Data)

## (9) COMMITMENTS AND CONTINGENCIES (Continued)

ability to perform its explosive shooting process at a second shooting site in Pennsylvania. Future minimum payments required to be made by the Company under these agreements are as follows:

| Year ended December 31 |          |
|------------------------|----------|
| 2009                   | \$ 232   |
| 2010                   | 232      |
| 2011                   | 232      |
| 2012                   | 232      |
| 2013                   | 232      |
| Thereafter             | 1,160    |
| Total minimum payments | \$ 2,320 |

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

## (10) DISCONTINUED OPERATIONS

In December 2006, the assets of a previously discontinued operation were sold to the company who had been leasing these assets. This transaction resulted in a pretax gain of \$228, which was recorded as discontinued operations in the fourth quarter of 2006. The Company had received rent of \$23 per month on these leased assets until the date of their sale.

On January 10, 2006, the Company sold its purchase option on the real estate of a previously discontinued operation to the property owner for \$2,300. The completion of this transaction resulted in a pretax gain of \$2,197, which was recorded as discontinued operations in the first quarter of 2006. In connection with the sale of the purchase option, the underlying lease agreement was terminated. Accordingly, the capital lease asset of \$2,880 and the related lease obligation of the same amount were removed from the Company's balance sheet in the first quarter of 2006.

Discontinued operations for the year ended December 31, 2006 is summarized as follows:

|                                                        |          |
|--------------------------------------------------------|----------|
| Gain on sale of real estate purchase option and assets | \$ 2,425 |
| Related income tax expense                             | (928)    |
| Income from discontinued operations, net of tax        | \$ 1,497 |

**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, 2008.

**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 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 2008.

**Management's Report on Internal Control over Financial Reporting**

The management of Dynamic Materials Corporation ("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, 2008 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, 2008.

DMC's internal control over financial reporting as of December 31, 2008, has also been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

/s/ YVON PIERRE CARIOU

---

Yvon Pierre Cariou  
*President and Chief Executive Officer*  
March 13, 2009

/s/ RICHARD A. SANTA

---

Richard A. Santa  
*Senior Vice President and Chief Financial Officer*  
March 13, 2009

**Report of Independent Registered Public Accounting Firm**

The Stockholders and the  
Board of Directors of Dynamic Materials Corporation:

We have audited Dynamic Materials Corporation's internal control over financial reporting as of December 31, 2008, 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's 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 maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, 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, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated March 12, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado  
March 12, 2009

**ITEM 9B. Other Information**

Not applicable.

**PART III**

**ITEM 10. Directors, Executive Officers and Corporate Governance**

Item 10 incorporates information by reference to our 2008 Proxy Statement for the Annual for the 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 2008.

**ITEM 11. Executive Compensation**

Item 11 incorporates information by reference to our 2008 Proxy Statement for the Annual for the 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 2008.

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

Item 12 incorporates information by reference to our 2008 Proxy Statement for the Annual for the 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 2008.

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

Item 13 incorporates information by reference to our 2008 Proxy Statement for the Annual for the 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 2008.

**ITEM 14. Principal Accountant Fees and Services**

Item 14 incorporates information by reference to our 2008 Proxy Statement for the Annual for the 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 2008.

**ITEM 15. Exhibits and Financial Statement Schedules**

**(a) Financial Statements**

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

**(b) Exhibits**

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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).                                                                                                                                                                                                                                                                                                                                                     |
| 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                      | Credit Agreement dated November 16, 2007, by and among the Company, Dynamic Materials Luxembourg 2 Sàrl, the guarantors party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent for the revolving loan and the term loan, J.P. Morgan Europe Limited, as administrative agent for the euro term loan and JPMorgan Securities Inc., as sole bookrunner and lead arranger (incorporated by reference to the Company's Form 8-K filed with the Commission on November 19, 2007). |

## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                       |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.2              | Purchase, Sale and Assignment Agreement dated November 15, 2007, by and among the Company, DYNAenergetics Holding GmbH, Rolf Rospek, Patrick Xylander, Uwe Gessel, OaG Beteiligungs-GmbH and Volker Mertens (incorporated by reference to the Company's Form 8-K filed with the Commission on November 19, 2007). |
| 10.3              | Employment Agreement, dated as of April 23, 2008, by and between the Company and Yvon Cariou (incorporated by reference to the Company's Form 10-Q filed with the Commission on April 28, 2008) *                                                                                                                 |
| 10.4              | Amendment to Employment Agreement, dated as of February 4, 2009, by and between the Company and Yvon Cariou*                                                                                                                                                                                                      |
| 10.5              | Employment Agreement, dated as of April 23, 2008, by and between the Company and Richard A. Santa (incorporated by reference to the Company's Form 10-Q filed with the Commission on April 28, 2008)*                                                                                                             |
| 10.6              | Amendment to Employment Agreement, dated as of February 4, 2009, by and between the Company and Richard A. Santa*                                                                                                                                                                                                 |
| 10.7              | Employment Agreement, dated as of April 23, 2008, by and between the Company and John G. Banker (incorporated by reference to the Company's Form 10-Q filed with the Commission on April 28, 2008)*                                                                                                               |
| 10.8              | Amendment to Employment Agreement, dated as of February 4, 2009, by and between the Company and John G. Banker*                                                                                                                                                                                                   |
| 10.9              | Managing Director Agreement dated November 15, 2007, between Dynaenergetics Beteiligungs-GmbH and Rolf Rospek (incorporated by reference to the Company's Form 8-K filed with the Commission on November 19, 2007).*                                                                                              |
| 10.10             | Form of Indemnification Agreement (incorporated by reference to the Company's Form 10-Q filed with the Commission on April 28, 2008).*                                                                                                                                                                            |
| 10.11             | 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).*                                                                                                                                                    |
| 10.12             | 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).*                                                                                                                                                     |
| 10.13             | 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).*                                                                                                                                                |
| 10.14             | 2008 Dynamic Materials Corporation Short Term Incentive Plan (incorporated by reference to Appendix A to the Company's Proxy Statement filed with the Commission on April 30, 2008).*                                                                                                                             |
| 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.                                                                                                                   |





## Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

| Exhibit<br>Number | Description                                                                                                                                                                  |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 32.1              | Certification of the President and Chief Executive Officer pursuant to 18 U.S.C.<br>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.<br>Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

---

\*

Management contract or compensatory plan.

### (c) Financial Statement Schedules

See Schedule II beginning on page 93 of this Annual Report on Form 10-K.

**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 13, 2009

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              |
|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------|-------------------|
| <u>/s/ YVON PIERRE CARIOU</u><br>Yvon Pierre Cariou | President and Chief Executive Officer<br>(Principal Executive Officer)                                  | March 13,<br>2009 |
| <u>/s/ RICHARD A. SANTA</u><br>Richard A. Santa     | Senior Vice President and Chief<br>Financial<br>Officer (Principal Financial and<br>Accounting Officer) | March 13<br>2009  |
| <u>/s/ JOHN G. BANKER</u><br>John G. Banker         | Senior Vice President, Customers and<br>Technology (Executive Officer)                                  | March 13,<br>2009 |
| <u>/s/ DEAN K. ALLEN</u><br>Dean K. Allen           | Chairman and Director                                                                                   | March 13,<br>2009 |
| <u>/s/ RICHARD P. GRAFF</u><br>Richard P. Graff     | Director                                                                                                | March 13<br>2009  |
| <u>/s/ BERNARD HUEBER</u><br>Bernard Hueber         | Director                                                                                                | March 13,<br>2009 |
| <u>/s/ GERARD MUNERA</u><br>Gerard Munera           | Director                                                                                                | March 13,<br>2009 |
| <u>/s/ ROLF ROSPEK</u><br>Rolf Rospek               | Director                                                                                                | March 13,<br>2009 |

**DYNAMIC MATERIALS CORPORATION**

**INDEX TO SCHEDULE II**

**AS OF DECEMBER 31, 2008**

|                                                         | <b>PAGE</b> |
|---------------------------------------------------------|-------------|
| Report of Independent Registered Public Accounting Firm | 92          |
| Schedule II (a)                                         | 93          |
| Schedule II (b)                                         | 93          |
| Schedule II (c)                                         | 93          |

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and the  
Board of Directors of Dynamic Materials Corporation:

We have audited the consolidated financial statements of Dynamic Materials Corporation and subsidiaries as of December 31, 2008 and 2007, and for each of the three years in the period ended December 31, 2008, and have issued our report thereon dated March 12, 2009 (included elsewhere in this Form 10-K). Our audits also included the financial statement schedules listed in Item 15 of this Form 10-K. These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these schedules based on our audits.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Denver, Colorado  
March 12, 2009

