HAWAIIAN ELECTRIC INDUSTRIES INC
Form 11-K
June 26, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

or

o TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-8503

HAWAIIAN ELECTRIC INDUSTRIES RETIREMENT SAVINGS PLAN

Hawaiian Electric Industries, Inc.

1001 Bishop Street, Suite 2900, Honolulu, Hawaii 96813

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REQUIRED INFORMATION

Financial Statements. The statements of net assets available for benefits at December 31, 2014 and 2013, and the statements of changes in net assets available for benefits for the years then ended, Schedule H, Line 4i Schedule of Assets (Held at End of Year) at December 31, 2014, together with notes to financial statements, and PricewaterhouseCoopers LLP s Report of Independent Registered Public Accounting Firm thereon, are filed as a part of this annual report, as listed in the accompanying index.

Exhibit. The written consent of PricewaterhouseCoopers LLP with respect to the incorporation by reference of the Plan s financial statements and supplemental schedule in registration statement No. 333-02103 on Form S-8 of Hawaiian Electric Industries, Inc. is filed as a part of this annual report and attached hereto as Exhibit 23.1.

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SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

	HAWAIIAN ELECTRIC INDUSTRIES RETIREMENT SAVINGS PLAN	
Date: June 26, 2015	By:	HAWAIIAN ELECTRIC INDUSTRIES, INC. PENSION INVESTMENT COMMITTEE Its Named Fiduciary
	By:	/s/ James A. Ajello James A. Ajello Its Chairman
	By:	/s/ Chester A. Richardson Chester A. Richardson Its Secretary

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December 31, 2014 and 2013

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Report of Independent Registered Public Accounting Firm

To the Administrator of
Hawaiian Electric Industries Retirement Savings Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of Hawaiian Electric Industries Retirement Savings Plan (the Plan) at December 31, 2014 and 2013, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The supplemental Schedule of Assets (Held at End of Year) at December 31, 2014 has been subjected to audit procedures performed in conjunction with the audit of the Plan s financial statements. The supplemental schedule is the responsibility of the Plan s management. Our audit procedures included determining whether the supplemental schedule reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, including its form and content, is presented in conformity with the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the Schedule of Assets (Held at End of Year) is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California
June 26, 2015

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Hawaiian Electric Industries

Retirement Savings Plan

Statements of Net Assets Available for Benefits

December 31, 2014 and 2013

	2014	2013
Assets		
Plan interest in Master Trust		
Investments, at fair value	$ 426,933,212	$ 383,607,318
Notes receivable from participants	7,245,146	6,887,838
Participant contributions receivable	807,120	729,730
Employer contributions receivable	45,503	33,890
Due from Fidelity	21,288	14,550
Total assets	435,052,269	391,273,326
Liabilities		
Accounts payable	5,860	5,148
Net assets available for benefits	$ 435,046,409	$ 391,268,178

The accompanying notes are an integral part of these financial statements.

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Hawaiian Electric Industries

Retirement Savings Plan

Statements of Changes in Net Assets Available for Benefits

Years Ended December 31, 2014 and 2013

	2014	2013
Additions		
Investment income		
Plan interest in Master Trust		
Net appreciation in fair value of investments	$ 21,866,427	$ 50,725,547
Dividends and interest	19,959,237	9,808,756
Total investment income	41,825,664	60,534,303
Master Trust interest from participants notes receivable	333,334	301,263
Revenue credit	85,151	58,200
Contributions		
Participants	21,717,457	20,348,612
Employer	981,161	628,853
Rollover	1,302,167	1,094,149
Total contributions	24,000,785	22,071,614
Total additions	66,244,934	82,965,380
Deductions		
Distributions to participants	(22,336,672)	(13,514,495)
Administrative expenses and other	(130,031)	(100,132)
Total deductions	(22,466,703)	(13,614,627)
Net increase	43,778,231	69,350,753
Net assets available for benefits		
Beginning of year	391,268,178	321,917,425
End of year	$ 435,046,409	$ 391,268,178

The accompanying notes are an integral part of these financial statements.

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Hawaiian Electric Industries

Retirement Savings Plan

Notes to Financial Statements

December 31, 2014 and 2013

1. Plan Description

The Hawaiian Electric Industries Retirement Savings Plan (the Plan or HEIRS Plan) was established by Hawaiian Electric Industries, Inc. (the Company or HEI) effective April 1, 1984. The Plan is a defined contribution 401(k) plan that provides certain tax-favored retirement benefits to participating employees. As of December 31, 2014, the Participating Employers in the Plan were Hawaiian Electric Industries, Inc., Hawaiian Electric Company, Inc. (Hawaiian Electric), Maui Electric Company, Limited (Maui Electric), and Hawaii Electric Light Company, Inc. (Hawaii Electric Light).

Effective May 1, 2011, the HEIRS Plan was amended and restated in its entirety to incorporate benefit changes negotiated with the electrical workers union representing employees of Hawaiian Electric, Maui Electric and Hawaii Electric Light. The changes include a 50% employer matching contribution on the first 6% of compensation deferred to the HEIRS Plan by all employees who commence employment on or after May 1, 2011. The matching contribution is subject to a six-year graded vesting schedule. As part of the restatement, HEI, the Plan sponsor, was designated as the Plan Administrator, as defined in the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Effective January 1, 2013, the HEIRS Plan was again amended and restated in its entirety to incorporate all amendments required by the 2011 Cumulative List of Changes in Plan Qualification Requirements, including amendments to comply with the Pension Protection Act of 2006, the Heroes Earnings Assistance and Relief Tax Act of 2008, and the Worker, Retiree, and Employer Recovery Act of 2008.

In November 2014, the HEIRS Plan was amended to add an eligible automatic contribution arrangement (an EACA), under which eligible employees are automatically enrolled in the Plan. The amendment was effective January 1, 2015.

The following description of the Plan provides only general information. Participants should refer to the Plan document for its detailed provisions, which are also summarized in the most recent prospectus for the Plan and in the summary plan description:

a. Plan Administration

The Company is the Administrator of the Plan. The board of directors of the Company has established the Pension Investment Committee (PIC) to oversee the administration of the Plan and the investment options offered under the Plan. The PIC has appointed an Administrative

Committee to oversee the day-to-day administration of the Plan, which includes the discretionary authority to interpret the Plan s provisions. The PIC has also appointed an Investment Committee to oversee the day-to-day financial affairs of the Plan. The Administrative and Investment Committees are comprised of employees of the Company and its subsidiaries and are chaired by a member of the PIC.

The Participating Employers and the Plan currently pay the Plan s administrative fees. The Plan s trustee and certain of the mutual funds offered under the Plan also provide revenue credits to the Plan, which are used to pay for Plan administration including recordkeeping. Fees charged directly to the Plan that are not paid by revenue credits may be allocated to participant accounts. Participants may also be assessed interest and fees related to participants notes receivable and withdrawals.

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b. Eligibility

All nonbargaining unit employees of the Participating Employers (other than leased employees or contract employees hired for specific tasks or assignments) are eligible to participate in the Plan upon employment. Bargaining unit employees are eligible to participate in the Plan upon becoming regular employees under the terms of the applicable collective bargaining agreement (and subject to any future changes therein). Participation in the Plan is voluntary for eligible employees.

c. Salary Deferral Contributions

Employees participate in the Plan by making salary deferral contributions of up to 30% of compensation, subject to a federal tax limit of $17,500 in 2014 and 2013.

