DYNAMIC MATERIALS CORP
Form 10-Q
October 27, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

FOR THE TRANSITION PERIOD FROM TO .

Commission file number 001-14775

DYNAMIC MATERIALS CORPORATION
(Exact name of Registrant as Specified in its Charter)

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

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

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

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 x No o

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 x No o

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 o | Accelerated filer x |

| | |
|---|---|
| Non-accelerated filer o<br>(Do not check if smaller reporting company) | Smaller reporting company o |

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

The number of shares of Common Stock outstanding was 14,482,261 as of October 27, 2016.

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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. We intend the forward-looking statements throughout this quarterly report on Form 10-Q 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. 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. Such statements include projections, guidance and other statements regarding our expected financial position and operating results, our business strategy, our financing plans, our liquidity position and factors impacting such position, and the outcome of any pending litigation or contingencies. 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, those factors referenced in our Annual Report on Form 10-K for the year ended December 31, 2015 and such things as 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; product pricing and margins; 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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Part I - FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

DYNAMIC MATERIALS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share and Per Share Data)

| | September 30, 2016 (unaudited) | December 31, 2015 (as adjusted) |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 7,451 | $ 6,291 |
| Accounts receivable, net of allowance for doubtful accounts of $1,185 and $974, respectively | 25,970 | 35,798 |
| Inventory, net | 32,866 | 35,449 |
| Prepaid expenses and other | 6,597 | 8,916 |
| Total current assets | 72,884 | 86,454 |
| PROPERTY, PLANT AND EQUIPMENT | 112,758 | 106,523 |
| Less - accumulated depreciation | (53,752 ) | (48,524 ) |
| Property, plant and equipment, net | 59,006 | 57,999 |
| GOODWILL, net | 17,417 | 17,190 |
| PURCHASED INTANGIBLE ASSETS, net | 17,521 | 20,418 |
| OTHER ASSETS, net | 107 | 131 |
| TOTAL ASSETS | $ 166,935 | $ 182,192 |

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

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DYNAMIC MATERIALS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share and Per Share Data)

| | September 30, 2016 (unaudited) | December 31, 2015 (as adjusted) |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 11,785 | $ 14,624 |
| Accrued expenses | 5,336 | 3,972 |
| Accrued anti-dumping duties | 6,502 | 6,374 |
| Dividend payable | 290 | 284 |
| Accrued income taxes | 419 | 2,783 |
| Accrued employee compensation and benefits | 3,043 | 2,465 |
| Customer advances | 2,589 | 2,396 |
| Total current liabilities | 29,964 | 32,898 |
| LINES OF CREDIT | 14,699 | 26,826 |
| DEFERRED TAX LIABILITIES | 1,556 | 2,119 |
| OTHER LONG-TERM LIABILITIES | 2,036 | 1,928 |
| Total liabilities | 48,255 | 63,771 |
| COMMITMENTS AND CONTINGENT LIABILITIES | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, $0.05 par value; 4,000,000 shares authorized; no issued and outstanding shares | — | — |
| Common stock, $0.05 par value; 25,000,000 shares authorized; 14,484,639 and 14,212,115 shares outstanding, respectively | 724 | 711 |
| Additional paid-in capital | 72,258 | 70,408 |
| Retained earnings | 82,589 | 87,767 |
| Other cumulative comprehensive loss | (36,866 ) | (40,465 ) |
| Treasury stock, at cost; 2,378 and 0 shares, respectively | (25 ) | — |
| Total stockholders' equity | 118,680 | 118,421 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 166,935 | $ 182,192 |

