DMC Global Inc.
Form 10-Q
July 26, 2018

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 June 30, 2018

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

DMC GLOBAL INC.
(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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

(Do not check if smaller reporting company)

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act 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 14,888,710 as of July 26, 2018.

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, the expected impacts of new accounting standards and the timing of our implementation thereof, our business strategy, expectations regarding NobelClad’s end markets and activity levels, expectations regarding expanding market opportunities for DynaEnergetics’ perforating systems, expansion plans in Blum, Texas and expected impacts on manufacturing and assembly capacity, our increased 2018 capital expenditure budget and its uses and sources of funding, the estimated percent of DynaEnergetics’ total sales to be contributed by its Russia-based operations in 2018, the expected amounts of AD/CVD penalties to be assessed, our liquidity position and factors impacting such position, including expectations regarding legal costs, and the outcome of pending regulatory matters and patent litigation. 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, 2017 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 shipments; 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; fluctuations in tariffs or quotas; the adequacy of local labor supplies at our facilities; current or future limits on manufacturing capacity at our various operations; our ability to complete our expansion plans on schedule and on budget; our ability to successfully integrate acquired businesses; the impact of pending or future litigation or regulatory matters; 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

DMC GLOBAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share and Per Share Data)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,629	$ 8,983
Accounts receivable, net of allowance for doubtful accounts of $572 and $1,088, respectively	62,821	49,468
Inventory	53,709	35,742
Prepaid expenses and other	6,411	5,763
Total current assets	129,570	99,956
PROPERTY, PLANT AND EQUIPMENT	133,976	121,339
Less - accumulated depreciation	(63,449)	(61,467)
Property, plant and equipment, net	70,527	59,872
PURCHASED INTANGIBLE ASSETS, net	10,528	12,861
DEFERRED TAX ASSETS	—	98
OTHER ASSETS, net	157	296
TOTAL ASSETS	$ 210,782	$ 173,083

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

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DMC GLOBAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share and Per Share Data)

	June 30, 2018 (unaudited)	December 31, 2017
LIABILITIES AND STOCKHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 27,753	$ 19,826
Accrued expenses	9,173	6,884
Accrued anti-dumping duties and penalties	6,566	3,609
Dividend payable	297	295
Accrued income taxes	6,557	2,939
Accrued employee compensation and benefits	5,681	6,186
Contract liabilities	2,355	5,888
Total current liabilities	58,382	45,627
LINES OF CREDIT	34,611	17,984
DEFERRED TAX LIABILITIES	606	573
OTHER LONG-TERM LIABILITIES	2,954	3,119
Total liabilities	96,553	67,303
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; 14,899,727 and 14,782,018 shares outstanding, respectively	749	741
Additional paid-in capital	78,089	76,146
Retained earnings	69,706	60,074
Other cumulative comprehensive loss	(33,570)	(30,819)
Treasury stock, at cost; 73,452 and 39,783 shares, respectively	(745)	(362)
Total stockholders’ equity	114,229	105,780
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 210,782	$ 173,083

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

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DMC GLOBAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in Thousands, Except Share and Per Share Data)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
NET SALES	$80,915	$47,190	$148,228	$86,152
COST OF PRODUCTS SOLD	54,140	33,172	98,700	61,768
Gross profit	26,775	14,018	49,528	24,384
COSTS AND EXPENSES:				
General and administrative expenses	9,743	6,082	17,920	13,288
Selling and distribution expenses	5,795	4,492	11,007	8,974
Amortization of purchased intangible assets	791	1,004	1,596	1,988
Restructuring expenses	217	458	361	458
Anti-dumping duty penalties	—	—	3,103	—
Total costs and expenses	16,546	12,036	33,987	24,708
OPERATING INCOME (LOSS)	10,229	1,982	15,541	(324)
OTHER INCOME (EXPENSE):				
Other expense, net	(327)	(949)	(704)	(529)
Interest expense	(137)	(330)	(603)	(836)
Interest income	1	—	2	1
INCOME (LOSS) BEFORE INCOME TAXES	9,766	703	14,236	(1,688)
INCOME TAX PROVISION	3,394	514	3,944	1,144
NET INCOME (LOSS)	$6,372	$189	$10,292	$(2,832)
INCOME (LOSS) PER SHARE				
Basic	$0.43	$0.01	$0.69	$(0.20)
Diluted	$0.43	$0.01	$0.69	$(0.20)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	14,534,016	14,348,353	14,491,569	14,308,954
Diluted	14,534,016	14,348,353	14,491,569	14,308,954
DIVIDENDS DECLARED PER COMMON SHARE	$0.02	$0.02	$0.04	$0.04