Participants who are age 50 or older, or who attain age 50 during the year, may elect to make catch-up contributions, as defined in the Plan, subject to a federal tax limit of $5,500 in 2014 and 2013.

For purposes of calculating contributions to the Plan, compensation is defined as Box 1, W-2 earnings, modified to (a) exclude discretionary bonuses, fringe benefits, employer nonelective contributions to a cafeteria plan, reimbursements, moving and other expense allowances, and special executive compensation; and (b) include nontaxable elective contributions made by a Participating Employer to the Plan, a cafeteria plan, or a pretax transportation spending plan. Special executive compensation is noncash compensation and nonqualified deferred compensation available only to a select group of management employees.

Federal tax law limits the amount of annual compensation that may be taken into account in determining contributions to the Plan. The maximum limit was $260,000 in 2014 and $255,000 in 2013.

d. Matching Contributions for New Employees

Effective May 1, 2011, the Participating Employers began matching the 401(k) contributions of their respective participants who were first employed (or deemed to be new employees under Section 1.2 of the Retirement Plan for Employees of Hawaiian Electric Industries, Inc. and Participating Subsidiaries) after April 30, 2011. The amount of the match is 50% of the first 6% of annual compensation deferred by the participant (i.e., maximum matching contribution of 3% of the participant s annual compensation).

e. Participant Accounts

Each participant has an individual account in the Plan, which may include one or more subaccounts. Each participant is 100% vested in all of the participant s subaccounts other than a matching contribution subaccount (if any). A participant s benefits equal the vested balance in the participant s account at the time of distribution. Each participant s account is credited with the participant s elective contributions, matching contributions, if applicable, and allocations of Plan earnings and gains or losses (whether realized or unrealized), and charged with an allocation of any administrative expenses paid directly by the Plan or charged directly to the participant s account. Individual expenses, such as fees associated with loans and distributions, are charged directly to a participant s individual account. Other administrative expenses, such as recordkeeping expenses, are paid through investment level expenses that are borne by participants in proportion to their investments in the designated investment alternatives that generate revenue credits for the Plan. Participant accounts are valued at the end of each day that the New York Stock Exchange is open.

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December 31, 2014 and 2013

The Plan is intended to be an ERISA Section 404(c) plan, under which the fiduciaries of the Plan are relieved of liability for any losses that are the direct and necessary result of a participant s or beneficiary s exercise of control over the investments in his or her individual account. Participants are responsible for directing the investment of all amounts in their accounts using investment options offered under the Plan and for the performance of such investments. The Plan currently offers various mutual funds and target-date funds, and a unitized common stock fund that consists of shares of HEI common stock and short-term liquid investments. Participants may change their investment elections at any time. If a participant does not choose an investment option for any portion of the participant s account, such amounts are automatically invested in the age-appropriate Fidelity Freedom Index Fund or such other investment as the PIC may direct, pending other direction by the participant.

The portion of the Plan comprising the HEI Common Stock Fund is designated as an employee stock ownership plan (ESOP). Amounts contributed to the Plan for investment in the HEI Common Stock Fund or transferred to the HEI Common Stock Fund from other investment alternatives become part of the ESOP component of the Plan.

Participants are not required to make any investment in the HEI Common Stock Fund, and there are two limitations on the amount a participant may invest in the HEI Common Stock Fund. First, a participant may not direct more than 20% of any contribution to the HEI Common Stock Fund. Second, participants and beneficiaries are prohibited from making transfers or exchanges from other investment alternatives into the HEI Common Stock Fund if the transfer or exchange would cause the participant s or beneficiary s investment in the HEI Common Stock Fund to exceed 20% of the participant s or beneficiary s total account balance.

f. Distributions

Distributions from participants accounts are generally made upon retirement, death, permanent disability or other termination of employment. Distributions may be made in a single lump sum, or a retired or terminated participant may elect to receive partial distributions (once per year) until the participant s account has been distributed in full or the participant elects to receive a single-sum distribution of the remaining account balance. Retired participants may also elect to receive required minimum distributions from the Plan.

Account balances of $5,000 or less are automatically distributed upon termination of employment. Any automatic distribution of more than $1,000 (but not more than $5,000) is made in the form of an automatic direct rollover to an Individual Retirement Account (IRA) designated by the Administrative Committee, unless the participant requests a cash distribution or a direct rollover to an IRA or tax-qualified retirement plan of the participant s choosing.

Distributions from the HEI Common Stock Fund are in the form of HEI common stock or, if the participant so elects, cash (with any fractional shares paid in cash). Distributions of HEI Stock Ownership Plan (HEISOP) subaccounts invested in the HEI Common Stock Fund may be made in installments, generally over a period of no more than five years, or may be made in a single lump sum (in stock or in cash).

The participant s account will be reduced by any unpaid note balance at the time of distribution. However, unless rolled over, the balance of the unpaid note will be taxable to the participant.

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g. Death Benefits

Upon the death of a participant, the full value of the participant s vested account balance is payable as a death benefit to the participant s designated beneficiary.

h. Withdrawals While Employed

Prior to termination of employment, salary deferral and catch-up contributions (and income earned on such contributions prior to 1989) and certain other contributions may be withdrawn in the event of hardship. A participant who receives a hardship withdrawal is prohibited from making additional salary deferral contributions to the Plan for six months following the hardship withdrawal.

Upon request, a participant may withdraw tax-deductible voluntary contributions or after-tax contributions previously allowed under the Plan. These contributions are no longer permitted under the Plan.

Participants who elect to invest portions of their account balances in the HEI Common Stock Fund (the ESOP component of the Plan) may elect to receive cash distributions of periodic dividends attributable to such investments or may elect to have such dividends reinvested. If the dividends are reinvested, they are fully vested.

A participant who is age 59½ or older may elect to receive an in-service distribution from his or her vested account balance once per year, except that in-service distributions are not permitted from a participant s matching contribution subaccount.

i. Notes Receivable from Participants

Retained earnings

	110,659	108,101
Other cumulative comprehensive loss	(9,642)	(6,463)
Total Dynamic Materials Corporation's stockholders' equity	163,235	162,472
Non-controlling interest	125	84
Total stockholders' equity	163,360	162,556
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 232,343	$ 235,431

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

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
NET SALES	$57,859	$48,687	$104,129	$98,899
COST OF PRODUCTS SOLD	40,796	34,748	74,347	70,583
Gross profit	17,063	13,939	29,782	28,316
COSTS AND EXPENSES:				
General and administrative expenses	5,158	4,641	13,296	9,146
Selling and distribution expenses	4,324	4,128	8,375	8,319
Amortization of purchased intangible assets	1,568	1,520	3,153	3,064
Total costs and expenses	11,050	10,289	24,824	20,529
INCOME FROM OPERATIONS	6,013	3,650	4,958	7,787
OTHER INCOME (EXPENSE):				
Other income (expense), net	(420)	409	(124)	209
Interest expense	(183)	(196)	(355)	(407)
Interest income	1	3	4	8
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	5,411	3,866	4,483	7,597
INCOME TAX PROVISION	1,956	1,167	785	2,509
NET INCOME	3,455	2,699	3,698	5,088
Less: Net income attributable to non-controlling interest	15	46	43	9
NET INCOME ATTRIBUTABLE TO DYNAMIC MATERIALS CORPORATION	$3,440	$2,653	$3,655	$5,079
INCOME PER SHARE:				
Basic	$0.25	$0.20	$0.27	$0.38
Diluted	$0.25	$0.20	$0.27	$0.38
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	13,526,623	13,205,620	13,523,028	13,203,310
Diluted	13,530,588	13,209,732	13,527,011	13,207,562