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 NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(Amounts in Thousands, Except Share and Per Share Data)
(unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| NET SALES | $36,553 | $39,508 | $118,402 | $125,068 |
| COST OF PRODUCTS SOLD | 28,096 | 29,219 | 89,652 | 91,491 |
| Gross profit | 8,457 | 10,289 | 28,750 | 33,577 |
| COSTS AND EXPENSES: | | | | |
| General and administrative expenses | 5,685 | 5,071 | 15,522 | 16,670 |
| Selling and distribution expenses | 3,832 | 4,867 | 12,352 | 14,703 |
| Amortization of purchased intangible assets | 1,009 | 1,007 | 3,023 | 3,037 |
| Restructuring expenses | 373 | 285 | 1,202 | 3,397 |
| Total costs and expenses | 10,899 | 11,230 | 32,099 | 37,807 |
| OPERATING LOSS | (2,442) | (941) | (3,349) | (4,230) |
| OTHER INCOME (EXPENSE): | | | | |
| Other income (expense), net | (157) | (1,463) | 178 | (299) |
| Interest expense | (265) | (255) | (826) | (700) |
| Interest income | — | — | 2 | 4 |
| LOSS BEFORE INCOME TAXES | (2,864) | (2,659) | (3,995) | (5,225) |
| INCOME TAX PROVISION | 272 | 1,574 | 321 | 2,704 |
| NET LOSS | $(3,136) | $(4,233) | $(4,316) | $(7,929) |
| | | | | |
| LOSS PER SHARE | | | | |
| Basic | $(0.22) | $(0.30) | $(0.31) | $(0.57) |
| Diluted | $(0.22) | $(0.30) | $(0.31) | $(0.57) |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: | | | | |
| Basic | 14,195,921 | 13,932,033 | 14,105,594 | 13,916,236 |
| Diluted | 14,195,921 | 13,932,033 | 14,105,594 | 13,916,236 |
| | | | | |
| DIVIDENDS DECLARED PER COMMON SHARE | $0.02 | $0.04 | $0.06 | $0.12 |

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 LOSS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(Amounts in Thousands)
(unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss | $(3,136) | $(4,233) | $(4,316) | $(7,929) |
| Change in cumulative foreign currency translation adjustment | 852 | (1,453) | 3,599 | (9,676) |
| Total comprehensive loss | $(2,284) | $(5,686) | $(717) | $(17,605) |

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 NINE MONTHS ENDED SEPTEMBER 30, 2016
(Amounts in Thousands, Except Share Data)
(unaudited)

| | Common Stock | | Additional Paid-In | Retained | Other Cumulative Comprehensive | Treasury Stock | | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | Loss | Shares | Amount | Total |
| Balances, December 31, 2015 | 14,212,115 | $ 711 | $ 70,408 | $ 87,767 | $ (40,465) | — | $ — | $ 118,421 |
| Net loss | — | — | — | (4,316) | — | — | — | (4,316) |
| Change in cumulative foreign currency translation adjustment | — | — | — | — | 3,599 | — | — | 3,599 |
| Shares issued in connection with stock compensation plans | 272,524 | 13 | 177 | — | — | — | — | 190 |
| Stock-based compensation | — | — | 1,673 | — | — | — | — | 1,673 |
| Dividends declared | — | — | — | (862) | — | — | — | (862) |
| Treasury stock purchases | — | $ — | | | | (2,378) | $ (25) | $ (25) |
| Balances, September 30, 2016 | 14,484,639 | $ 724 | $ 72,258 | $ 82,589 | $ (36,866) | (2,378) | $ (25) | $ 118,680 |

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 NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(Amounts in Thousands)
(unaudited)