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

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DMC GLOBAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$6,372	$189	$10,292	$(2,832)
Change in cumulative foreign currency translation adjustment	(4,356)	4,960	(2,751)	6,778
Total comprehensive income	$2,016	$5,149	$7,541	$3,946

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

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DMC GLOBAL INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Amounts in Thousands, Except Share Data)
(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Total
Balances, December 31, 2017	14,821,801	$ 741	$ 76,146	$ 60,074	$ (30,819)	(39,783)	$ (362)	$ 105,780
Net income	—	—	—	10,292	—	—	—	10,292
Change in cumulative foreign currency translation adjustment	—	—	—	—	(2,751)	—	—	(2,751)
Shares issued in connection with stock compensation plans	151,378	8	224	—	—	—	—	232
Adjustment for cumulative effect from change in accounting principle (ASU 2016-16)	—	—	—	(65)	—	—	—	(65)
Stock-based compensation	—	—	1,719	—	—	—	—	1,719
Dividends declared	—	—	—	(595)	—	—	—	(595)
Treasury stock purchases	—	—	—	—	—	(33,669)	(383)	(383)
Balances June 30, 2018	14,973,179	$ 749	$ 78,089	$ 69,706	$ (33,570)	(73,452)	$ (745)	$ 114,229

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

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DMC GLOBAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)
(unaudited)

	Six months ended June 30, 2018	Six months ended June 30, 2017
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net income (loss)	$10,292	$(2,832)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation (including capital lease amortization)	3,171	3,387
Amortization of purchased intangible assets	1,596	1,988
Amortization of deferred debt issuance costs	224	328
Stock-based compensation	1,792	1,382
Deferred income tax	33	(7)
Loss (gain) on disposal of property, plant and equipment	26	(21)
Restructuring expenses	361	458
Transition tax liability	(268)	—
Change in:		
Accounts receivable, net	(14,198)	(4,682)
Inventory, net	(18,790)	(1,069)
Prepaid expenses and other	(513)	(316)
Accounts payable	8,813	1,668
Contract liabilities	(3,509)	(1,369)
Accrued anti-dumping duties and penalties	2,958	(2,957)
Accrued expenses and other liabilities	6,433	909
Net cash used in operating activities	(1,579)	(3,133)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(16,201)	(2,167)
Proceeds on sale of property, plant and equipment	—	2
Net cash used in investing activities	(16,201)	(2,165)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Borrowings on bank lines of credit, net	16,625	8,000
Payment of dividends	(593)	(584)
Payment of deferred debt issuance costs	(131)	(133)
Net proceeds from issuance of common stock to employees and directors	230	154
Treasury stock purchases	(383)	(260)
Net cash provided by financing activities	15,748	7,177
EFFECTS OF EXCHANGE RATES ON CASH	(322)	317
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,354)	2,196
CASH AND CASH EQUIVALENTS, beginning of the period	8,983	6,419
CASH AND CASH EQUIVALENTS, end of the period	$6,629	$8,615

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

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DMC GLOBAL INC.
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, 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements include the accounts of DMC Global Inc. (“DMC”, “we”, “us”, “our”, or the “Company) 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

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.