DIVIDENDS DECLARED PER COMMON SHARE	$0.04	$0.04	0.08	0.08

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

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DYNAMIC MATERIALS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012
(Amounts in Thousands)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income including non-controlling interest	$3,455	$2,699	$3,698	$5,088
Change in cumulative foreign currency translation adjustment	446	(7,085)	(3,181)	(3,254)
Total comprehensive income (loss)	3,901	(4,386)	517	1,834
Comprehensive income attributable to non-controlling interest	16	42	41	7
Comprehensive income (loss) attributable to Dynamic Materials Corporation	$3,885	$(4,428)	$476	$1,827

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

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DYNAMIC MATERIALS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2013
(Amounts in Thousands)
(unaudited)

	Dynamic Materials Corporation Stockholders						
	Common Stock		Additional Paid-In	Retained	Other Cumulative Comprehensive	Non-Controlling	
	Shares	Amount	Capital	Earnings	Loss	Interest	Total
Balances, December 31, 2012	13,520	$ 676	$ 60,158	$ 108,101	$ (6,463)	$ 84	$ 162,556
Net income	—	—	—	3,655	—	43	3,698
Change in cumulative foreign currency translation adjustment	—	—	—	—	(3,179)	(2)	(3,181)
Shares issued in connection with stock compensation plans	230	12	151	—	—	—	163
Tax impact of stock-based compensation	—	—	(836)	—	—	—	(836)
Stock-based compensation	—	—	2,057	—	—	—	2,057
Dividends declared	—	—	—	(1,097)	—	—	(1,097)
Balances, June 30, 2013	13,750	$ 688	$ 61,530	$ 110,659	$ (9,642)	$ 125	$ 163,360

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

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

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$3,698	$5,088
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation (including capital lease amortization)	2,874	2,729
Amortization of purchased intangible assets	3,153	3,064
Amortization of deferred debt issuance costs	51	66
Stock-based compensation	2,057	1,935
Deferred income tax provision (benefit)	196	(459)
Gain (loss) on disposal of property, plant and equipment	21	(2)
Change in:		
Accounts receivable, net	(5,012)	1,212
Inventories	1,889	(4,401)
Prepaid expenses and other	(543)	300
Accounts payable	3,103	80
Customer advances	3,427	169
Accrued expenses and other liabilities	484	(1,706)
Net cash provided by operating activities	15,398	8,075
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(9,726)	(5,595)
Acquisition of TRX Industries	—	(10,294)
Change in other non-current assets	192	126
Net cash used in investing activities	(9,534)	(15,763)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings (repayments) on bank lines of credit, net	(9,811)	9,924
Payment on loans with former owners of LRI	(32)	(1,138)
Payment on capital lease obligations	(25)	(40)
Payment of dividends	(1,088)	(1,074)
Net proceeds from issuance of common stock to employees and directors	163	98
Tax impact of stock-based compensation	(836)	(11)
Net cash provided by (used in) financing activities	(11,629)	7,759
EFFECTS OF EXCHANGE RATES ON CASH	(112)	(132)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,877)	(61)
CASH AND CASH EQUIVALENTS, beginning of the period	8,200	5,276

CASH AND CASH EQUIVALENTS, end of the period	$2,323	$5,215

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

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DYNAMIC MATERIALS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Share and Per Share Data)
(unaudited)

1. BASIS OF PRESENTATION

The information included in the condensed consolidated financial statements is unaudited but includes all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the financial statements that are included in our Annual Report filed on Form 10-K for the year ended December 31, 2012.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Dynamic Materials Corporation ("DMC") and its controlled subsidiaries. Only subsidiaries in which controlling interests are maintained are consolidated. All significant intercompany accounts, profits, and transactions have been eliminated in consolidation.

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 20% to 35%) on earnings that have been permanently reinvested.

In January 2013, the United States Congress authorized, and the President signed into law, legislation which retroactively changed federal tax laws for 2012. Since this legislation was enacted in 2013, the financial statement benefit from these changes, totaling approximately $900, was reflected in the provision for income taxes in the consolidated statement of operations during the six months ended June 30, 2013.

Earnings Per Share

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

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

	For the three months ended June 30, 2013			For the three months ended June 30, 2012		
	Income	Shares	EPS	Income	Shares	EPS
Basic earnings per share:						
Net income attributable to DMC	$3,440			$2,653		
Less income allocated to RSAs	(53)			(60)		
Net income allocated to common stock for EPS calculation	$3,387	13,526,623	$0.25	$2,593	13,205,620	$0.20
Adjust shares for dilutives:						
Stock-based compensation plans		3,965			4,112	
Diluted earnings per share:						
Net income attributable to DMC	$3,440			$2,653		
Less income allocated to RSAs	(53)			(60)		
Net income allocated to common stock for EPS calculation	$3,387	13,530,588	$0.25	$2,593	13,209,732	$0.20

	For the six months ended June 30, 2013			For the six months ended June 30, 2012		
	Income	Shares	EPS	Income	Shares	EPS
Basic earnings per share:						
Net income attributable to DMC	$3,655			$5,079		
Less income allocated to RSAs	(56)			(111)		
Net income allocated to common stock for EPS calculation	$3,599	13,523,028	$0.27	$4,968	13,203,310	$0.38
Adjust shares for dilutives:						
Stock-based compensation plans		3,983			4,252	
Diluted earnings per share:						
Net income attributable to DMC	$3,655			$5,079		
Less income allocated to RSAs	(56)			(111)		
Net income allocated to common stock for EPS calculation	$3,599	13,527,011	$0.27	$4,968	13,207,562	$0.38

Fair Value of Financial Instruments

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

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued an accounting standards update which requires an entity to disclose amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present either on the face of the statement of operations or in the notes significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified

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to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This accounting standards update is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of 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 has now been integrated into DYNAenergetics US, had been a long-term supplier to DYNAenergetics US and, in recent years, accounted for a rapidly growing percentage of its perforating gun purchases.

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 on property, plant and equipment and discounted cash flow analysis on the identifiable intangible assets. The allocation of the 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, totaling $5,365, and are being amortized over 6 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 June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Raw materials	$15,924	$16,079
Work-in-process	12,399	12,133
Finished goods	16,368	19,155
Supplies	872	953
	$45,563	$48,320

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5. GOODWILL

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

	Explosive Metalworking	Oilfield Products	Total
Goodwill balance at December 31, 2012	$21,734	$15,697	$37,431
Adjustment due to recognition of tax benefit of tax amortization of certain goodwill	(164)	(248)	(412)
Adjustment due to exchange rate differences	(327)	(245)	(572)
Goodwill balance at June 30, 2013	$21,243	$15,204	$36,447

6. PURCHASED INTANGIBLE ASSETS

The following table presents details of our purchased intangible assets, other than goodwill, as of June 30, 2013:

	Gross	Accumulated Amortization	Net
Core technology	$22,126	$(6,212)	$15,914
Customer relationships	43,569	(22,179)	21,390
Trademarks / Trade names	2,371	(1,554)	817
Total intangible assets	$68,066	$(29,945)	$38,121

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

	Gross	Accumulated Amortization	Net
Core technology	$22,494	$(5,749)	$16,745
Customer relationships	44,334	(20,046)	24,288
Trademarks / Trade names	2,409	(1,484)	925
Total intangible assets	$69,237	$(27,279)	$41,958

The change in the gross value of our purchased intangible assets from December 31, 2012 to June 30, 2013 is due solely to 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. As of June 30, 2013 and December 31, 2012, customer advances totaled $4,763 and $1,363, respectively, and originated from several customers.

