

## 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, 2000

OR

( ) TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .

Commission file number 0-8328

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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.)551 Aspen Ridge Drive, Lafayette, Colorado 80026  
(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

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The number of shares of Common Stock outstanding was 4,970,018 as of October 31, 2000.

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## ITEM 1. Financial Statements

DYNAMIC MATERIALS CORPORATION

CONDENSED BALANCE SHEETS

(unaudited)

ASSETS	September 30, 2000	December 31, 1999
-----	-----	-----
CURRENT ASSETS:		
Cash	\$ 174,839	\$ -
Accounts receivable, net of allowance for doubtful accounts of \$148,000 and \$112,000, respectively	4,083,773	3,816,879
Inventories	4,014,796	3,410,828
Prepaid expenses and other	110,698	310,477
Income tax receivable	-	1,360,000
	-----	-----
Total current assets	8,384,106	8,898,184
	-----	-----
PROPERTY, PLANT AND EQUIPMENT	17,757,615	18,867,796
Less- Accumulated depreciation	(4,157,324)	(4,538,838)
	-----	-----
Property, plant and equipment-net	13,600,291	14,328,958
	-----	-----
CONSTRUCTION IN PROCESS	-	389,795
RESTRICTED CASH AND INVESTMENTS	169,304	424,312
RECEIVABLE FROM RELATED PARTY	-	354,588
INTANGIBLE ASSETS, net of accumulated		

amortization of \$1,018,461 and \$786,077, respectively	5,070,130	5,281,543
OTHER ASSETS	274,948	409,938
TOTAL ASSETS	\$ 27,498,779	\$ 30,087,318

See Notes to Condensed Financial Statements.

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DYNAMIC MATERIALS CORPORATION

CONDENSED BALANCE SHEETS

(unaudited)

	September 30, 2000	December 31, 1999
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank overdraft	\$ -	\$ 193,471
Accounts payable	1,626,421	1,810,577
Accrued expenses	976,985	1,096,796
Line of credit with related party	3,750,000	-
Current maturities on long-term debt	715,000	16,785,000
Current portion of capital lease obligation	12,271	35,230
Total current liabilities	7,080,677	19,921,074
LONG-TERM DEBT	5,465,000	-
CONVERTIBLE SUBORDINATED NOTE WITH RELATED PARTY	1,200,000	-
CAPITAL LEASE OBLIGATION	-	3,069
DEFERRED GAIN	82,153	133,192
Total liabilities	13,827,830	20,057,335
STOCKHOLDERS' EQUITY:		
Convertible preferred stock, \$.05 par value; 4,000,000 shares authorized: no issued and outstanding shares	-	-
Common stock, \$.05 par value; 15,000,000 shares authorized; 4,970,018 and 2,842,429 shares issued and outstanding, respectively	248,501	142,122
Additional paid-in capital	12,245,859	7,122,553
Deferred compensation	-	(37,970)
Retained earnings	1,176,589	2,803,278
Total stockholders' equity	13,670,949	10,029,983
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 27,498,779	\$ 30,087,318

See Notes to Condensed Financial Statements.

DYNAMIC MATERIALS CORPORATION  
CONDENSED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2000 AND 1999

(unaudited)

<TABLE>

<CAPTION>

	Three months ended September 30,		Nine months ended September 30,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
NET SALES	\$ 6,259,297	\$ 6,267,617	\$ 20,966,405	\$ 23,711,802
COST OF PRODUCTS SOLD	5,210,667	5,757,880	18,018,773	20,526,592
Gross profit	1,048,630	509,737	2,947,632	3,185,210
COSTS AND EXPENSES:				
General and administrative expenses	909,367	766,318	2,686,108	2,648,425
Selling expenses	330,319	357,579	1,119,749	1,140,764
New facility start up costs	-	125,538	-	334,496
Plant closing costs	-	87,319	-	636,618
Impairment of long-lived assets	-	(9,074)	-	179,004
Costs related to sale of bonding business	-	79,462	-	278,470
	1,239,686	1,407,142	3,805,857	5,217,777
LOSS FROM OPERATIONS	(191,056)	(897,405)	(858,225)	(2,032,567)
OTHER INCOME (EXPENSE):				
Other income	10,469	3,340	197,886	10,815
Interest expense	(194,455)	(271,057)	(899,589)	(697,807)
Interest income	11,661	931	13,350	3,573
Loss before income taxes	(363,381)	(1,164,191)	(1,546,578)	(2,715,986)
INCOME TAX BENEFIT	-	399,000	-	1,005,000
NET LOSS BEFORE EXTRAORDINARY ITEM	(363,381)	(765,191)	(1,546,578)	(1,710,986)
EXTRAORDINARY ITEM - LOSS FROM EXTINGUISHMENT OF DEBT	-	-	(80,111)	-
NET LOSS	\$ (363,381)	\$ (765,191)	\$ (1,626,689)	\$ (1,710,986)
NET LOSS PER SHARE - BASIC AND DILUTED				
Loss before extraordinary item	\$ (0.07)	\$ (0.27)	\$ (0.42)	\$ (0.61)
Extraordinary item	-	-	(0.02)	-
Net loss per share	\$ (0.07)	\$ (0.27)	\$ (0.44)	\$ (0.61)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED	4,972,545	2,828,577	3,673,750	2,820,030

</TABLE>

See Notes to Condensed Financial Statements.