Revenue Recognition

On January 1, 2018, the Company adopted a new accounting standard, as amended, regarding revenue from contracts with customers using the modified retrospective approach, which was applied to all contracts with customers. Under the new standard, an entity is required to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

There was no cumulative financial statement effect of initially applying the new revenue standard because an analysis of our contracts supported the recognition of revenue consistent with our historical approach. In accordance with the modified retrospective approach, the comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company does not expect the adoption of the new revenue standard to have a material impact to the Company’s revenues or net income on an ongoing basis.

The Company’s revenues are primarily derived from consideration paid by customers for tangible goods. The Company analyzes its different goods and services by segment to determine the appropriate basis for revenue recognition, as described below. Revenue is not generated from sources other than contracts with customers and revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. There are no material upfront costs for operations that are incurred from contracts with customers. On occasion, NobelClad and DynaEnergetics may require customers to make advance payments prior to the shipment of goods. We record such payments as contract liabilities in our Consolidated Balance Sheet. Please refer to Note 5 “Contract Liabilities” for further information.

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Our rights to payments for goods transferred to customers are conditional only on the passage of time and not on any other criteria. Payment terms and conditions vary by contract, although terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined that our contracts do not include a significant financing component given the short duration between order initiation and order fulfillment within each of our segments. Refer to Note 8 “Business Segments” for additional disaggregated revenue disclosures.

For the three months ended June 30, 2018 and 2017, we recorded $53 of bad debt expense and $9 of reversal of prior bad debt expense, respectively. For the six months ended June 30, 2018 and 2017, we recorded $4 of bad debt expense and $1 of reversal of prior bad debt expense, respectively.

NobelClad

Customers agree to terms and conditions at the time of initiating an order. The significant majority of transactions contain a single performance obligation - the delivery of a clad metal product. In instances where multiple products are included within an order, each product represents a separate performance obligation given that: (1) the customer can benefit from each product on a standalone basis and (2) each product is distinct within the context of the contract.

The transaction price is readily determinable and fixed at the time the transaction is entered into with the customer. NobelClad is entitled to each product’s transaction price upon the customer obtaining control of the item. Such control occurs as of a point in time, which is generally based upon relevant International Commercial Terms (“Incoterms”) as it relates to product ownership and legal title being transferred. Upon fulfillment of applicable Incoterms, NobelClad has performed its contractual requirements such that it has a present right to payment, and the customer from that point forward bears all risks and rewards of ownership. In addition, at this date, the customer has the ability to direct the use of, or restrict the access to, the asset. No payment discounts, rebates, refunds, or any other forms of variable consideration are included within its contracts. NobelClad also does not provide service-type warranties either via written agreement or customary business practice, nor does it allow customer returns.

For contracts that contain only one performance obligation, the total transaction price is allocated to the sole performance obligation. For less frequent contracts which contain multiple distinct performance obligations, judgment is required to determine the standalone selling price (“SSP”) for each performance obligation. NobelClad uses the expected cost plus margin approach in order to estimate SSP, whereby an entity forecasts its expected costs of satisfying a performance obligation and then adds an appropriate margin for that good or service. The required judgment described herein largely is mitigated given the short duration between order initiation and complete order fulfillment.

DynaEnergetics

Customers agree to terms and conditions at the time of initiating an order. Transactions contain standard products, which may include perforating system components, such as detonating cord, or systems and associated hardware, including factory-assembled DynaStage® perforating systems and DynaSelect® detonators. In instances where multiple products are included within an order, each product represents a separate performance obligation given that: (1) the customer can benefit from each product on a standalone basis and (2) each product is distinct within the context of the contract.

The transaction price is readily determinable and fixed at the time the transaction is entered into with the customer. DynaEnergetics is entitled to each product’s transaction price upon the customer obtaining control of the item. Such control occurs as of a point in time, which is generally based upon relevant Incoterms as it relates to product ownership and legal title being transferred. Upon fulfillment of applicable Incoterms, DynaEnergetics has performed its contractual requirements such that it has a present right to payment, and the customer from that point forward bears all risks and rewards of ownership. In addition, at this date, the customer has the ability to direct the use of, or restrict the access to, the asset. No payment discounts, rebates, refunds, or any other forms of variable consideration are included within contracts. DynaEnergetics also does not provide service-type warranties either via written agreement or customary business practice, nor does it allow customer returns without its prior approval.