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8. DEBT

Lines of credit consisted of the following at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Syndicated credit agreement:		
U.S. Dollar revolving loan	$23,900	$31,900
Euro revolving loan	4,943	4,625
Canadian Dollar revolving loan	—	1,254
Commerzbank line of credit	—	981
	28,843	38,760
Less current portion	—	(981)
Long-term lines of credit	$28,843	$37,779

Long-term debt consisted of the following at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Loans with former owners of LRI	$83	$120
Less current maturities	(63)	(65)
Long-term debt	$20	$55

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 June 30, 2013, we were in compliance with all financial covenants and other provisions of our debt agreements.

9. BUSINESS SEGMENTS

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

The accounting policies of all the segments are the same as those described in the summary of significant accounting policies included herein and in our Annual Report on Form 10-K for the year ended December 31, 2012. 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 and six months ended June 30, 2013 and 2012 as follows:

	Explosive Metalworking	Oilfield Products	AMK Welding	Total
For the three months ended June 30, 2013				
Net sales	$32,390	$23,164	$2,305	$57,859
Depreciation and amortization	$1,467	$1,407	$151	$3,025
Income from operations	$5,245	$2,157	$404	$7,806
Unallocated amounts:				
Corporate expenses				(1,158)
Stock-based compensation				(635)
Other expense				(420)
Interest expense				(183)
Interest income				1
Consolidated income before income taxes and non-controlling interest				$5,411

	Explosive Metalworking	Oilfield Products	AMK Welding	Total
For the three months ended June 30, 2012				
Net sales	$27,374	$18,924	$2,389	$48,687
Depreciation and amortization	$1,378	$1,379	$125	$2,882
Income from operations	$3,589	$1,701	$165	$5,455
Unallocated amounts:				
Corporate expenses				(839)
Stock-based compensation				(966)
Other income				409
Interest expense				(196)
Interest income				3
Consolidated income before income taxes and non-controlling interest				$3,866

	Explosive Metalworking	Oilfield Products	AMK Welding	Total
For the six months ended June 30, 2013				
Net sales	$58,572	$41,818	$3,739	$104,129
Depreciation and amortization	$2,923	$2,803	$301	$6,027
Income from operations	$7,689	$3,880	$110	$11,679
Unallocated amounts:				
Corporate expenses				(4,664)
Stock-based compensation				(2,057)
Other expense				(124)
Interest expense				(355)
Interest income				4
Consolidated income before income taxes				$4,483

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	Explosive Metalworking	Oilfield Products	AMK Welding	Total
For the six months ended June 30, 2012				
Net sales	$54,908	$39,898	$4,093	$98,899
Depreciation and amortization	$2,780	$2,764	$249	$5,793
Income from operations	$7,688	$3,747	$77	$11,512
Unallocated amounts:				
Corporate expenses				(1,790)
Stock-based compensation				(1,935)
Other income				209
Interest expense				(407)
Interest income				8
Consolidated income before income taxes				$7,597

During the three months ended June 30, 2013, sales to one customer accounted for $7,451 (12.9%) of total net sales. During the six months ended June 30, 2013, no one customer accounted for more than 10% of total net sales. During the three and six months ended June 30, 2012, no one customer accounted for more than 10% of total net sales.

10. RETIREMENT EXPENSES

During the first quarter of 2013 and, as a result of board actions taken in January 2013, we recorded a one-time expense of $2,965 associated with management retirements, the majority of which relates to the March 1, 2013 retirement of Yvon Cariou, our former President and Chief Executive Officer. This expense includes $894 of stock-based compensation, with the remainder representing cash payments.

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

The following discussion should be read in conjunction with our historical consolidated financial statements and notes, as well as the selected historical consolidated financial data that are included in our Annual Report filed on Form 10-K for the year ended December 31, 2012.

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

Executive Overview

Our business is organized into three segments: Explosive Metalworking (which we also refer to as Nobelclad), Oilfield Products and AMK Welding. For the six months ended June 30, 2013, Explosive Metalworking accounted for 56% of our net sales and 66% of our income from operations before consideration of unallocated corporate expenses and stock-based compensation expense, which are not allocated to our business segments. Our Oilfield Products segment accounted for 40% and 33% of our first half 2013 sales and income from operations, respectively, while the AMK Welding segment accounted for 4% of net sales and 1% of our income from operations for the first half of 2013.

Our consolidated net sales for the six months ended June 30, 2013 increased by $5,230, or 5.3%, compared to the same period of 2012. The year-to-year consolidated net sales increase reflects sales increases of $3,664 (6.7%) for our Explosive Metalworking segment and $1,920 (4.8%) for our Oilfield Products segment which were partially offset by a sales decrease of $354 (8.6%) for our AMK Welding segment. As a result of an increase of $4,295 in operating expenses, our consolidated income from operations decreased to $4,958 for the first half of 2013 compared to operating income of $7,787 in the same period of 2012. This $2,829 decrease in operating income reflects a flat year-to-year operating income reported by our Explosive Metalworking segment, small increases of $133 and $33 in the operating income reported by our Oilfield Products and AMK Welding segments, respectively, and a net increase of $2,996 in aggregate unallocated corporate expenses and stock-based compensation expense which includes $2,965 of non-recurring expenses associated with executive management retirements. Reported consolidated operating income for the six months ended June 30, 2013 and 2012 includes amortization expense of $3,153 and $3,064, respectively, relating to purchased intangible assets associated with several acquisitions executed between November 2007 and January 2012. Net income was $3,655 for the first half of 2013 compared to net income of $5,079 for the same period of 2012.

Impact of Current Economic Situation on the Company

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

As a result of acquisitions made during 2009, 2010 and 2012 and strong organic sales growth beginning in the third quarter of 2010 and continuing through the second quarter of 2012, our Oilfield Products segment has grown into a

second core business for us, generating 39% of our consolidated net sales in 2012 and 40% of our year-to-date 2013 consolidated net sales as compared to only 13% of our consolidated net sales in 2009.

Our Explosive Metalworking backlog decreased slightly to $44,151 at June 30, 2013 from $46,398 and $47,558 at December 31, 2012 and March 31, 2013, respectively. Based upon the June 30, 2013 Explosive Metalworking backlog, recent quoting activity for this segment and positive sales trends in our Oilfield Products segment, we expect our third quarter 2013 consolidated net sales to be comparable to the $57,859 in consolidated sales that we reported in the second quarter and believe that our full year 2013 consolidated net sales could increase by 6% to 8% from the $201,567 in consolidated net sales that we reported in 2012.

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

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refrigeration, and similar industries. While a large portion of the demand for our clad metal products is driven by new plant construction and large plant expansion projects, maintenance and retrofit projects at existing chemical processing, petrochemical processing, oil refining, and aluminum smelting facilities also account for a significant portion of total demand.

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

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

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

Gross profit and cost of products sold

Cost of 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.

Backlog

We use backlog as a primary means of measuring the immediate outlook for our Explosive Metalworking business. We define “backlog” at any given point in time as consisting of all firm, unfulfilled purchase orders and commitments at that time. Generally speaking, we expect to fill most backlog orders within the following 12 months. From experience, most firm purchase orders and commitments are realized.

Our backlog with respect to the Explosive Metalworking segment decreased to $44,151 at June 30, 2013 from $46,398 at December 31, 2012.