DYNAMIC MATERIALS CORPORATION

STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000

(unaudited)

<TABLE>

<CAPTION>

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Retained Earnings
<S>	<C>	<C>	<C>	<C>	<C>
Balances, December 31, 1999	2,842,429	\$ 142,122	\$ 7,122,553	\$ (37,970)	\$ 2,803,278
Common stock issued to SNPE, Inc., net of issuance costs	2,109,091	105,455	5,130,797	-	-
Amortization of deferred compensation	-	-	-	4,219	-
Common stock issued in connection with the					

employee stock purchase plan	22,248	1,112	26,072	-	-
Forfeiture of restricted stock grant	(3,750)	(188)	(33,563)	33,751	-
Net loss	-	-	-	-	(1,626,689)
	-----	-----	-----	-----	-----
Balances, September 30, 2000	4,970,018	\$ 248,501	\$12,245,859	\$ -	\$ 1,176,589
	=====	=====	=====	=====	=====

</TABLE>

See Notes to Condensed Financial Statements.

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DYNAMIC MATERIALS CORPORATION

STATEMENTS OF CASH FLOWS

(unaudited)

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<TABLE>  
<CAPTION>

	For the nine months	
	ended September 30,	
	2000	1999
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,626,689)	\$ (1,710,986)
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation	974,920	841,396
Amortization	232,384	250,395
Amortization of deferred gain	(51,039)	(9,011)
Amortization of deferred compensation	4,219	12,657
Impairment of long-lived assets	-	179,004
Deferred income tax	-	(136,000)
Gain on sale of property, plant and equipment	(185,570)	-
Change in-		
Accounts receivable, net	(266,894)	688,257
Inventories	(603,968)	1,857,690
Prepaid expenses and other	146,213	19,097
Income tax receivable	1,360,000	(1,005,965)
Accounts payable	(184,156)	(304,206)
Accrued expenses	(119,811)	(625,818)
	-----	-----
Net cash flows from operating activities	(320,391)	56,510
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Release of restricted cash and investments	255,008	4,000,027
Cash paid in connection with the construction of the new facility	(319,302)	(4,630,059)
Acquisition of property, plant and equipment	(239,027)	(332,909)
Loan to related party	-	(55,320)
Proceeds from repayment of loan to related party	354,588	-
Change in other non-current assets	231,374	99,313
Proceeds from sale of property, plant and equipment	940,036	-
	-----	-----
Net cash flows from investing activities	1,222,677	(918,948)
	-----	-----

</TABLE>

See Notes to Condensed Financial Statements.

## DYNAMIC MATERIALS CORPORATION

## STATEMENTS OF CASH FLOWS

(unaudited)

<TABLE>  
<CAPTION>

	For the nine months ended September 30,	
	2000	1999
<S>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on bank line of credit, net	155,000	1,800,000
Repayment on bank line of credit	(10,255,000)	-
Payment on industrial development revenue bonds	(505,000)	-
Cash received upon termination of the swap agreements	-	150,900
Proceeds from issuance of common stock to SNPE, Inc., net of issuance costs	5,236,252	-
Borrowings on SNPE, Inc. line of credit	3,750,000	-
Borrowings on SNPE, Inc. convertible subordinated note	1,200,000	-
Payment of deferred financing costs	(116,384)	-
Payments on long-term debt	-	(5,742)
Payments on capital lease obligation	(26,028)	(26,838)
Net proceeds from issuance of common stock to employees	27,184	88,322
Repayment of bank overdraft	(193,471)	(805,304)
Net cash flows from financing activities	(727,447)	1,201,338
NET DECREASE IN CASH AND CASH EQUIVALENTS	174,839	338,900
CASH AND CASH EQUIVALENTS, beginning of the period	-	-
CASH AND CASH EQUIVALENTS, end of the period	\$ 174,839	\$ 338,900
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for-		
Interest, net of amounts capitalized	\$ 672,260	\$ 856,279
Income taxes	\$ -	\$ 72,483

&lt;/TABLE&gt;

See Notes to Condensed Financial Statements.

## DYNAMIC MATERIALS CORPORATION

## NOTES TO CONDENSED FINANCIAL STATEMENTS

## 1. BASIS OF PRESENTATION

The information included in the Condensed 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 Financial Statements should be read in conjunction with the financial statements that are included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 1999.

Certain prior period amounts have been reclassified to conform to the current period presentation.