For orders that contain only one performance obligation, the total transaction price is allocated to the sole performance obligation. For orders that contain multiple products being purchased by the customer, judgment is required to determine SSP for each distinct performance obligation. However, such judgment largely is mitigated given that products purchased are generally shipped at the same time. In instances where products purchased are not shipped at the same time, DynaEnergetics uses the contractually stated price to determine SSP as this price approximates the price of each good as sold separately.

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Earnings Per Share

The Company computes earnings per share ("EPS") using a two-class method, which is an earnings allocation formula that determines EPS for (i) each class of common stock (the Company has a single class of common stock), and (ii) participating securities according to dividends declared and participation rights in undistributed earnings. Restricted stock awards are considered participating securities as they receive non-forfeitable rights to dividends as common stock.

Basic EPS is then calculated by dividing net income (loss) available to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS adjusts basic EPS for the effects of restricted stock awards, performance share units and other potentially dilutive financial instruments (dilutive securities), only in the periods in which such effect is dilutive. The effect of the dilutive securities is reflected in diluted EPS by application of the more dilutive of (1) the treasury stock method or (2) the two-class method assuming nonvested shares are not converted into common shares. For the periods presented, diluted EPS using the treasury stock method was less dilutive than the two-class method; as such, only the two-class method has been included below.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income (loss) as reported	6,372	189	10,292	(2,832)
Less: Distributed net income available to participating securities	(7)	—	(14)	—
Less: Undistributed net income available to participating securities	(141)	—	(225)	—
Numerator for basic net income per share:	6,224	189	10,053	(2,832)
Add: Undistributed net income allocated to participating securities	141	—	225	—
Less: Undistributed net income reallocated to participating securities	(141)	—	(225)	—
Numerator for diluted net income per share:	6,224	189	10,053	(2,832)
Denominator:				
Weighted average shares outstanding for basic net income per share	14,534,016	14,348,353	14,491,569	14,308,954
Effect of dilutive securities	—	—	—	—
Weighted average shares outstanding for diluted net income per share	14,534,016	14,348,353	14,491,569	14,308,954
Net income (loss) per share:				
Basic	$0.43	$ 0.01	$0.69	$ (0.20)
Diluted	$0.43	$ 0.01	$0.69	$ (0.20)

Because we were in a net loss position for the six months ended June 30, 2017, potentially dilutive shares of 156,707 were anti-dilutive and were excluded from the determination of diluted EPS.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are required to use an established hierarchy for fair value measurements based upon the inputs to the valuation and the degree to which they are observable or not observable in the market. The three levels in the hierarchy are as follows:

- Level 1 — Inputs to the valuation based upon quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.

- Level 2 — Inputs to the valuation include quoted prices in either markets that are not active, or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data.

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- Level 3 — Inputs to the valuation that are unobservable inputs for the asset or liability. The highest priority is assigned to Level 1 inputs and the lowest priority to Level 3 inputs.

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

Our foreign currency forward contracts are determined using a yield curve model based on quoted market prices. As a result, these investments have been classified as Level 2 in the fair value hierarchy.

We did not hold any Level 3 assets or liabilities as of June 30, 2018 or December 31, 2017.

Recently Adopted Accounting Standards

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-16 which removes the prohibition against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. This ASU is effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and the Company adopted this ASU in the first quarter of 2018. The adoption of this ASU resulted in a reduction to January 1, 2018 "Retained earnings" in the Condensed Consolidated Balance Sheet of $65 and eliminated a $65 prepaid income tax balance recorded in the Consolidated Balance Sheet as of December 31, 2017.

In March 2017, the FASB issued ASU 2017-07 to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost within an entity's financial statements. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company adopted this ASU in the first quarter of 2018. The Company records its annual adjustment to its defined benefit pension obligation based upon actuarial calculations performed during the fourth quarter. The adoption of this ASU is not expected to have a material impact on the consolidated financial statements.