Three and Six Months Ended June 30, 2013 Compared to the Three and Six Months Ended June 30, 2012

Net sales

	Three Months Ended June 30,			Percentage	
	2013	2012	Change	Change	
Net sales	$57,859	$48,687	$9,172	18.8	%

	Six Months Ended June 30,			Percentage	
	2013	2012	Change	Change	
Net sales	$104,129	$98,899	$5,230	5.3	%

Our consolidated net sales for the second quarter of 2013 increased 18.8% to $57,859 from $48,687 for the second quarter of 2012. Explosive Metalworking sales increased 18.3% to $32,390 for the three months ended June 30, 2013 (56% of total sales) from $27,374 for the same period of 2012 (56% of total sales). Despite our Explosive Metalworking backlog at the beginning of the respective quarters of 2012 and 2013 decreasing from $57,253 at March 31, 2012 to $47,558 at March 31, 2013, our second quarter 2013 Explosive Metalworking sales increased by $5,016, which indicates that the increase relates principally to the timing

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of orders entering our backlog and the subsequent shipment of these orders. To further explain, second quarter 2012 sales were lower than one might expect because the backlog at March 31, 2012 included certain large orders that were booked late in the quarter for which minimal or no shipments were made in the second quarter of 2012 due to lead times on metal purchases for these orders.

Oilfield Products contributed $23,164 to second quarter 2013 sales (40% of total sales), which represents an increase of 22.4% from sales of $18,924 for the second quarter of 2012 (39% of total sales). This $4,240 increase relates principally to timing of shipments on an annual tender order from India. Oilfield Products first quarter 2012 sales included approximately $2.5 million in sales relating to the Indian tender order; however, full shipment of the 2013 tender order valued at approximately $3.2 million shipped in the second quarter.

AMK Welding contributed $2,305 to second quarter 2013 sales (4% of total sales) compared to sales of $2,389 for the second quarter of 2012 (5% of total sales), a sales decrease of $84 or 3.5%. As was the case in the first quarter of 2012, AMK continues to experience a decline in ground power sales that is attributable to a customer's decision to discontinue new production work on a ground turbine platform that has accounted for a major portion of AMK's historical ground power revenues. While we believe that AMK can replace this lost revenue stream over time by developing new business opportunities with both existing and new customers in the aircraft engine, ground turbine, and oil and gas industries, we view 2013 as another transition year for AMK and, at this point, do not expect AMK's full year 2013 sales to improve from the $8,830 in sales that AMK reported in 2012.

Our consolidated net sales for the first half of 2013 increased 5.3% to $104,129 from $98,899 in the first half of 2012. Explosive Metalworking sales increased 6.7% to $58,572 for the six months ended June 30, 2013 (56% of total sales) from $54,908 (56% of total sales) for the same period of 2012. The $3,664 increase in year-to-date Explosive Metalworking sales is smaller than their second quarter 2013 sales increase of $5,016 and, as discussed above, this sales increase relates principally to timing of shipments out of backlog.

Oilfield Products contributed $41,818 to first half 2013 sales (40% of total sales), which represents an increase of 4.8% from sales of $39,898 for the first half of 2012 (40% of total sales). Since average North American rig count in the oil and gas industry was down slightly from the first half of 2012 to the first half of 2013, the sales increase is largely attributable to a combination of market shares gains, geographical expansion initiatives and favorable changes in product/customer mix.

AMK Welding contributed $3,739 to first half 2013 sales (4% of total sales) compared to $4,093 for the first half of 2012 (4% of total sales), which represents a decrease of $354 or 8.6%.

Gross profit

	Three Months Ended June 30,			
	2013	2012	Change	Percentage Change
Gross profit	$17,063	$13,939	$3,124	22.4 %
Consolidated gross profit margin rate	29.5 %	28.6 %		

	Six Months Ended June 30,			
	2013	2012	Change	Percentage Change
Gross profit	$29,782	$28,316	$1,466	5.2 %
Consolidated gross profit margin rate	28.6 %	28.6 %		

Our consolidated second quarter 2013 gross profit increased by 22.4% to $17,063 from $13,939 for the three months ended June 30, 2012. Our second quarter 2013 consolidated gross profit margin rate increased to 29.5% from 28.6% for the second quarter of 2012. For the six months ended June 30, 2013, consolidated gross profit increased by 5.2% to $29,782 from $28,316 for the same period of 2012. Our year-to-date consolidated gross profit margin rate remained flat at 28.6% in both 2012 and 2013.

The gross profit margin for Explosive Metalworking increased from 25.5% in the second quarter of 2012 to 26.3% in the second quarter of 2013. For the six-month period, our gross profit margin for this segment decreased to 24.6% in 2013 from 25.9% in 2012. The increase in our second quarter gross margin rate and the decline in our year-to-date 2013 gross margin rate both relate principally to changes in product mix as compared to the comparable periods of 2012. As has been the case historically, we expect to see continued fluctuations in Explosive Metalworking's quarterly gross margin rates in the future that result from fluctuations in quarterly sales volume and changes in product mix.

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Our Oilfield Products segment's gross profit margin decreased to 34.5% in the second quarter of 2013 from 35.1% in the second quarter of 2012 and reflects the negative impact of a $300 increase to our reserve for obsolete and slow-moving inventory that was recorded in the second quarter of 2013. Oilfield Products reported a gross profit margin of 35.8% for the first half of 2013 compared to a gross profit margin of 34.2% for the first half of 2012. The improved year-to-date gross margin performance relates principally to favorable changes in product/customer mix.

The gross profit margin for AMK Welding increased to 27.5% in the second quarter of 2013 from 17.0% in the second quarter of 2012. AMK's second quarter 2013 gross margin performance was favorably impacted by a large volume of high margin repair work that flowed through the shop in the second quarter of 2013. The gross profit margin for AMK Welding decreased slightly to 14.3% for the first half of 2013 from 14.6% for the same period of 2012, with this decrease relating principally to the $354 decrease in AMK's 2013 sales and the fact that the majority of AMK's manufacturing costs are fixed in nature.

Based upon the expected contribution to 2013 consolidated net sales by each of our three business segments, we expect our consolidated full year 2013 gross margin to be in a range of 27% to 29%.

General and administrative expenses

	Three Months Ended June 30,			Percentage
	2013	2012	Change	Change
General and administrative expenses	$5,158	$4,641	$517	11.1 %
Percentage of net sales	8.9 %	9.5 %		

	Six Months Ended June 30,			Percentage
	2013	2012	Change	Change
General and administrative expenses	$13,296	$9,146	$4,150	45.4 %
Percentage of net sales	12.8 %	9.2 %		

General and administrative expenses increased by $517, or 11.1%, to $5,158 for the three months ended June 30, 2013 from $4,641 for the same period of 2012. This increase includes an aggregate increase of $352 in salaries, benefits and payroll taxes, an increase of $107 in professional services and a net increase of $58 in all other expense categories. As a percentage of net sales, general and administrative expenses decreased to 8.9% in the second quarter of 2013 from 9.5% in the second quarter of 2012.

General and administrative expenses increased by $4,150, or 45.4% to $13,296 for the six months ended June 30, 2013 from $9,146 for the same period of 2012. Excluding the impact of $2,965 from non-recurring expenses associated with management retirements, our general and administrative increased $1,185 or 13.0%. This increase includes an aggregate increase of $437 in salaries, benefits and payroll taxes, an increase of $343 in professional services and a net increase of $405 in all other expense categories. Excluding the impact of non-recurring management retirement expenses, general and administrative expenses, as a percentage of net sales, increased to 9.9% for the first half of 2013 from 9.2% for the first half of 2012.