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $(4,316) | $(7,929) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation (including capital lease amortization) | 5,024 | 4,696 |
| Amortization of purchased intangible assets | 3,023 | 3,037 |
| Amortization of deferred debt issuance costs | 123 | 189 |
| Stock-based compensation | 1,599 | 2,223 |
| Excess tax benefit from stock-based compensation | — | (72) |
| Deferred income tax provision (benefit) | (563) | 1,924 |
| Gain on disposal of property, plant and equipment | 35 | 59 |
| Restructuring charges | 1,202 | 3,397 |
| Accrued anti-dumping duties | 128 | — |
| Change in: | | |
| Accounts receivable, net | 10,480 | (220) |
| Inventory, net | 3,400 | (3,908) |
| Prepaid expenses and other | (347) | (1,523) |
| Accounts payable | (3,166) | (3,742) |
| Customer advances | 180 | (1,271) |
| Accrued expenses and other liabilities | 1,037 | (3,274) |
| Net cash provided by (used in) operating activities | 17,839 | (6,414) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property, plant and equipment | (4,070) | (4,812) |
| Proceeds on sale of property, plant and equipment | 31 | — |
| Change in other non-current assets | 31 | 122 |
| Net cash used in investing activities | (4,008) | (4,690) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings (repayments) on bank lines of credit, net | (12,250) | 13,446 |
| Payment on capital lease obligations | (3) | (4) |
| Payment of dividends | (861) | (1,692) |
| Payment of deferred debt issuance costs | — | (1,042) |
| Net proceeds from issuance of common stock to employees and directors | 190 | 185 |
| Treasury stock purchases | (21) | — |
| Excess tax benefit from stock-based compensation | — | 72 |
| Net cash provided by (used in) financing activities | (12,945) | 10,965 |
| | | |
| EFFECTS OF EXCHANGE RATES ON CASH | 274 | (687) |
| | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,160 | (826) |
| CASH AND CASH EQUIVALENTS, beginning of the period | 6,291 | 9,400 |

| | | |
|---|---|---|
| CASH AND CASH EQUIVALENTS, end of the period | $7,451 | $8,574 |

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, 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

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.

We recognize deferred tax assets and liabilities for the expected future income tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. The deferred income tax impact of tax credits are recognized as an immediate adjustment to income tax expense. We recognize deferred tax assets for the expected future effects of all deductible temporary differences to the extent we believe these assets will more likely than not be realized. We record a valuation allowance when, based on current circumstances, it is more likely than not that all or a portion of the deferred tax assets will not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, recent financial operations and their associated valuation allowances, if any.

We recognize the tax benefits from uncertain tax positions only when it is more likely than not, based on the technical merits of the position; the tax position will be sustained upon examination, including the resolution of any related appeals or litigation. The tax benefits recognized in the consolidated financial statements from such a position are measured as the largest benefit that is more likely than not of being realized upon ultimate resolution. We recognize interest and penalties related to uncertain tax positions in operating expense.

Tax audits are currently in progress for the years 2013 through 2015 in the U.S. and 2011 through 2014 in Germany. Our tax provisions reflect our best estimate of state, local, federal, and foreign taxes. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with our expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

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”) during periods in which we have net income and require the use of the two class method for calculating EPS. Under this method, a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock, as shown in the table below.

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

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| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Numerator: | | | | |
| Net loss | $(3,136) | $(4,233) | $(4,316) | $(7,929) |
| Less income allocated to RSAs | — | — | — | — |
| Net loss allocated to common stock for EPS calculation | $(3,136) | $(4,233) | $(4,316) | $(7,929) |
| Denominator: | | | | |
| Weighted average common shares outstanding - basic | 14,195,921 | 13,932,033 | 14,105,594 | 13,916,236 |
| Dilutive stock-based compensation plans | — | — | — | — |
| Weighted average common shares outstanding - diluted | 14,195,921 | 13,932,033 | 14,105,594 | 13,916,236 |
| Net income (loss) allocated to common stock for EPS calculation: | | | | |
| Basic | $(0.22) | $(0.30) | $(0.31) | $(0.57) |
| Diluted | $(0.22) | $(0.30) | $(0.31) | $(0.57) |

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, trade accounts receivable and payable, accrued expenses and lines of credit approximate their fair value.

Recently Adopted Accounting Standards

In November 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") which requires that deferred tax liabilities and assets be classified as noncurrent in the statement of financial position based on an analysis of each taxpaying component within a jurisdiction. This ASU would have been effective for the Company December 1, 2017, however the Company elected to early adopt prospectively beginning with the year ended December 31, 2015, as is permitted under the standard.

In April 2015, the FASB issued an accounting standards update to revise the presentation of debt issuance costs. Under this pronouncement, entities will present debt issuance costs in their balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the deferred debt issuance costs will continue to be included in interest expense. The new accounting guidance represents a change in accounting principle and was required to be adopted retrospectively in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Accordingly, the Company applied the guidance and reclassified the prior period amount of $674 of debt issuance costs from other assets, net to lines of credit in the balance sheet as of December 31, 2015. Because the application of this guidance affects classification only, such reclassifications did not have a material effect on the Company’s consolidated financial position or results of operations.

