

DYNAMIC MATERIALS CORP  
Form 10-Q  
May 01, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

FOR THE TRANSITION PERIOD FROM                      TO                      .

Commission file number 001-14775

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# DYNAMIC MATERIALS CORPORATION

(Exact name of Registrant as Specified in its Charter)

**Delaware**  
(State of Incorporation or Organization)

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

**5405 Spine Road, Boulder, Colorado 80301**

(Address of principal executive offices, including zip code)

**(303) 665-5700**

(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares of Common Stock outstanding was 13,483,238 as of May 1, 2012.



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CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

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Table of Contents**Part I - FINANCIAL INFORMATION****ITEM 1. Condensed Consolidated Financial Statements****DYNAMIC MATERIALS CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in Thousands)

	<b>March 31, 2012 (unaudited)</b>	<b>December 31, 2011</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 7,533	\$ 5,276
Accounts receivable, net of allowance for doubtful accounts of \$689 and \$424, respectively	36,415	36,368
Inventories	46,646	43,218
Prepaid expenses and other	4,892	4,858
Current deferred tax assets	1,371	1,469
<b>Total current assets</b>	<b>96,857</b>	<b>91,189</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>78,591</b>	<b>72,914</b>
Less - accumulated depreciation	(33,098)	(31,512)
<b>Property, plant and equipment, net</b>	<b>45,493</b>	<b>41,402</b>
<b>GOODWILL, net</b>	<b>38,399</b>	<b>37,507</b>
<b>PURCHASED INTANGIBLE ASSETS, net</b>	<b>47,168</b>	<b>42,054</b>
<b>DEFERRED TAX ASSETS</b>	<b>1,464</b>	<b>485</b>
<b>OTHER ASSETS, net</b>	<b>656</b>	<b>789</b>
<b>TOTAL ASSETS</b>	<b>\$ 230,037</b>	<b>\$ 213,426</b>

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

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DYNAMIC MATERIALS CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

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

	March 31, 2012 (unaudited)	December 31, 2011
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 13,713	\$ 14,753
Accrued expenses	5,685	5,358
Dividend payable	539	535
Accrued income taxes	1,424	780
Accrued employee compensation and benefits	3,469	4,666
Customer advances	3,494	1,918
Lines of credit	1,315	13
Current maturities on long-term debt	63	1,153
Current portion of capital lease obligations	57	66
Current deferred tax liabilities	70	68
Total current liabilities	29,829	29,310
LINES OF CREDIT	35,240	26,462
LONG-TERM DEBT	104	118
CAPITAL LEASE OBLIGATIONS	59	70
DEFERRED TAX LIABILITIES	10,889	10,185
OTHER LONG-TERM LIABILITIES	1,204	1,238
Total liabilities	77,325	67,383
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.05 par value; 4,000,000 shares authorized; no issued and outstanding shares		
Common stock, \$0.05 par value; 25,000,000 shares authorized; 13,483,238 and 13,367,169 shares issued and outstanding, respectively	674	668
Additional paid-in capital	56,965	55,983
Retained earnings	100,454	98,565
Other cumulative comprehensive loss	(5,429)	(9,256)
Total Dynamic Materials Corporation's stockholders' equity	152,664	145,960
Non-controlling interest	48	83
Total stockholders' equity	152,712	146,043
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 230,037</b>	<b>\$ 213,426</b>

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

Table of ContentsDYNAMIC MATERIALS CORPORATIONCONDENSED CONSOLIDATED STATEMENTS OF OPERATIONSFOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011(Dollars in Thousands, Except Share and Per Share Data)(unaudited)

	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
NET SALES	\$ 50,212	\$ 45,574
COST OF PRODUCTS SOLD	35,835	35,272
Gross profit	14,377	10,302
<b>COSTS AND EXPENSES:</b>		
General and administrative expenses	4,505	3,675
Selling and distribution expenses	4,190	3,726
Amortization of purchased intangible assets	1,544	1,405
Total costs and expenses	10,239	8,806
INCOME FROM OPERATIONS	4,138	1,496
<b>OTHER INCOME (EXPENSE):</b>		
Other income (expense), net	(200)	(203)
Interest expense	(211)	(410)
Interest income	6	3
INCOME BEFORE INCOME TAXES	3,733	886
INCOME TAX PROVISION	1,342	148
NET INCOME	2,391	738
Less: Net loss attributable to non-controlling interest	(37)	(12)
NET INCOME ATTRIBUTABLE TO DYNAMIC MATERIALS CORPORATION	\$ 2,428	\$ 750
<b>NET INCOME PER SHARE:</b>		
Basic	\$ 0.18	\$ 0.06
Diluted	\$ 0.18	\$ 0.06
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:</b>		
Basic	13,183,000	13,045,600
Diluted	13,190,193	13,055,619
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.04	\$ 0.04

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

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DYNAMIC MATERIALS CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(Dollars in Thousands)

(unaudited)