2. TRANSACTIONS WITH SNPE, INC.

On June 14, 2000 the Company's stockholders approved a Stock Purchase Agreement ("the Agreement") between the Company and SNPE, Inc ("SNPE"). The closing of the transaction, which was held immediately following stockholder approval, resulted in a payment from SNPE of \$5,800,000 to the Company in exchange for 2,109,091 of the Company's common stock at a price of \$2.75 per share causing SNPE to become a 50.8% stockholder of the Company on the closing date. An additional \$1,200,000 cash payment was made by SNPE to the Company to purchase a five-year, 5% Convertible Subordinated Note that is convertible in whole or in part into common stock by SNPE at a conversion price of \$6 per share. The Company also borrowed \$3,500,000 on June 14, 2000 under a new credit facility with SNPE, which provides up to \$3,500,000 in borrowings for working capital requirements through June 30, 2001. The SNPE credit facility, which bears interest at the Federal Funds Rate plus 1.5%, may be increased to a maximum of \$4,500,000 in total borrowings subject to certain approvals by SNPE. The Company borrowed an additional \$250,000 under the credit facility in September resulting in \$3,750,000 outstanding under the credit facility as of September 30, 2000. Proceeds from the SNPE equity investment, convertible subordinated note issuance and credit facility borrowings enabled the Company to repay all borrowings from its bank under a revolving credit facility on which the Company had been in default since September 30, 1999.

3. NEW ACCOUNTING PRINCIPLES

The FASB recently issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which requires that companies recognize all derivatives as either assets or liabilities in the balance sheet at fair value. Under SFAS 133, accounting for changes in fair value of a derivative depends on its intended use and designation. SFAS 133 is effective for fiscal years beginning after June 15, 2000. The Company is currently assessing the effect of this new standard.

In December 1999, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101") "Views on Selected Revenue Recognition Issues" which provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. The Company is required to implement SAB 101 no later than the end of the fourth quarter of 2000. Once implemented, the effect of SAB 101 is to be retroactively applied to January 1, 2000. The Company is currently assessing the effect of implementing SAB 101.

4. INVENTORIES

This caption on the Condensed Balance Sheet includes the following:

	September 30, 2000	December 31, 1999
	-----	-----
Raw Materials	\$ 960,868	\$ 1,311,345
Work-in-Process	2,993,005	2,001,784
Supplies	60,923	97,699
	-----	-----
	\$ 4,014,796	\$ 3,410,828
	=====	=====

5. CONSTRUCTION IN PROCESS

Building and equipment costs of \$709,097 related to the Company's new manufacturing facility were transferred from construction in process to property, plant and equipment during the nine months ended September 30, 2000. Construction began in September 1998 and was largely completed during the third quarter of 1999 with substantial completion during the second quarter of 2000. The project was financed using proceeds from the issuance of industrial development revenue bonds ("the Bonds"). The portion of the borrowings on the bonds not yet expended for construction was \$169,304 (which includes accrued interest) as of September 30, 2000 and is classified as restricted cash and investments (non-current) in the accompanying balance sheet. The proceeds are being held by a trustee until qualified expenditures are made and reimbursed to the Company.

6. LONG-TERM DEBT

Long-term debt consists of the following at September 30, 2000 and December 31, 1999:

	September 30, 2000	December 31, 1999
	-----	-----
Lines of credit	\$ -	\$ 10,100,000
Industrial development revenue bonds	6,180,000	6,685,000
	-----	-----

Total long-term debt	6,180,000	16,785,000
Less portion classified as current	(715,000)	(16,785,000)
	-----	-----
	\$ 5,465,000	\$ -
	=====	=====

#### Loan Covenants and Restrictions

The Company's 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.

Due largely to the operating losses the Company incurred during 1999 and the first quarter of 2000, the Company violated certain financial covenants under both its amended and restated credit facility with its bank and its reimbursement agreement relating to the letter of credit with its bank that supports payment of the principal and interest under the bonds. As a result of the debt and equity infusion from SNPE (see note 2), the Company was able to completely repay all outstanding borrowings under its bank credit facility and terminated this facility on June 14, 2000. Additionally, the Company was able to restructure financial covenants under the reimbursement agreement. In connection with the early termination of the credit facility, the Company recorded an \$80,111 loss on the early extinguishment of this debt. As of September 30, 2000, the Company is in compliance with all financial covenants and other provisions of its debt agreements.

#### 7. BUSINESS SEGMENTS

The Company is organized in the following two segments: the Explosive Metalworking Group and the Aerospace Group. The Explosive Metalworking Group uses explosives to perform metal cladding, metal forming and shock synthesis. The most significant product of this group is clad metal, which is used in the fabrication of pressure vessels, heat exchangers and transition joints used in the hydrocarbon processing, chemical processing, power generation, petrochemical, pulp and paper, mining, shipbuilding and heat, ventilation and air conditioning industries. The Aerospace Group machines, forms and welds parts for the commercial aircraft, aerospace and defense industries.

The Company's reportable segments are strategic business units that offer different products and services and are separately managed. 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, 2000 and 1999 as follows:

<TABLE>  
<CAPTION>

	Explosive Manufacturing	Aerospace	Total
<S>	<C>	<C>	<C>
For the three months ended September 30, 2000:			
Net sales	\$ 3,767,601	\$ 2,491,696	\$6,259,297
	=====	=====	=====
Depreciation and amortization	\$ 205,752	\$ 211,359	\$ 417,111
	=====	=====	=====
Income (loss) from operations	\$ 170,538	\$ (361,594)	\$ (191,056)
Unallocated amounts:			
Other income			10,469
Interest expense, net			(182,794)
			-----
Consolidated loss before income taxes and extraordinary items			\$ (363,381)
			=====
	Explosive Manufacturing	Aerospace	Total
For the three months ended September 30, 1999:			
Net sales	\$ 3,110,064	\$ 3,157,553	\$6,267,617
	=====	=====	=====
Depreciation and amortization	\$ 197,069	\$ 180,169	\$ 377,238
	=====	=====	=====
(Loss) income from operations	\$ (1,081,693)	\$ 184,288	\$ (897,405)
Unallocated amounts:			
Other income			3,340
Interest expense, net			(270,126)
			-----