Recent Accounting Pronouncements

In February 2016, the FASB issued an ASU which amends the existing accounting standards for lease accounting. The update requires a lessee to recognize, on the balance sheet, a liability to make lease payments and a right-of-use asset representing a right to use the underlying asset for the lease term. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The ASU allows for either the modified or full retrospective method of adoption. The FASB also issued Proposed ASU No. 2018-200 which would allow entities to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in the consolidated financial statements. The proposed ASU will allow entities to continue to apply the legacy guidance in Topic 840, Leases, including its disclosure requirements, in the comparative periods presented in the year the new leases standard is adopted. Entities that elect this option would still adopt the new leases standard using a modified retrospective transition method, but would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. We are currently evaluating the impact that this standard will have on our consolidated financial statements and which practical expedients to employ during adoption. During the second quarter, we continued to make progress on our implementation plan, including preliminary scoping and identification of the complete consolidated lease population, categorization and quantification of lease contracts, live demonstrations with external lease accounting and administration software vendors and initial research in developing applicable accounting policies. We will not early adopt this standard.

3. INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value. Significant cost elements included in inventory are material, labor, freight, subcontract costs, and manufacturing overhead. As necessary, we adjust inventory to its net realizable value by recording provisions for excess, slow moving and obsolete inventory. 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 June 30, 2018 and December 31, 2017:

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	June 30, 2018	December 31, 2017
Raw materials	$27,351	$ 16,255
Work-in-process	7,675	6,120
Finished goods	18,342	13,049
Supplies	341	318
	$53,709	$ 35,742

4. PURCHASED INTANGIBLE ASSETS

The following table presents details of our purchased intangible assets as of June 30, 2018:

	Gross	Accumulated Amortization	Net
Core technology	$19,473	$ (10,543)	$8,930
Customer relationships	37,894	(36,296)	1,598
Trademarks / Trade names	2,090	(2,090)	—
Total intangible assets	$59,457	$ (48,929)	$10,528

The following table presents details of our purchased intangible assets, other than goodwill, as of December 31, 2017:

	Gross	Accumulated Amortization	Net
Core technology	$20,027	$ (10,333)	$9,694
Customer relationships	39,244	(36,077)	3,167
Trademarks / Trade names	2,149	(2,149)	—
Total intangible assets	$61,420	$ (48,559)	$12,861

The change in the gross value of our purchased intangible assets from December 31, 2017 to June 30, 2018 was due to foreign currency translation and an adjustment due to the recognition of tax benefit of tax amortization previously applied to certain goodwill related to the NobelClad and DynaEnergetics reporting units. After the goodwill was written off at September 30, 2017 and December 31, 2015, respectively, the tax amortization reduces other noncurrent intangible assets related to the historical acquisition.

5. CONTRACT LIABILITIES

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 June 30, 2018 and December 31, 2017, contract liabilities (previously known as customer advances) were as follows:

	June 30, 2018	December 31, 2017
NobelClad	2,247	5,804
DynaEnergetics	108	84
Total	$2,355	$ 5,888

We expect to recognize the revenue associated with contract liabilities over a time period no longer than one year. Of the $5,888 recorded as contract liabilities at December 31, 2017, $4,225 was recorded to net sales during the six months ended June 30, 2018.