## DYNAMIC MATERIALS CORPORATION

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

## ALLOWANCE FOR DOUBTFUL ACCOUNTS

|                   | Balance at<br>beginning<br>of period | Additions<br>charged<br>to<br>income | Accounts<br>receivable<br>written off | Other<br>Adjustments | Balance<br>at<br>end of<br>period |
|-------------------|--------------------------------------|--------------------------------------|---------------------------------------|----------------------|-----------------------------------|
| Year ended        |                                      |                                      |                                       |                      |                                   |
| December 31, 2006 | \$ 301                               | \$ 42                                | \$ (7)                                | \$ (76)              | \$ 260                            |
| December 31, 2007 | \$ 260                               | \$ 62                                | \$                                    | \$ 212*              | \$ 534                            |
| December 31, 2008 | \$ 534                               | \$ 80                                | \$                                    | \$                   | \$ 614                            |

\*

Resulting from the acquisition of DYNAenergetics

## DYNAMIC MATERIALS CORPORATION

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

## WARRANTY RESERVE

|                   | Balance at<br>beginning<br>of period | Additions<br>charged<br>to<br>income | Repairs<br>allowed | Other<br>Adjustments | Balance<br>at<br>end of<br>period |
|-------------------|--------------------------------------|--------------------------------------|--------------------|----------------------|-----------------------------------|
| Year ended        |                                      |                                      |                    |                      |                                   |
| December 31, 2006 | \$ 521                               | \$                                   | \$ (406)           | \$                   | \$ 115                            |
| December 31, 2007 | \$ 115                               | \$ 11                                | \$ (66)            | \$ 353*              | \$ 413                            |
| December 31, 2008 | \$ 413                               | \$ 23                                | \$ (83)            | \$                   | \$ 353                            |

\*

Resulting from the acquisition of DYNAenergetics

## DYNAMIC MATERIALS CORPORATION

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

## INVENTORY RESERVE

|                   | Balance at<br>beginning<br>of period | Additions<br>charged<br>to<br>income | Inventory<br>write-offs | Balance<br>at<br>end of<br>period |
|-------------------|--------------------------------------|--------------------------------------|-------------------------|-----------------------------------|
| Year ended        |                                      |                                      |                         |                                   |
| December 31, 2006 | \$ 165                               | \$ 218                               | \$ (103)                | \$ 280                            |

# Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

|                   |    |     |    |     |    |       |    |     |
|-------------------|----|-----|----|-----|----|-------|----|-----|
| December 31, 2007 | \$ | 280 | \$ | 263 | \$ | (278) | \$ | 265 |
| December 31, 2008 | \$ | 265 | \$ | 235 | \$ | (310) | \$ | 190 |
|                   |    | 93  |    |     |    |       |    |     |

---

QuickLinks

PART I

ITEM 1. Business

ITEM 1A. Risk Factors

ITEM 1B. Unresolved Staff Comments

ITEM 2. Properties

ITEM 3. Legal Proceedings

ITEM 4. Submission of Matters to a Vote of Security Holders

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

ITEM 6. Selected Financial Data

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

ITEM 7A. Quantitative and Qualitative Disclosure about Market Risk

ITEM 8. Financial Statements and Supplementary Data

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS As of December 31, 2008 and 2007 and for Each of the Three Years Ended December 31, 2008, 2007 and 2006

Report of Independent Registered Public Accounting Firm

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007 (Dollars in Thousands)

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007 (Dollars in Thousands, Except Share Data)

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006 (Dollars in Thousands, Except Share Data)

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006 (Amounts in Thousands)

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006 (Dollars in Thousands)

DYNAMIC MATERIALS CORPORATION & SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006 (Dollars in Thousands)

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008 (Currency Amounts in Thousands, Except Per Share Data)

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

ITEM 9A. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm

ITEM 9B. Other Information

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

ITEM 11. Executive Compensation



Edgar Filing: DYNAMIC MATERIALS CORP - Form 10-K

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

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

ITEM 14. Principal Accountant Fees and Services

ITEM 15. Exhibits and Financial Statement Schedules

SIGNATURES

DYNAMIC MATERIALS CORPORATION INDEX TO SCHEDULE II AS OF DECEMBER 31, 2008

Report of Independent Registered Public Accounting Firm

DYNAMIC MATERIALS CORPORATION SCHEDULE II(a) VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

ALLOWANCE FOR DOUBTFUL ACCOUNTS

DYNAMIC MATERIALS CORPORATION SCHEDULE II(b) VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

WARRANTY RESERVE

DYNAMIC MATERIALS CORPORATION SCHEDULE II(c) VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

INVENTORY RESERVE