Recent Accounting Pronouncements

In March 2016, the FASB issued a new accounting pronouncement related to accounting for share-based payments. The pronouncement intends to simplify the accounting for share-based payment transactions, including income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. This pronouncement is effective for reporting periods beginning after December 15, 2016. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company’s financial position, results of operations, and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding the financial reporting of leasing transactions. This new standard requires a lessee to record assets and liabilities on the balance sheet for the rights and obligations arising from leases with terms of more than 12 months. The Company is required to adopt the new standard on January 1, 2019 using a modified retrospective approach. Management is currently evaluating the potential impact that the adoption of this standard will have on the Company’s financial position, results of operations, and related disclosures.

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In July 2015, the FASB issued an accounting standards update to simplify the measurement of inventory and to change the measurement from lower of cost or market to lower of cost and net realizable value. This pronouncement is effective for reporting periods beginning after December 15, 2016. We currently do not expect that the adoption of this standard will have a material impact on the Company's financial position or results of operations.

In May 2014, the FASB issued an accounting standards update to clarify the principles of recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and IFRS. The pronouncement is effective for reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We currently are evaluating the potential impact the adoption of this standard will have on the Company's financial position, results of operations, and related disclosures.

3. INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out) or market value. Cost elements included in inventory are material, labor, subcontract costs, and manufacturing overhead. As necessary, we record provisions and maintain reserves for excess, slow moving and obsolete inventory. To determine reserve amounts, we regularly review inventory quantities on hand and values, and compare them to estimates of future product demand, market conditions, production requirements and technological developments.

Inventories consist of the following at September 30, 2016 and December 31, 2015 and include reserves of $3,830 and $3,682, respectively:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Raw materials | $ 14,395 | $ 14,513 |
| Work-in-process | 6,482 | 8,112 |
| Finished goods | 11,645 | 12,320 |
| Supplies | 344 | 504 |
| | $ 32,866 | $ 35,449 |

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4. GOODWILL

All of the goodwill is recorded within our NobelClad segment. The changes to the carrying amount of goodwill during the period are summarized below:

| | |
|---|---|
| Goodwill balance at December 31, 2015 | $17,190 |
| Adjustment due to recognition of tax benefit of tax amortization of certain goodwill | (229) |
| Adjustment due to exchange rate differences | 456 |
| Goodwill balance at September 30, 2016 | $17,417 |

5. PURCHASED INTANGIBLE ASSETS

The following table presents details of our purchased intangible assets, other than goodwill, as of September 30, 2016:

| | Gross | Accumulated Amortization | Net |
|---|---|---|---|
| Core technology | $18,874 | $ (8,459) | $10,415 |
| Customer relationships | 37,559 | (30,615) | 6,944 |
| Trademarks / Trade names | 2,025 | (1,863) | 162 |
| Total intangible assets | $58,458 | $ (40,937) | $17,521 |

The following table presents details of our purchased intangible assets, other than goodwill, as of December 31, 2015:

| | Gross | Accumulated Amortization | Net |
|---|---|---|---|
| Core technology | $18,524 | $ (7,528) | $10,996 |
| Customer relationships | 36,830 | (27,701) | 9,129 |
| Trademarks / Trade names | 1,988 | (1,695) | 293 |
| Total intangible assets | $57,342 | $ (36,924) | $20,418 |

The change in the gross value of our purchased intangible assets from December 31, 2015 to September 30, 2016 was due to foreign currency translation and an adjustment due to recognition of tax benefit of tax amortization previously applied to certain goodwill related to the DynaEnergetics reporting unit. After the goodwill was written off at December 31, 2015, the tax amortization reduces other noncurrent intangible assets related to the historical acquisition.

6. CUSTOMER ADVANCES

On occasion, we require customers to make advance payments prior to the shipment of goods in order to help finance our inventory investment on large orders or to keep customers’ credit limits at acceptable levels.  As of September 30, 2016 and December 31, 2015, customer advances totaled $2,589 and $2,396, respectively, and originated from several customers.