Selling and distribution expenses

	Three Months Ended June 30,			Percentage
	2013	2012	Change	Change
Selling and distribution expenses	$4,324	$4,128	$196	4.7 %
Percentage of net sales	7.5 %	8.5 %		

	Six Months Ended June 30,			Percentage
	2013	2012	Change	Change
Selling and distribution expenses	$8,375	$8,319	$56	0.7 %
Percentage of net sales	8.0 %	8.4 %		

Our selling and distribution expenses, which include sales commissions of $289 in the second quarter of 2013 and $353 in the second quarter of 2012, increased by 4.7% to $4,324 in the second quarter of 2013 from $4,128 in the second quarter of 2012. The increase in our selling and distribution expenses reflects decreased selling and distribution expenses of $139 at our U.S. divisions and increased selling and distribution expenses of $335 at our foreign divisions.

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The $139 decrease in our second quarter U.S. selling and distribution expenses reflects a decrease in stock-based compensation of $156 and a net increase of $17 in all other expense categories. The $335 increase in our foreign divisions' selling and distribution expenses reflects an aggregate increase of $139 in salary and commission expense and a net increase of $196 in all other spending categories. As a percentage of net sales, selling and distribution expenses decreased to 7.5% in the second quarter of 2013 from 8.5% in the second quarter of 2012.

Our selling and distribution expenses, which include sales commissions of $597 in the first half of 2013 and $871 in the first half of 2012, increased by 0.7% to $8,375 in the first half of 2013 from $8,319 in the first half of 2012. The increase reflects decreased selling and distribution expenses of $186 at our U.S. divisions and increased selling and distribution expenses of $242 at our foreign divisions.

The $186 decrease in our U.S. selling and distribution expenses for the first half of 2013 reflects a decrease in stock-based compensation of $303 and a net increase of $117 in all other expense categories. The $242 increase in our foreign divisions' selling and distribution expenses reflects an aggregate increase of $40 in salary and commission expense and a net increase of $202 in all other spending categories. As a percentage of net sales, selling and distribution expenses decreased to 8.0% in the first half of 2013 from 8.4% in the first half of 2012.

Our consolidated selling and distribution expenses for the three months ended June 30, 2013 include $1,365 and $2,896, respectively, for our Explosive Metalworking and Oilfield Products business segments as compared to $1,675 and $2,247, respectively, for the second quarter of 2012. Our consolidated selling and distribution expenses for the six months ended June 30, 2013 include $2,969 and $5,284, respectively, for our Explosive Metalworking and Oilfield Products business segments as compared to $3,235 and $4,695, respectively, for the first half of 2012. The higher level of selling and distribution expenses for our Oilfield Products segment relative to its contribution to our consolidated net sales reflects the need, particularly in North America, to maintain a number of strategically located distribution centers that are in close proximity to areas which contain a large concentration of oilfields and enjoy a high volume of related oil and gas drilling activities.

Amortization expense

	Three Months Ended June 30,				Percentage	
	2013		2012		Change	Change	
Amortization of purchased intangible assets	$1,568		$1,520		$48	3.2	%
Percentage of net sales	2.7	%	3.1	%			

	Six Months Ended June 30,					Percentage	
	2013		2012		Change	Change	
Amortization of purchased intangible assets	$3,153		$3,064		$89	2.9	%
Percentage of net sales	3.0	%	3.1	%			

Amortization expense relates to the amortization of values assigned to intangible assets in connection with our prior year acquisitions of DYNAenergetics, LRI, the two Russian joint ventures, Austin Explosives and our January 3, 2012 acquisition of TRX Industries. The $48 increase in second quarter 2013 amortization expenses reflects the impact of foreign currency translation effects. Amortization expense for the three months ended June 30, 2013 includes $1,242, $279, and $47 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively. Amortization expense for the three months ended June 30, 2012 includes $1,199, $275 and $46 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively.

Amortization expense for the six months ended June 30, 2013 includes $2,497, $562 and $94 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively. Amortization expense for the six months ended June 30, 2012 includes $2,416, $555 and $93 relating to values assigned to customer relationships, core technology, and trademarks/trade names, respectively.

Amortization expense (as measured in Euros) associated with the DYNAenergetics acquisition and the acquisition of the two Russian joint ventures is expected to approximate €3,490 and €244, respectively, in 2013. Our 2013 amortization expense associated with the June 2010 Austin Explosives acquisition and the January 2012 acquisition of TRX Industries is expected to approximate $435 and $895, respectively, and our 2013 amortization expense (as measured in Canadian dollars) associated with the LRI acquisition is expected to approximate 80 CAD.

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Operating income

	Three Months Ended June 30,			Percentage	
	2013	2012	Change	Change	
Operating income	$6,013	$3,650	$2,363	64.7	%

	Six Months Ended June 30,				Percentage	
	2013	2012	Change		Change	
Operating income	$4,958	$7,787	$(2,829	)	(36.3	)%

Our consolidated operating income increased by $2,363 to $6,013 in the second quarter of 2013 from $3,650 in the second quarter of 2012. These operating income totals for the second quarters of 2013 and 2012 include $1,158 and $839, respectively, of unallocated corporate expenses and $635 and $966, respectively, of stock-based compensation expense. Our consolidated income from operations decreased by $2,829 to $4,958 for the first half of 2013 from $7,787 for the first half of 2012. These operating income totals for 2013 and 2012 include $4,664 and $1,790, respectively, of unallocated corporate expenses and $2,057 and $1,935, respectively, of stock-based compensation expense. These expenses are not allocated to our business segments and thus are not included in the below 2013 and 2012 operating income totals for Explosive Metalworking, Oilfield Products, and AMK Welding.

The large decrease in our consolidated operating income for the first half of 2013 reflects a modest increase of $167 in the aggregate operating income reported by our three business segments that was offset by increases in unallocated corporate expenses and stock-based compensation expense of $2,874 and $122, respectively. The aggregate increase of $2,996 in unallocated corporate expenses and stock-based compensation expense includes $2,965 of non-recurring expenses associated with management retirements, the majority of which relates to the March 1, 2013 retirement of Yvon Cariou, our former President and Chief Executive Officer, who was succeeded in this position by Kevin Longe, our former Chief Operating Officer who joined the Company in July 2012.

Explosive Metalworking reported operating income of $5,245 in the second quarter of 2013 compared to $3,589 in the second quarter of 2012. This $1,656 or 46.1% increase is largely attributable to the 18.3% sales increase discussed above. Operating results of Explosive Metalworking for the three months ended June 30, 2013 and 2012 include $521 and $513, respectively, of amortization expense of purchased intangible assets. Explosive Metalworking reported operating income of $7,689 in the first half of 2013 compared to $7,688 in the first half of 2012. Operating results of Explosive Metalworking for the six months ended June 30, 2013 and 2012 include $1,049 and $1,036, respectively, of amortization expense of purchased intangible assets.

Oilfield Products reported operating income of $2,157 in the second quarter of 2013 compared to $1,701 in the second quarter of 2012. Operating results of Oilfield Products for the three months ended June 30, 2013 and 2012 include $1,047 and $1,007, respectively, of amortization expense of purchased intangible assets. Oilfield Products reported operating income of $3,880 in the first half of 2013 compared to $3,747 in the first half of 2012. Operating results of Oilfield Products for the three months ended June 30, 2013 and 2012 include $2,104 and $2,028, respectively, of amortization expense of purchased intangible assets.