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net income including non-controlling interest	\$ 2,391	\$ 738
Change in cumulative foreign currency translation adjustment	3,829	7,093
Total comprehensive income	6,220	7,831
Comprehensive loss attributable to non-controlling interest	(35)	(83)
Comprehensive income attributable to Dynamic Materials Corporation	\$ 6,255	\$ 7,914

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

Table of ContentsDYNAMIC MATERIALS CORPORATIONCONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITYFOR THE THREE MONTHS ENDED MARCH 31, 2012

(Amounts in Thousands)

(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Income (Loss)	Non- Controlling Interest	Total
	Shares	Amount					
Balances, December 31, 2011	13,367	\$ 668	\$ 55,983	\$ 98,565	\$ (9,256)	\$ 83	\$ 146,043
Comprehensive income:							
Net income				2,428		(37)	2,391
Change in cumulative foreign currency translation adjustment					3,827	2	3,829
Comprehensive income						(35)	6,220
Shares issued in connection with stock compensation plans	116	6	(6)				
Tax impact of stock-based compensation			19				19
Stock-based compensation			969				969
Dividends declared				(539)			(539)
Balances, March 31, 2012	13,483	\$ 674	\$ 56,965	\$ 100,454	\$ (5,429)	\$ 48	\$ 152,712

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

Table of ContentsDYNAMIC MATERIALS CORPORATIONCONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(Dollars in Thousands)

(unaudited)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,391	\$ 738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation (including capital lease amortization)	1,367	1,356
Amortization of purchased intangible assets	1,544	1,405
Amortization of deferred debt issuance costs	35	53
Stock-based compensation	969	792
Deferred income tax benefit	(305)	(586)
Change in:		
Accounts receivable, net	1,337	(8)
Inventories	(363)	(3,678)
Prepaid expenses and other	112	(1,040)
Accounts payable	(1,359)	1,460
Customer advances	1,517	283
Accrued expenses and other liabilities	(512)	542
Net cash provided by operating activities	6,733	1,317
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	(2,633)	(1,087)
Acquisition of TRX Industries	(10,294)	
Change in other non-current assets	116	36
Net cash used in investing activities	(12,811)	(1,051)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on bank lines of credit, net	9,840	668
Payment on loans with former owners of LRI	(1,127)	
Payment on Nord LB term loans		(205)
Payment on capital lease obligations	(24)	(76)
Payment of dividends	(535)	(529)
Contribution from non-controlling stockholder		42
Net proceeds from issuance of common stock to employees and directors		5
Tax impact of stock-based compensation	19	(128)
Net cash provided by (used in) financing activities	8,173	(223)
EFFECTS OF EXCHANGE RATES ON CASH	162	145
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,257	188
CASH AND CASH EQUIVALENTS, beginning of the period	5,276	4,572

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CASH AND CASH EQUIVALENTS, end of the period	\$	7,533	\$	4,760
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The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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**DYNAMIC MATERIALS CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**(unaudited)**

**1. BASIS OF PRESENTATION**

The information included in the condensed consolidated financial statements is unaudited but includes all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the financial statements that are included in our Annual Report filed on Form 10-K for the year ended December 31, 2011.

Principles of Consolidation

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

Income Taxes

The effective tax rate for each of the periods reported differs from the U.S. statutory rate due primarily to favorable foreign permanent differences, variation in contribution to consolidated pre-tax income from each jurisdiction for the respective periods and differences between the U.S. and foreign tax rates (which range from 19% to 33%) on earnings that have been permanently reinvested.

Earnings Per Share

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

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

	For the Three Months Ended March 31, 2012			For the Three Months Ended March 31, 2011		
	Income	Shares	EPS	Income	Shares	EPS
<u>Basic earnings per share:</u>						
Net income attributable to DMC	\$ 2,428			\$ 750		
Less income allocated to RSAs	(53)			(15)		
Net income allocated to common stock for EPS calculation	\$ 2,375	13,183,000	\$ 0.18	\$ 735	13,045,600	\$ 0.06
<u>Adjust shares for dilutives:</u>						
Stock-based compensation plans		7,193			10,019	
<u>Diluted earnings per share:</u>						
Net income attributable to DMC	\$ 2,428			\$ 750		
Less income allocated to RSAs	(53)			(15)		
Net income allocated to common stock for EPS calculation	\$ 2,375	13,190,193	\$ 0.18	\$ 735	13,055,619	\$ 0.06

Recent Accounting Pronouncements

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

**3. ACQUISITIONS**TRX Industries

On January 3, 2012, we acquired the assets and operating business of Texas-based TRX Industries, Inc. ( TRX ), a manufacturer of perforating guns, for a purchase price of \$10,294. TRX, which now operates as a division of DYNAenergetics US, has been a long-term supplier to DYNAenergetics US and, in recent years, accounted for a rapidly growing percentage of its perforating gun purchases.