Consolidated loss before income taxes and extraordinary items			\$ (1,164,191)
			=====
	Explosive	Aerospace	Total
	Manufacturing		
For the nine months ended September 30, 2000:			
Net sales	\$12,450,219	\$ 8,516,186	\$20,966,405
	=====	=====	=====
Depreciation and amortization	\$ 574,152	\$ 633,152	\$ 1,207,304
	=====	=====	=====
Loss from operations	\$ (284,961)	\$ (573,264)	\$ (858,225)
Unallocated amounts:			
Other income			197,886
Interest expense, net			(886,239)
			-----
Consolidated loss before income taxes and extraordinary items			\$ (1,546,578)
			=====

	Explosive	Aerospace	Total
	Manufacturing		
For the nine months ended September 30, 1999:			
Net sales	\$14,005,406	\$ 9,706,396	\$23,711,802
	=====	=====	=====
Depreciation and amortization	\$ 561,493	\$ 530,303	\$ 1,091,796
	=====	=====	=====
(Loss) income from operations	\$ (2,900,518)	\$ 867,951	\$ (2,032,567)
Unallocated amounts:			
Other income			10,815
Interest expense, net			(694,234)
			-----
Consolidated loss before income taxes and extraordinary items			\$ (2,715,986)
			=====

</TABLE>

All of the Company's sales are shipped from domestic locations and all of the Company's assets are located within the United States. The following represents the Company's net sales based on the geographic location of the customer:

	For the three months	
	-----	
	ended September 30,	
	-----	
	2000	1999
	-----	-----
United States	\$5,926,407	\$5,464,846
Canada	167,860	281,653
Australia	9,600	-
South Korea	-	-
Other foreign countries	155,430	521,118
	-----	-----
Total consolidated net sales	\$6,259,297	\$6,267,617
	=====	=====

	For the nine months	
	-----	
	ended September 30,	
	-----	
	2000	1999
	-----	-----
United States	\$18,728,498	\$21,533,124
Canada	680,746	1,312,844
Australia	9,600	149,626
South Korea	952,285	-
Other foreign countries	595,276	716,208
	-----	-----
Total consolidated net sales	\$20,966,405	\$23,711,802
	=====	=====

During the three months ended September 30, 2000, sales to two different

customers represented approximately \$926,000 (15%) and 778,000 (12%), respectively, of total net sales and, during the nine months ended September 30, 2000, sales to these two customers amounted to approximately \$2,305,000 (11%) and \$2,272,000 (11%), respectively. During the three months and nine months ended September 30, 1999, sales to one customer represented approximately \$1,571,000 (25%) and \$3,927,000 (17%), respectively, of total net sales.

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

### General

Dynamic Materials Corporation ("DMC" or the "Company") is a worldwide leader in explosive metalworking and, through its new Aerospace Group, is involved in a variety of metal forming, machining, welding, and assembly activities. The explosive metalworking business includes the use of explosives to perform metallurgical bonding, or "metal cladding" and shock synthesis of synthetic diamonds. The Company performs metal cladding using its proprietary Dynaclad(TM) and Detaclad(R) technologies. The Company's revenues from its explosive metalworking businesses, as a proportion of total Company revenues, have declined as a result of a significant slowdown in global market demand for explosion bonded clad metal plate and the 1998 acquisitions of AMK Welding, Spin Forge and Precision Machined Products. The Company's Aerospace Group was formed from these three acquisitions and accounted for 22% and 42% of the Company's 1998 revenues and 1999 revenues, respectively. The proportion of revenues accounted for by the Aerospace Group for the quarter and nine months ended September 30, 2000 was 40% and 41%, respectively, compared to 50% and 40% for the comparable periods of 1999.

**Explosive Metalworking.** Clad metal products are used in manufacturing processes or environments that involve highly corrosive chemicals, high temperatures and/or high pressure conditions. For example, the Company fabricates clad metal tube sheets for heat exchangers. Heat exchangers are used in a variety of high temperature, high pressure, highly corrosive chemical processes, such as processing crude oil in the petrochemical industry and processing chemicals used in the manufacture of synthetic fibers. In addition, the Company has produced titanium clad plates used in the fabrication of metal autoclaves to replace autoclaves made of brick and lead for two customers in the mining industry. The Company believes that its clad metal products are an economical, high-performance alternative to the use of solid corrosion-resistant alloys. In addition to clad metal products, the explosive metalworking business includes shock synthesis of synthetic diamonds.