AMK Welding reported operating income of $404 in the second quarter of 2013, an increase of $239 from the operating income of $165 that it reported in the second quarter of 2012. The increase in AMK's operating income for the three months ended June 30, 2013 compared to the same period of 2012 is principally attributable to the increase in gross profit as discussed above. AMK Welding reported operating income of $110 in the first half of 2013

compared to operating income of $77 that it reported in the same period of 2012.

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Other income (expense), net

	Three Months Ended June 30,			Percentage
	2013	2012	Change	Change
Other income (expense), net	$(420)	$409	$(829)	(202.7)%

	Six Months Ended June 30,			Percentage
	2013	2012	Change	Change
Other income (expense), net	$(124)	$209	$(333)	(159.3)%

We reported net other expense of $420 in the second quarter of 2013 compared to net other income of $409 in the second quarter of 2012. Our reported second quarter 2013 net other expense of $420 includes net realized and unrealized foreign exchange losses of $456. Our second quarter 2012 net other income of $409 includes net realized and unrealized foreign exchange gains of $403.

We reported net other expense of 124 for the six months ended June 30, 2013 compared to net other income of $209 for the six months ended June 30, 2012. Our reported first half 2013 net other expense of $124 includes net realized and unrealized foreign exchange losses of $136. Our reported first half 2012 net other income of $209 includes net realized and unrealized foreign exchange gains of $202.

Interest income (expense), net

	Three Months Ended June 30,			Percentage
	2013	2012	Change	Change
Interest income (expense), net	$(182)	$(193)	$11	(5.7)%

	Six Months Ended June 30,			Percentage
	2013	2012	Change	Change
Interest income (expense), net	$(351)	$(399)	$48	(12.0)%

We recorded net interest expense of $182 in the second quarter of 2013 compared to net interest expense of $193 in the second quarter of 2012. We recorded net interest expense of $351 for the first half of 2013 compared to net interest expense of $399 for the first half of 2012. The decreases in second quarter and year-to-date net interest expense reflects relatively stable interest rates and decreases in average outstanding borrowings during the respective periods.

Income tax provision

	Three Months Ended June 30,			Percentage
	2013	2012	Change	Change
Income tax provision	$1,956	$1,167	$789	67.6%
Effective tax rate	36.1%	30.2%		

	Six Months Ended June 30,			Percentage
	2013	2012	Change	Change
Income tax provision	$785	$2,509	$(1,724)	(68.7)%
Effective tax rate	17.5%	33.0%		

We recorded an income tax provision of $1,956 in the second quarter of 2013 compared to an income tax provision of $1,167 in the second quarter of 2012. Our consolidated income tax provision for the three months ended June 30, 2013 and 2012 included $1,240 and $784, respectively, related to U.S. taxes, with the remainder relating to net foreign tax provisions of $716 and $383, respectively, associated with our foreign operations and holding companies. The effective tax rate increased to 36.1% for the second quarter of 2013 compared to 30.2% for the second quarter of 2012.

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For the six months ended June 30, 2013, we recorded an income tax provision of $785 compared to an income tax provision of $2,509 for the same period of 2012. Our consolidated income tax provision for the six months ended June 30, 2013 and 2012 included a U.S. tax benefit of $766 in 2013 and a U.S. tax provision of $1,572 in 2012, with the remainder relating to net foreign tax provisions of $1,551 and $937, respectively, associated with our foreign operations and holding companies. The effective tax rate decreased to 17.5% for the first half of 2013 compared to 33.0% for the first half of 2012.

Our statutory income tax rates range from 20% to 35% for our various U.S. and foreign operating entities and holding companies. In January 2013, the United States Congress authorized, and the President signed into law, changes to the U. S. income tax laws which were retroactive to January 1, 2012. However, since these changes were enacted in 2013, the financial statement benefit of such legislation could not be reflected until the first quarter of 2013. The $908 tax benefit that we recognized in the first quarter of 2013 had a significant favorable impact on our first quarter and first half effective tax rate. During the second quarter of 2013, we recorded a one-time tax expense of $404 associated with a German tax audit settlement as further discussed below. This non-recurring adjustment had a significant unfavorable impact on our second quarter and first half effective tax rate. Excluding the effects of the $908 tax benefit we recorded in the first quarter and $404 of additional tax expense we recorded in the second quarter, our first half 2013 effective tax rate would have been 28.8%. Year-to-year fluctuations in our consolidated effective tax rate also reflect the different tax rates in our U.S. and foreign tax jurisdictions and the variation in contribution to consolidated pre-tax income from each jurisdiction for the respective year.

Tax returns of our German subsidiaries have been under routine examination by the German tax authorities for the past several months. During the second quarter of 2013, German tax authorities proposed and we agreed to a settlement. The key provisions of the settlement resulted in a net reduction of the subsidiaries' loss carryforwards, which reduced the non-current deferred tax assets associated with these carryforwards that were recorded on our books. Thus, we recorded an additional $404 in income tax expense for the second quarter to reflect this reduction. The settlement also resulted in an increase in the tax basis of our amortizable, intangible assets; however, under U.S. GAAP, this increase is not reflected in the financial statements. The tax savings from the increase in these assets will be realized by the Company over the next nine years as an income tax deduction.

We expect our blended effective tax rate for the full year 2013 to range from 24% to 26% based on projected pre-tax income, the financial statement benefit of $908 in certain tax benefits that we recognized in the first quarter of 2013 relating to the tax law changes enacted in January 2013, and the $404 non-recurring charge we recorded in the second quarter in connection with the German tax settlement. Excluding the impact of the first quarter tax benefit and the second quarter non-recurring charge, the blended effective tax rate for 2013 is projected to be in a range of 28% to 30%.

Adjusted EBITDA

	Three Months Ended June 30,			Percentage
	2013	2012	Change	Change
Adjusted EBITDA	$9,658	$7,452	$2,206	29.6 %

	Six Months Ended June 30,			Percentage
	2013	2012	Change	Change
Adjusted EBITDA	$12,999	$15,506	$(2,507)	(16.2)%

Adjusted EBITDA is a non-GAAP measure that we believe provides an important indicator of our ongoing operating performance. Our aggregate non-cash depreciation, amortization of purchased intangible assets and stock-based

compensation expense for the three months ended June 30, 2013 and 2012 was $3,660 and $3,848, respectively, and for the six months ended June 30, 2013 and 2012 was $8,084 and $7,728, respectively. These aggregate non-cash charges represent a significant percentage of the consolidated operating income that we reported for these periods.
We use non-GAAP EBITDA and Adjusted EBITDA in our operational and financial decision-making and believe that these non-GAAP measures are a reliable indicator of our ability to generate cash flow from operations and facilitate a more meaningful comparison of the operating performance of our three business segments than do certain GAAP measures. Research analysts, investment bankers and lenders also use EBITDA and Adjusted EBITDA to assess operating performance. The following is a reconciliation of the most directly comparable GAAP measure to Adjusted EBIDTA.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income attributable to DMC	$3,440	$2,653	$3,655	$5,079
Interest expense	183	196	355	407
Interest income	(1)	(3)	(4)	(8)
Provision (benefit) for income taxes	1,956	1,167	785	2,509
Depreciation	1,457	1,362	2,874	2,729
Amortization of purchased intangible assets	1,568	1,520	3,153	3,064
EBITDA	8,603	6,895	10,818	13,780
Stock-based compensation	635	966	2,057	1,935
Other (income) expense, net	420	(409)	124	(209)
Adjusted EBITDA	$9,658	$7,452	$12,999	$15,506

Adjusted EBITDA increased by 29.6% to $9,658 in the second quarter of 2013 from $7,452 in the second quarter of 2012 primarily due to the $2,363 increase in second quarter 2013 operating income. Adjusted EBITDA decreased by 16.2% to $12,999 for the first half of 2013 from $15,506 for the first half of 2012 primarily due to the $2,829 decrease in the operating income for the first half of 2013.