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

Current assets	\$	2,702
Property, plant and equipment		2,227
Intangible assets		5,365
Deferred tax assets		40
Total assets acquired		10,334
Current liabilities		40
Total liabilities assumed		40
Net assets acquired	\$	10,294

We acquired identifiable finite-lived intangible assets as a result of the acquisition of TRX. The finite-lived intangible assets acquired were classified as customer relationships, were valued at \$5,365, and are being amortized over 7 years. These amounts are included in Purchased Intangible Assets and are further discussed in Note 6.

**4. INVENTORY**

The components of inventory are as follows at March 31, 2012 and December 31, 2011:

		March 31, 2012		December 31, 2011
Raw materials	\$	15,148	\$	15,526
Work-in-process		12,879		10,511
Finished goods		17,204		15,947
Supplies		1,415		1,234
	\$	46,646	\$	43,218

**5. GOODWILL**

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

Explosive

Oilfield

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	<b>Metalworking</b>		<b>Products</b>		<b>Total</b>
Goodwill balance at December 31, 2011	\$ 21,637	\$	15,870	\$	37,507
Adjustment due to recognition of tax benefit of tax amortization of certain goodwill	(82)		(124)		(206)
Adjustment due to exchange rate differences	623		475		1,098
Goodwill balance at March 31, 2012	\$ 22,178	\$	16,221	\$	38,399

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The following table presents details of our purchased intangible assets, other than goodwill, as of March 31, 2012:

	<b>Gross</b>		<b>Accumulated Amortization</b>		<b>Net</b>
Core technology	\$ 22,700	\$	(4,946)	\$	17,754
Customer relationships	44,743		(16,407)		28,336
Trademarks / Trade names	2,432		(1,354)		1,078
<b>Total intangible assets</b>	<b>\$ 69,875</b>	<b>\$</b>	<b>(22,707)</b>	<b>\$</b>	<b>47,168</b>

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

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

The change in the gross value of our purchased intangible assets from December 31, 2011 to March 31, 2012 reflects the additional intangible assets associated with the acquisition of TRX and the impact of foreign currency translation adjustments.

**7. CUSTOMER ADVANCES**

On occasion, we require customers to make advance payments prior to the shipment of their orders in order to help finance our inventory investment on large orders or to keep customers' credit limits at acceptable levels. Total customer advances as of March 31, 2012 and December 31, 2011 are as follows and originated from several customers:

	<b>March 31, 2012</b>		<b>December 31, 2011</b>	
Customer advances	\$ 3,494	\$	1,918	\$

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Lines of credit consisted of the following at March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Syndicated credit agreement:		
U.S. Dollar revolving loan	\$ 26,000	\$ 20,247
Euro revolving loan	7,736	6,215
Canadian Dollar revolving loan	1,504	
Commerzbank line of credit	1,315	
Nord LB line of credit		13
	36,555	26,475
Less current portion	(1,315)	(13)
Long-term lines of credit	\$ 35,240	\$ 26,462

Long-term debt consisted of the following at March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Loans with former owners of LRI	\$ 167	\$ 1,271
Less current maturities	(63)	(1,153)
Long-term debt	\$ 104	\$ 118

Loan Covenants and Restrictions

Our existing loan agreements include various covenants and restrictions, certain of which relate to the payment of dividends or other distributions to stockholders; redemption of capital stock; incurrence of additional indebtedness; mortgaging, pledging or disposition of major assets; and maintenance of specified financial ratios. As of March 31, 2012, we were in compliance with all financial covenants and other provisions of our debt agreements.

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

The accounting policies of all the segments are the same as those described in the summary of significant accounting policies included herein and in our Annual Report on Form 10-K for the year ended December 31, 2011. Our reportable segments are separately managed strategic business units that offer different products and services. Each segment's products are marketed to different customer types and require different manufacturing processes and technologies.

Segment information is presented for the three months ended March 31, 2012 and 2011 as follows:

	<b>Explosive Metalworking</b>	<b>Oilfield Products</b>	<b>AMK Welding</b>	<b>Total</b>
For the three months ended March 31, 2012:				
Net sales	\$ 27,533	\$ 20,974	\$ 1,705	\$ 50,212
Depreciation and amortization	\$ 1,402	\$ 1,385	\$ 124	\$ 2,911
Income (loss) from operations	\$ 4,099	\$ 2,046	\$ (87)	\$ 6,058
Unallocated amounts:				
Corporate expenses				(951)
Stock-based compensation				(969)
Other expense				(200)
Interest expense				(211)
Interest income				6
Consolidated income before income taxes				\$ 3,733

	<b>Explosive Metalworking</b>	<b>Oilfield Products</b>	<b>AMK Welding</b>	<b>Total</b>
For the three months ended March 31, 2011:				
Net sales	\$ 26,074	\$ 17,056	\$ 2,444	\$ 45,574
Depreciation and amortization	\$ 1,459	\$ 1,180	\$ 122	\$ 2,761
Income from operations	\$ 1,554	\$ 924	\$ 468	