**Aerospace Manufacturing.** Formed metal products are made from sheet metal and forgings that are subsequently formed into precise, three-dimensional shapes that are held to tight tolerances. Metal forming is accomplished through the use of traditional forming technologies, including spinning, machining, rolling and hydraulic expansion. DMC also performs welding services utilizing a variety of manual and automatic welding techniques that include electron beam and gas tungsten arc welding processes. The Company's forming and welding operations are often performed to support the manufacture of completed assemblies and sub-assemblies required by its customers. Fabrication and assembly services are performed utilizing the Company's close-tolerance machining, forming, welding, inspection and other special service capabilities. The Company's forming, machining, welding and assembly operations serve a variety of product applications in the commercial aircraft, aerospace, defense and power generation industries. Product applications include tactical missile motor cases, titanium pressure tanks for launch vehicles, and complex, high precision component parts for satellites.

On June 14, 2000 the Company's stockholders approved a Stock Purchase Agreement ("the Agreement") between the Company and SNPE, Inc ("SNPE"). The closing of the transaction, which was held immediately following stockholder approval, resulted in a payment from SNPE of \$5,800,000 to the Company in exchange for 2,109,091 of the Company's common stock at a price of \$2.75 per share causing SNPE to become a 50.8% stockholder of the Company on the closing date. An additional \$1,200,000 cash payment was made by SNPE to the Company to purchase a five-year, 5% Convertible Subordinated Note that is convertible in whole or in part into common stock by SNPE at a conversion price of \$6 per share. The Company also borrowed \$3,500,000 on June 14, 2000 under a new credit facility with SNPE, which provides up to \$3,500,000 in borrowings for working capital requirements through June 30, 2001. The SNPE credit facility, which bears interest at the Federal Funds Rate plus 1.5%, may be increased to a maximum of \$4,500,000 in total borrowings subject to certain approvals by SNPE. Proceeds from the SNPE equity investment, convertible subordinated note issuance and credit facility borrowings enabled the Company to repay all borrowings from its bank under a revolving credit facility on which the Company had been in default since September 30, 1999.

In 1999, the Company experienced significant operating losses as a result of a significant slowdown in global market demand for explosion bonded clad

metal plate and non-recurring charges associated with plant closing costs, new facility start-up costs, asset impairment write-downs and expenses incurred in connection with efforts to sell the Explosive Metalworking Group. During the first three quarters of 2000, the Company again experienced operating losses due to the continued slowdown in global market demand for explosion bonded clad metal plate and lower sales and gross margins in its Aerospace Group. The Company expects the reduced demand for its clad metal products to continue at least through the end of 2000. The Company also experienced, and expects to continue to experience, quarterly fluctuations in operating results caused by various factors, including the timing and size of orders from major customers, customer inventory levels, shifts in product mix, and general economic conditions. The Company typically does not obtain long-term volume purchase contracts from its customers. Quarterly sales and operating results therefore depend on the volume and timing of backlog as well as bookings received during the quarter. A significant portion of the Company's operating expenses is fixed, and planned expenditures are based primarily on sales forecasts and product development programs. If sales do not meet the Company's expectations in any given period, the adverse impact on operating results may be magnified by the Company's inability to adjust operating expenses sufficiently or quickly enough to compensate for such a shortfall. In addition, the Company uses numerous suppliers of alloys, steels and other materials for its operations. The Company typically bears a short-term risk of alloy, steel and other component price increases, which could adversely affect the Company's gross profit margins. Although the Company will work with customers and suppliers to minimize the impact of any component shortages, component shortages have had, and are expected from time to time to have, short-term adverse effects on the Company's business. Results of operations in any period should not be considered indicative of the results to be expected for any future period. Fluctuations in operating results may also result in fluctuations in the price of the Company's common stock.

Quarter and Nine Months Ended September 30, 2000 Compared to Quarter and Nine Months September 30, 1999

The following table sets forth, for the periods indicated, the percentage relationship to net sales of certain income statement data:

	Percentage of Net Sales			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Products Sold	83.2%	91.9%	85.9%	86.6%
Gross Margin	16.8%	8.1%	14.1%	13.4%
General & Administrative	14.5%	12.2%	12.8%	11.2%
Selling Expenses	5.3%	5.7%	5.3%	4.8%
New Facility Start-up Costs	-	2.0%	-	1.4%
Plant Closing Costs	-	1.4%	-	2.7%
Asset Impairments	-	-0.1%	-	0.8%
Costs related to sale of				
Bonding business	-	1.3%	-	1.2%
Loss from Operations	-3.1%	-14.3%	-4.1%	-8.6%
Interest Expense	3.1%	4.3%	4.3%	2.9%
Income Tax Benefit	-	6.4%	-	4.2%
Net Loss	-5.8%	-12.2%	-7.8%	-7.2%

Net Sales. Net sales for the quarter ended September 30, 2000 decreased by 0.1% to \$6,259,297 from \$6,267,617 in the third quarter of 1999. The Company's Aerospace Group contributed \$2,491,696 (39.8% of total sales) to third quarter 2000 sales versus sales of \$3,157,553 (50.4% of total sales) in the third quarter of 1999. Sales by the Explosive Metalworking Group, which includes explosion bonding of clad metal and shock synthesis of synthetic diamonds, increased by 21.1% from \$3,110,064 in the third quarter of 1999 to \$3,767,601 in the third quarter of 2000. For the nine months ended September 30, 2000, net sales decreased by 11.6% to \$20,966,405 from \$23,711,802 for the comparable period of 1999. Aerospace Group sales for the nine months ended September 30, 2000 totaled \$8,516,186 (40.6% of total sales), a decrease of 12.3% from sales 9,706,396 (40.9% of total sales) reported for the comparable period of 1999. Sales by the Explosive Metalworking Group for the comparable nine-month period decreased by 11.1% from \$14,005,406 in 1999 to \$12,450,219 in 2000. The decrease in Explosive Metalworking Group sales for the nine-month period reflects a significant slowdown in global market demand for explosion bonded clad metal plate that is expected to continue for at least the remainder of the year 2000.