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Liquidity and Capital Resources

We have historically financed our operations from a combination of internally generated cash flow, revolving credit borrowings, various long-term debt arrangements, and the issuance of common stock. We believe that cash flow from operations and funds available under our current credit facilities and any future replacement thereof will be sufficient to fund the working capital, debt service, and capital expenditure requirements of our current business operations for the foreseeable future. Nevertheless, our ability to generate sufficient cash flows from operations will depend upon our success in executing our strategies. If we are unable to (i) realize sales from our backlog; (ii) secure new customer orders at attractive prices; and (iii) continue to implement cost-effective internal processes, our ability to meet cash requirements through operating activities could be impacted. Furthermore, any restriction on the availability of borrowings under our credit facilities could negatively affect our ability to meet future cash requirements.

Debt facilities

On December 21, 2011, we entered into a five-year syndicated credit agreement, which provides revolving loan availability of $36,000, 16,000 Euros and 1,500 Canadian Dollars through a syndicate of four banks, and amends and restates in its entirety our prior syndicated credit agreement entered into on November 16, 2007.

As of June 30, 2013, U.S. dollar revolving loans of $23,900 and Euro revolving loans of $4,943 were outstanding under our syndicated credit agreement and $83 was outstanding under loan agreements with the former owners of LRI. While we had approximately $33,431 of unutilized revolving credit loan capacity as of June 30, 2013 under our various credit facilities, future borrowings are subject to compliance with financial covenants that could significantly limit availability.

There are two significant financial covenants under our syndicated credit agreement, the leverage ratio and fixed charge coverage ratio requirements. The leverage ratio is defined in the credit agreement as Consolidated Funded Indebtedness at the balance sheet date as compared to Consolidated EBITDA, which is defined as earnings before provisions for income taxes, interest expense, depreciation and amortization, extraordinary, non-recurring charges and other non-cash charges, for the previous twelve months. For the six months ended June 30, 2013 and the year ended December 31, 2012, Consolidated EBITDA approximated the “Adjusted EBITDA” that we reported for the respective periods. As of June 30, 2013, the maximum leverage ratio permitted by our credit facility was 2.25 to 1.0. The actual leverage ratio as of June 30, 2013 was 0.88 to 1.0. The maximum leverage ratio permitted as of September 30 and December 31, 2013 is also 2.25 to 1.0.

The fixed charge ratio, as defined in the credit agreement, means, for any period, the ratio of Consolidated EBITDA to Fixed Charges. Consolidated EBITDA is defined above and Fixed Charges equals the sum of cash interest expense, cash dividends, cash income taxes and an amount equal to 75% of depreciation expense. As of June 30, 2013, the minimum fixed charge ratio permitted by our credit facility was 2.0 to 1.0. The actual fixed charge ratio as of June 30, 2013 was 2.84 to 1.0. The minimum fixed charge coverage ratio permitted for the twelve month periods ending September 30 and December 31, 2013 is 2.0 to 1.0.

Debt and other contractual obligations and commitments

Our existing loan agreements include various covenants and restrictions, certain of which relate to the payment of dividends or other distributions to stockholders, redemption of capital stock, incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets, and maintenance of specified financial ratios. As of June 30, 2013, we were in compliance with all financial covenants and other provisions of our debt agreements.

Our principal cash flows related to debt obligations and other contractual obligations and commitments have not materially changed since December 31, 2012.

Cash flows from operating activities

Net cash flows provided by operating activities increased to $15,398 in the first half of 2013 from $8,075 in the first half 2012, reflecting a $1,390 decrease in net income that was offset by positive changes in net working capital of $7,694 and positive changes in non-cash adjustments aggregating $1,019. We experienced net positive changes in working capital of $3,348 in the first half of 2013 compared to net negative changes in working capital of $4,346 in the same period of 2012. Positive changes in our 2013 working capital included a decrease in inventories of $1,889 and increases of $3,103, $3,427 and $484 in accounts payable, customer advances, and accrued expenses and other liabilities, respectively. These positive changes were partly offset by an increase of $5,012 in accounts receivable and an increase of $543 in prepaid expenses and other. All of foregoing changes in working capital relate to typical fluctuations in our business flow and the related timing of cash payments and receipts.

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Net cash flows provided by operating activities for the first half of 2012 totaled $8,075. Significant sources of operating cash flow included net income of $5,088, non-cash depreciation and amortization expense of $5,859 and stock-based compensation of $1,935. Operating cash flow for the first half of 2012 was reduced by a deferred income tax benefit of $459 and net negative changes in working capital of $4,346. Negative cash flows from changes in working capital included a $4,401 increase in inventory and a $1,706 decrease in accrued expenses and other liabilities. These were partially offset by decreases in accounts receivable and prepaid expenses of $1,212 and $300, respectively, and increases in customer advances and accounts payable of $169 and $80, respectively. All of foregoing changes in working capital relate to typical fluctuations in our business flow and the related timing of cash payments and receipts.

Cash flows from investing activities

Net cash flows used in investing activities for the first half of 2013 totaled $9,534 and consisted almost entirely of capital expenditures. Our capital expenditures included $5,626 for our greenfield projects in Russia and North America.

Net cash flows used by investing activities for the first half of 2012 totaled $15,763 which included our $10,294 cash purchase of TRX Industries and $5,595 in capital expenditures.

Cash flows from financing activities

Net cash flows used in financing activities for the first half of 2013 totaled $11,629, which included net repayments on bank lines of credit of $9,811 and payment of quarterly dividends of $1,088.

Net cash flows provided by financing activities for the first half of 2012 totaled $7,759, which included net borrowings on bank lines of credit of $9,924. These sources of cash flow were partially offset by uses of cash flows in financing activities which included payment on our loan with the former owners of LRI of $1,138 and payment of quarterly dividends of $1,074.

Payment of Dividends

On May 22, 2013, our board of directors declared a quarterly cash dividend of $.04 per share which was paid on July 14, 2013. The dividend totaled $549 and was payable to shareholders of record as of June 30, 2013. We also paid a quarterly cash dividend of $.04 per share in the first quarter of 2013 and the first and second quarters of 2012.

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

Critical Accounting Policies

Our critical accounting policies have not changed from those reported in our Annual Report filed on Form 10-K for the year ended December 31, 2012.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no events that materially affect our quantitative and qualitative disclosure about market risk from that reported in our Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 4. Controls and Procedures

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

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As of June 30, 2013, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level. There have been no changes in our internal controls during the quarter ended June 30, 2013 or in other factors that could materially affect our internal controls over financial reporting.

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

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Part II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no significant changes in the risk factors identified as being attendant to our business in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6.

Exhibits

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

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

32.1 Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Senior Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from the Quarterly Report on Form 10-Q of Dynamic Materials Corporation. for the quarter ended June 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statement of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

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

DYNAMIC MATERIALS CORPORATION
(Registrant)

Date: July 30, 2013

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