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6. DEBT

Lines of credit consisted of the following at June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Syndicated credit agreement:		
U.S. Dollar revolving loan	$23,579	$ 18,250
Capital expenditure loan	11,803	—
	35,382	18,250
Less: debt issuance costs	771	266
Lines of credit	$34,611	$ 17,984

Syndicated Credit Agreement

On March 8, 2018, we entered into a five-year $75,000 syndicated credit agreement (“credit facility”) which replaced in its entirety our prior syndicated credit facility entered into on February 23, 2015. The new credit facility allows for revolving loans of up to $50,000 with a $20,000 US dollar equivalent sublimit for alternative currency loans. In addition, the new agreement provides for a $25,000 Capital Expenditure Facility (“Capex Facility”) which is to be used to finance our DynaEnergetics manufacturing expansion project in Blum, Texas. The Capex facility allows for advances to fund capital expenditures of the Blum expansion project during year one of the credit facility. At the end of year one, the Capex Facility will convert to a term loan which will be amortizable at 12.5% of principal per year with a balloon payment for the outstanding balance upon the credit facility maturity date in year five. The new facility has a $100,000 accordion feature to increase the commitments under the revolving loan class and/or by adding a term loan subject to approval by applicable lenders. We entered into the credit facility with a syndicate of three banks, with KeyBank, N.A. acting as administrative agent. The syndicated credit facility is secured by the assets of DMC including accounts receivable, inventory, and fixed assets, as well as guarantees and share pledges by DMC and its subsidiaries.
Borrowings under the $50,000 revolving loan and $25,000 Capex Facility can be in the form of one, two, three, or six month London Interbank Offered Rate (“LIBOR”) loans. Additionally, US dollar borrowings on the revolving loan can be in the form of Base Rate loans (Base Rate borrowings are based on the greater of the administrative agent’s Prime rates, an adjusted Federal Funds rates or an adjusted LIBOR rate). LIBOR loans bear interest at the applicable LIBOR rate plus an applicable margin (varying from 1.50% to 3.00%). Base Rate loans bear interest at the defined Base rate plus an applicable margin (varying from 0.50% to 2.00%). All borrowing and repayments under the credit facility have been in the form of one month loans and are reported on a net basis in our Condensed Consolidated Statements of Cash Flows.

Borrowings under the $20,000 alternate currency sublimit can be in euros, Canadian dollars, pounds sterling, and in any other currency acceptable to the administrative agent. Alternative currency borrowings denominated in euros, pounds sterling, and any other currency that is dealt with on the London Interbank Deposit Market shall be comprised of LIBOR loans and bear interest at the LIBOR rate plus an applicable margin (varying from 1.50% to 3.00%).

The credit facility includes 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 ratios. As of June 30, 2018, we were in compliance with all financial covenants and other provisions of our debt agreements.

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 €2,724 is available as of June 30, 2018 after considering outstanding letters of credit.

Included in lines of credit are deferred debt issuance costs of $771 and $266 as of June 30, 2018 and December 31, 2017, respectively. Upon entering into the credit facility, we wrote off $159 of previously deferred debt issuance costs and incurred $729 of additional costs. Debt issuance costs of $507 were paid directly by the administrative agent and increased outstanding amounts under U.S. dollar revolving loans, and debt issuance costs of $222 have been paid by the Company. Deferred debt issuance costs are being amortized over the remaining term of the credit facility which expires on March 8, 2023.

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As of December 31, 2017, we had a $35,000 credit facility that allowed for revolving loans of $30,000 in U.S. dollars and $5,000 in alternative currencies as well as a $25,000 accordion feature to increase the commitments in any of the loan classes subject to approval by applicable lenders.

7. INCOME TAXES

The effective tax rate for each of the periods reported differs from the U.S. statutory rate primarily due to variation in contribution to consolidated pre-tax income from each jurisdiction for the respective periods, differences between the U.S. and foreign tax rates (which range from 20% to 34%) on earnings that have been permanently reinvested and changes to valuation allowances on our deferred tax assets.

The Tax Cuts and Jobs Act ("TCJA") was enacted in December 2017. Among other things, the TCJA reduced the U.S. federal corporate tax rate from 35% to 21% beginning in 2018, required companies to pay a one-time transition tax on previously unremitted earnings of non-U.S. subsidiaries that were previously tax deferred, and created new taxes on certain foreign sourced earnings. The SEC staff issued Staff Accounting Bulletin (SAB) 118, which provided guidance on accounting for enactment effects of the TCJA. SAB 118 provided a measurement period of up to one year from the TCJA's enactment date for companies to complete their accounting under ASC 740. In accordance with SAB 118, to the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. If a company cannot determine a provisional estimate to be included in its financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the TCJA.