Gross Profit. As a result of improvements in Explosive Metalworking Group product pricing and lower fixed manufacturing costs for that segment, gross profit for the quarter ended September 30, 2000 increased by 105.7% to

\$1,048,630 from \$509,737 in the third quarter of 1999. The gross profit margin for the quarter ended September 30, 2000 was 16.8%, representing a 107% increase from the gross profit margin of 8.1% for the third quarter of 1999. For the nine months ended September 30, 2000, gross profit decreased 7.5% to \$2,947,632 from \$3,185,2210 in the comparable period of 1999. The gross profit margin for the nine months ended September 30, 2000 was 14.1%, representing a 5.2% increase from the gross profit margin of 13.4% for the first nine months of 1999. The gross profit margin for the Explosive Metalworking Group increased from a negative gross margin of 3.9% in the third quarter of 1999 to a gross margin of 21.3% in the third quarter of 2000. For the comparable nine-month periods, Explosive Metalworking gross margins increased from 5.2% in 1999 to 13.7% in 2000. The increase in gross profit margins for the Explosive Metalworking Group is due to improvements in product pricing and favorable fixed manufacturing overhead cost variances associated with the operation of the new manufacturing facility in Pennsylvania. The gross profit margin for the Aerospace Group was 9.9% for the quarter ended September 30, 2000 as compared to 20.0% in the third quarter of 1999. For the comparable nine-month periods, Aerospace Group gross profit margins decreased from 25.3% in 1999 to 14.6% in 2000. The decline in operating unit gross profit margin rates for the Aerospace Group reflects a decrease in year-to-year sales at Spin Forge and AMK and unfavorable product mix changes at each of the three Aerospace Group operating units.

**General and Administrative.** General and administrative expenses for the quarter ended September 30, 2000 increased by 18.7% to \$909,367 from \$766,318 in the third quarter of 1999. This large increase in general and administrative expenses reflects higher than normal legal fees in the third quarter of 2000 associated with certain transactional activity and lower than normal general and administrative expenses in the third quarter of 1999 due to certain reclassification entries that were recorded in that quarter (general and administrative expenses averaged \$884,000 per quarter in 1999). For the nine months ended September 30, 2000, general and administrative expenses increased by 1.4% to \$2,686,108 from \$2,648,425 in the comparable period of 1999. As a percentage of net sales, general and administrative expenses increased from 12.2% in the third quarter of 1999 to 14.5% for the quarter ended September 30, 2000 and increased from 4.8% to 5.3% for the comparable nine-month periods.

**Selling Expense.** Selling expenses decreased by 7.6% to \$330,319 for the quarter ended September 30, 2000 from \$357,579 in the third quarter of 1999. For the nine months ended September 30, 2000, selling expenses decreased by 1.8% to \$1,119,749 from \$1,140,764 in the comparable period of 1999. Selling expenses for the nine months ended September 30, 2000 included \$80,284 of non-recurring expenses associated with severance pay and other employee separation costs. Excluding the non-recurring employee separation costs, selling expenses decreased by 8.9% to \$1,039,465 for the nine months ended September 30, 2000 from \$1,140,764 for the comparable period of 1999. This decrease is principally due to reductions in salaries, payroll taxes and benefits associated with Explosive Metalworking Group sales staff reductions. Excluding the impact of the non-recurring expense discussed above, selling expenses as a percentage of net sales decreased from 5.7% in the third quarter of 1999 to 5.3% for the quarter ended September 30, 2000 and increased from 4.8% for the nine months ended September 30, 1999 to 5.0% for the comparable period of 2000. The increased percentage for the nine-month period is attributable to the 11.6% decline in sales for the nine months ended September 30, 2000 versus the comparable period of 1999.

**Start-up Costs.** Beginning in 1998, the Company began to separately report the start-up costs associated with the construction of a new facility in Pennsylvania for the manufacture of clad metal plates. Start-up costs for the quarter and nine months ended September 30, 1999 totaled \$125,538 and \$334,496, respectively. Start-up costs include salaries, benefits and travel expenses for Company employees assigned to this project, field office expenses and other operating expenses directly associated with this project. The new facility commenced operations in August 1999 at which time all operating costs associated with this new facility began to be recorded as manufacturing overhead that is included in the computation of cost of products sold.

**Plant Closing Costs.** On April 23, 1999, the Company announced that it would be closing its Louisville, Colorado-based explosion bonded clad metal plate manufacturing facility in the third quarter of 1999 and consolidating all of its Explosive Metalworking Group operations into the new Pennsylvania-based clad metal plate manufacturing facility. Plant closing costs for the quarter and nine months ended September 30, 1999, totaled \$87,319 and \$636,618, respectively. Plant closing costs include severance pay to terminated employees, outplacement service fees and certain expenses to be incurred in connection with final plant shutdown, clean-up and site reclamation work subsequent to the discontinuation of manufacturing activities at this facility in July 1999.