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7. DEBT

Lines of credit consisted of the following at September 30, 2016 and December 31, 2015:

| | September 30, 2016 | December 31, 2015 (as adjusted) |
|---|---|---|
| Syndicated credit agreement: | | |
| U.S. Dollar revolving loan | $ 15,250 | $ 27,500 |
| Euro revolving loan | — | — |
| | | |
| Long-term lines of credit | 15,250 | 27,500 |
| Less: debt issuance costs | 551 | 674 |
| Lines of credit | $ 14,699 | $ 26,826 |

Syndicated Credit Agreement

We have a five-year $75,000 syndicated credit agreement ("credit facility"), which allows for revolving loans of $65,000 in US dollars and $10,000 in alternate currencies as well as a $100,000 accordion feature to increase the commitments in any of the loan classes subject to approval by applicable lenders. We also maintain a line of credit with a German bank for certain European operations. This line of credit provides a borrowing capacity of €4,000, of which €1,694 is available after considering outstanding letters of credit.

Borrowings under the $65,000 revolving loan can be in the form of Alternate Base Rate loans ("ABR" borrowings are based on the greater of adjusted Prime rates, adjusted CD rates, or adjusted Federal Funds rates) or one, two, three, or six month London Interbank Offered Rate ("LIBOR") loans. ABR loans bear interest at the defined ABR rate plus an applicable margin (varying from 0.25% to 1.50%) and LIBOR loans bear interest at the applicable LIBOR rate plus an applicable margin (varying from 1.25% to 2.75%).

Borrowings under the $10,000 Alternate Currency revolving loans can be in Canadian Dollars, Euros, Pound Sterling and any other currency that is freely transferable and convertible to U.S. Dollars. Alternative currency borrowings denominated in Canadian Dollars shall be comprised of Canadian Dealer Offered Rate ("CDOR") Loans or Canadian Prime Loans, at our option, and bear interest at the CDOR rate plus applicable margin (varying from 1.25% to 2.75%) or the applicable Canadian Prime Rate plus an applicable margin (varying from 0.25% to 1.50%), respectively. Alternative currency borrowings denominated in Euros shall be comprised of Euro Interbank Offered Rate ("EURIBOR") loans and bear interest at the EURIBOR rate plus an applicable margin (varying from 1.25% to 2.75%). Alternative currency borrowings denominated in any other alternate currency shall be comprised of Eurocurrency loans and bear interest at the LIBOR rate plus an applicable margin (varying from 1.25% to 2.75%).

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 September 30, 2016, we were in compliance with all financial covenants and other provisions of our debt agreements.

8. BUSINESS SEGMENTS

Our business is organized into two segments:  NobelClad and DynaEnergetics. NobelClad's revenues are generated principally from cladding two dissimilar metals together using an explosion-welding process to form plates or transition joints. The clad plates and transition joints are sold to customers that fabricate industrial equipment for various industries, including oil and gas, petrochemicals, alternative energy, hydrometallurgy, aluminum production, shipbuilding, power generation and industrial refrigeration. DynaEnergetics manufactures shaped charges, detonators and detonating cord, perforating guns, and bidirectional boosters for sale to customers that perform the perforation of oil and gas wells and to customers involved in oil and gas exploration and development activities.

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The accounting policies of all of 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, 2015. 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 nine months ended September 30, 2016 and 2015 as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net sales: | | | | |
| NobelClad | $16,915 | $21,306 | $68,374 | $66,699 |
| DynaEnergetics | 19,638 | 18,202 | 50,028 | 58,369 |
| Consolidated net sales | $36,553 | $39,508 | $118,402 | $125,068 |

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Operating income (loss) | | | | |
| NobelClad | $701 | $1,672 | $6,340 | $4,479 |
| DynaEnergetics | (977 ) | (655 ) | (2,959 ) | (201 ) |
| Segment operating income (loss) | (276 ) | 1,017 | 3,381 | 4,278 |
| Unallocated corporate expenses | (1,614) | | | |