In connection with our initial analysis of the impact of the enactment of the TCJA, the Company recorded net tax expense of $946 in the fourth quarter of 2017. In response to additional guidance received from the Internal Revenue Service, the Company recorded net tax benefit of $268 in the first quarter of 2018, reducing the provisional liability to $678. For various reasons that are discussed more fully below, including the issuance of additional technical and interpretive guidance, we have not completed accounting for the income tax effects of certain elements of the TCJA. However, we were able to make reasonable estimates of the TCJA's effects and, as such, recorded provisional amounts related to the transition tax and the remeasurement of deferred tax assets and liabilities.

The transition tax is a tax on previously untaxed accumulated and current earnings and profits (E&P) of certain of the Company's non-U.S. subsidiaries. To determine the amount of the transition tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. E&P is similar to retained earnings of the subsidiary, but requires other adjustments to conform to U.S. tax rules. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. We were able to make a reasonable estimate of the transition tax and recorded a provisional obligation and additional income tax expense of $946 in the fourth quarter of 2017, which was reduced to $678 in the first quarter of 2018. The Company expects to elect to pay this liability over eight years. As of June 30, 2018, we reflected $54 and $549 in current accrued income taxes and other long term liabilities, respectively. However, the Company is continuing to gather additional information and will consider additional technical guidance to more precisely compute and account for the amount of the transition tax in the measurement period. This amount may change when we finalize the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation, finalize the calculation of non-U.S. income taxes paid on such earnings, and finalize our determination on the impact of the deemed repatriation of foreign earnings on 2017 taxable income.

In addition to the transition tax, the TCJA introduced a territorial tax system, which was effective beginning in 2018. The territorial tax system may impact the Company's overall global capital and legal entity structure, working capital, and repatriation plan on a go-forward basis. In light of the territorial tax system, and other new international provisions within the TCJA that are effective beginning in 2018, the Company is currently analyzing its global capital and legal entity structure, working capital requirements, and repatriation plans. We have not completed our full analysis with respect to the impact of the TCJA on our indefinite reinvestment assertion, and we are not yet able to make reasonable estimates of its related effects. Therefore, no provisional adjustments relative to the territorial tax system and our indefinite reinvestment assertion were recorded. Further, it is impracticable for the Company to estimate any future tax costs for any unrecognized deferred tax liabilities associated with its indefinite reinvestment assertion as of December 31, 2017 or June 30, 2018, because the actual tax liability, if any, would be dependent on complex analysis and calculations considering various tax laws, exchange rates, circumstances existing when a repatriation, sale, or liquidation occurs, or other factors. If there are any changes to our indefinite reinvestment assertion as a result of finalizing our assessment of the TCJA, the Company will adjust its provisional estimates, record, and disclose any tax impacts in the appropriate period, pursuant to SAB 118.

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We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21% under the TCJA. As our U.S. deferred tax assets are fully offset by a valuation allowance, there was no net additional tax impact related to deferred tax assets and liabilities recognized in the fourth quarter of 2017. We are still analyzing certain aspects of the TCJA, considering additional technical guidance, and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. This includes, but is not limited to, the impacts of changes to Code Section 162(m) on our deferred tax assets related to compensation, and the potential impacts of the global intangible low-taxed income ("GILTI") provision within the TCJA on deferred tax assets and liabilities.

We have not completed our full analysis with respect to the GILTI provision within the TCJA, and we are not yet able to make reasonable estimates of its related effects. Therefore, no provisional adjustments relative to GILTI were recorded. Currently, we have not yet elected a policy as to whether we will recognize deferred taxes for basis differences expected to reverse as GILTI or whether we will account for GILTI as period costs if and when incurred. The Company is currently evaluating other elements of the TCJA for which the Company was not yet able to make reasonable estimates of the enactment impact and for which it would continue accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before the TCJA.