**Impairment of Long-lived Assets.** In connection with the plant closing discussed above, the Company identified certain long-lived assets associated with its Colorado manufacturing operations that were abandoned and had negligible fair market values. Accordingly, the Company recorded asset impairment write-down charges in the aggregate amount of \$188,079 during the second quarter of 1999 that are included in the results for the six months ended June 30, 1999. The Company adjusted the impairment estimate downward by \$9,074 during the third quarter of 1999.

The Company also identified certain inventory that was determined to have little value as a result of the plant closing. This inventory, which totaled approximately \$108,000, was consequently written off in the second quarter of 1999. This charge is included in cost of products sold for the nine months ended September 30, 1999.

Costs related to Sale of Explosive Metalworking Group. On June 23, 1999, the Company announced that it had entered into an agreement to sell certain assets relating to its Explosive Metalworking Group to AMETEK for approximately \$17 million. However, on October 20, 1999, AMETEK notified the Company that it was terminating the Asset Purchase Agreement. In connection with the Company's efforts to sell its Explosive Metalworking Group, the Company recorded expenses of \$79,462 and \$278,470 for the three and nine months ended September 30, 1999, respectively. These expenses related principally to investment banking, legal and other third party fees associated with the terminated sales transaction. Certain of these expenses continued to be incurred by the Company during the fourth quarter of 1999.

Income (Loss) from Operations. For the quarter ended September 30, 2000, the Company reported a \$191,056 loss from operations compared to a \$897,405 loss from operations for the third quarter of 1999. This decreased loss from operations is a result of the 105.7% increase in gross profit discussed above and a reduction in non-recurring charges in the aggregate amount of \$283,245 associated with plant closing costs, new facility start-up costs, asset impairment write-downs and expenses incurred in connection with efforts to sell the Explosive Metalworking Group that was recorded in the third quarter of 1999. For the nine months ended September 30, 2000, the Company reported an operating loss of \$858,225 compared to \$2,032,567 in the comparable period of 1999. This decreased loss from operations is a result of a decrease in non-recurring charges in the aggregate amount of \$1,428,588 associated with plant closing costs, new facility start-up costs, asset impairment write-downs and expenses incurred in connection with efforts to sell the Explosive Metalworking Group that was recorded for the nine months ended September 30, 1999. The effect of the decrease in non-recurring costs was partly offset by the 7.5% decrease in gross profit for the nine months ended September 30, 2000 versus the comparable period in 1999 that is attributable to lower sales by the Company's Explosive Metalworking Group and lower sales and gross margins by the Aerospace Group.

For the quarter and nine months ended September 30, 2000, the Company's Aerospace Group reported a loss from operations of \$361,594 and \$573,264, respectively, as compared to income from operations of \$187,288 and \$867,951 for the respective comparable periods of 1999. For the quarter and nine months ended September 30, 2000, the Explosive Metalworking Group reported income from operations of \$170,538 and a loss from operations of \$284,961, respectively, as compared to operating losses of \$1,081,693 and \$2,900,518 for the respective comparable periods of 1999.

Interest Expense. Interest expense decreased to \$194,455 for the quarter ended September 30, 2000 from \$271,057 in the third quarter of 1999. This decrease in interest expense is a result of the reduction in the Company's debt resulting from the equity investment by SNPE, Inc. which occurred on June 14, 2000. For the nine months ended September 30, 2000, interest expense increased to \$899,589 from \$697,807 in the comparable period of 1999. This increase is due to increases in both interest rates and average borrowings outstanding under the Company's revolving credit facility. In addition, the increase reflects the interest on the industrial development revenue bonds being recorded in interest expense for the quarter and nine months ended September 30, 2000 versus being capitalized through July of 1999. The Company began to record interest on the industrial development revenue bonds as expense once the new facility commenced operations in August 1999. Prior to the commencement of operations, interest on the industrial development revenue bonds was being capitalized. These increases in interest were partly offset by a decrease in interest occurring as a result of the reduction in debt which was made possible by the equity investment in the Company by SNPE, Inc. on June 14, 2000.

Income Tax Benefit (Expense). No tax benefit has been recorded for the quarter and nine months ended September 30, 2000 since the Company utilized all of its tax loss carry-backs in 1999 and the Company's current financial position and near-term operations outlook make the future realization of tax benefits associated with tax loss carry-forwards uncertain. The income tax benefit for the quarter and nine months ended September 30, 1999 was 399,000 and 1,005,000, respectively, representing respective effective tax rates of 34.3% and 37.0%.

#### Liquidity and Capital Resources

Historically, the Company has obtained most of its operational financing from a combination of operating activities and an asset-backed revolving credit facility. Due primarily to the operating losses the Company incurred during 1999 and the first quarter of 2000, the Company violated certain financial covenants under both its revolving credit facility and the reimbursement agreement related to the letter of credit supporting payment of principal and interest under the Company's industrial revenue development bonds (the "Bonds") used to finance the construction of its manufacturing facilities in Pennsylvania. On June 14, 2000 the Company's stockholders approved a Stock Purchase Agreement ("the Agreement")

between the Company and SNPE, Inc ("SNPE"). The closing of the transaction, which was held immediately following stockholder approval, resulted in a payment from SNPE of \$5,800,000 to the Company in exchange for 2,109,091 shares of the Company's common stock at a price of \$2.75 per share causing SNPE to become a 50.8% stockholder of the Company on the closing date. An additional \$1,200,000 cash payment was made by SNPE to the Company to purchase a five-year, 5% Convertible Subordinated Note that is convertible in whole or in part into common stock by SNPE at a conversion price of \$6 per share. The Company also borrowed \$3,500,000 on June 14, 2000 under a new credit facility with SNPE, which provides up to \$3,500,000 in borrowings for working capital requirements through June 30, 2001. The SNPE credit facility, which bears interest at the Federal Funds Rate plus 1.5%, may be increased to a maximum of \$4,500,000 in total borrowings subject to certain approvals by SNPE. Proceeds from the SNPE equity investment, convertible subordinated note issuance and credit facility borrowings aggregated \$10,500,000 and enabled the Company to repay all outstanding borrowings under its bank revolving credit facility on which the Company had been in default since September 30, 1999. The bank revolving credit facility was terminated on June 14, 2000. As a result of the SNPE debt and equity infusion, the Company was also able to restructure financial covenants under the reimbursement agreement with its bank relating to the industrial development revenue bonds and is currently in full compliance with all provisions of its debt agreements.

The Company believes that its cash flow from operations and funds available under its credit facility with SNPE, Inc., or a replacement credit facility with a third party financial institution, will be sufficient to fund working capital, debt service obligations and capital expenditure requirements of its current business operations for the foreseeable future. Management of the Company intends to replace the SNPE credit facility, which matures on June 30, 2001 and is callable upon 90 days' notice after October 1, 2000, with a new third party credit facility during the early part of 2001 and believes that the Company's strengthened balance sheet and improving operating results will enable the Company to secure such third party financing on reasonable terms. However, a significant portion of the Company's sales is derived from a relatively small number of customers; therefore, the failure to perform existing contracts on a timely basis, and 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 the Company's ability to meet its cash requirements exclusively through operating activities. Consequently, any restriction on the availability of borrowing under the SNPE credit facility or a replacement facility could negatively affect the Company's ability to meet its future cash requirements.

#### Forward-Looking Statements

Statements which are not historical facts contained in this report are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Factors that could cause actual results to differ materially include, but are not limited to, the following: the ability to obtain new contracts at attractive prices; the size and timing of customer orders; fluctuations in customer demand; competitive factors; the timely completion of contracts; any actions which may be taken by SNPE as the controlling shareholder of the Company with respect to the Company and its businesses; the ability of the Company to continue to obtain payment deferrals and covenant waivers from its lenders; the timing and size of expenditures; the timely receipt of government approvals and permits; the adequacy of local labor supplies at the Company's facilities; the availability and cost of funds; and general economic conditions, both domestically and abroad. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes 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.

#### Part II - OTHER INFORMATION

##### Item 1. Legal Proceedings

None.

##### Item 2. Changes in Securities and Use of Proceeds

None.

##### Item 3. Defaults Upon Senior Securities

None.

##### Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on September 12,

2000. At the Annual Meeting, the stockholders of the Company (i) elected the persons listed below to serve as directors of the Company until the 2003 Annual Meeting of Shareholders or until their respective successors are elected, (ii) approved amendments to the Company's Employee Share Purchase Plan to increase the number of common shares authorized for issuance by 50,000 shares and (iii) ratified the selection of Arthur Andersen LLP as independent accountants of the Company for its fiscal year ending December 31, 2000.

The Company had 4,973,768 shares of Common Stock outstanding as of July 21, 2000, the record date for the Annual Meeting. At the Annual Meeting, holders of a total of 4,777,270 shares of Common Stock were present in person or represented by proxy. The following sets forth information regarding the results of the voting at the Annual Meeting:

Proposal 1: Election of Directors

DIRECTOR	Shares Voted "FOR"	Shares Withheld
Bernard Hueber	4,723,993	53,277
Gerard Munera	4,701,993	75,277

Proposal 2: Approval of Amendments to the Company's Employee Stock Purchase Plan

Shares Voted "FOR"	Shares Voted "AGAINST"	Shares "ABSTAINING"	Shares not voted
4,746,427	22,448	8,395	0

Proposal 3: Ratification of Selection of Independent Accountants

Shares Voted "FOR"	Shares Voted "AGAINST"	Shares "ABSTAINING"	Shares not voted
4,696,331	56,159	24,780	0

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

27 Financial Data Schedule

(b) Reports on Form 8-K

A Current Report on Form 8-K dated August 23, 2000 was filed during the quarter ended September 30, 2000, pursuant to Item 5 of that form. No financial statements were filed as part of that report.

SIGNATURES

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

DYNAMIC MATERIALS CORPORATION  
(Registrant)

Date: November 14, 2000

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

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This schedule contains summary financial information extracted from the financial statements for the nine-month period commencing January 1, 2000 and ending September 30, 2000 of Dynamic Materials Corporation and is qualified in its entirety by reference to such financial statements.

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