

SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549  
 Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001

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

-----

DYNAMIC MATERIALS CORPORATION

(Exact name of Registrant as Specified in its Charter)

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

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

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

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

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The number of shares of Common Stock outstanding was 5,016,125 as of October 31, 2001.

ITEM 1. Financial Statements

DYNAMIC MATERIALS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Restated - see Note 2)

(unaudited)

<TABLE>  
 <CAPTION>

	September 30, 2001 -----	December 31 2000 -----
- <S> ASSETS	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,006,252	\$ 300,530
Accounts receivable, net of allowance for doubtful accounts of \$157,000 and \$130,000, respectively	8,332,642	7,453,123
Inventories	6,676,692	6,261,155
Prepaid expenses and other	754,038	536,493
Current deferred tax asset	-	10,000
Total current assets	----- 16,769,624	----- 14,561,301
PROPERTY, PLANT AND EQUIPMENT	20,841,777	19,986,509
Less- Accumulated depreciation	(5,498,528)	(4,492,850)
Property, plant and equipment, net	----- 15,343,249	----- 15,493,659

RESTRICTED CASH AND INVESTMENTS	179,394	179,394
INTANGIBLE ASSETS, net of accumulated amortization of \$1,317,439 and \$1,094,870, respectively	4,770,181	4,992,750
OTHER ASSETS, net	331,853	261,351
TOTAL ASSETS	\$ 37,394,301	\$ 35,488,455

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

DYNAMIC MATERIALS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Restated - see Note 2)

(unaudited)

<TABLE>  
<CAPTION>

	September 30, 2001	December 31, 2000
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
- - - - -		
<S>	<C>	<C>
CURRENT LIABILITIES:		
Bank overdraft	\$ 80,000	\$ -
Accounts payable	3,179,194	3,988,301
Accrued expenses	2,578,054	1,874,579
Current maturities on long-term debt	5,823,333	1,218,000
Capital lease obligation	-	3,394
Total current liabilities	11,660,581	7,084,274
LONG-TERM DEBT	10,874,667	10,230,000
OTHER LONG-TERM LIABILITIES	223,848	248,887
Total liabilities	22,759,096	17,563,161
	-----	-----
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; 5,016,125 and 4,990,331 shares issued and outstanding, respectively	250,807	249,517
Additional paid-in capital	12,283,870	12,262,109
Retained earnings	2,532,528	5,551,668
Other cumulative comprehensive loss	(432,000)	(138,000)
	14,635,205	17,925,294
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 37,394,301	\$ 35,488,455
	=====	=====

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

DYNAMIC MATERIALS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Restated - see Note 2)

(unaudited)

<TABLE>  
<CAPTION>

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	
2000				
--				--
<S>	<C>	<C>	<C>	<C>
NET SALES \$23,722,405	\$12,257,533	\$ 9,015,297	\$32,739,866	
COST OF PRODUCTS SOLD 20,011,773	8,888,799	7,203,667	23,982,349	
-----				
Gross profit 3,710,632	3,368,734	1,811,630	8,757,517	
-----				
COSTS AND EXPENSES:				
General and administrative expenses 3,108,108	1,124,436	1,331,367	3,390,137	
Selling expenses 1,291,749	617,903	502,319	1,829,434	
-----				
4,399,857	1,742,339	1,833,686	5,219,571	
-----				
INCOME (LOSS) FROM OPERATIONS (689,225)	1,626,395	(22,056)	3,537,946	
OTHER INCOME (EXPENSE):				
Other income (expense) 196,886	1,382	7,469	(75,342)	
Interest expense (902,589)	(252,311)	(195,455)	(616,732)	
Interest income 13,350	5,079	11,661	12,988	
-----				
Income (loss) before income taxes (1,381,578)	1,380,545	(198,381)	2,858,860	
-----				
INCOME TAX PROVISION (66,000)	(37,000)	(66,000)	(289,000)	
-----				
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM (1,447,578)	1,343,545	(264,381)	2,569,860	
EXTRAORDINARY ITEM - LOSS FROM EXTINGUISHMENT OF DEBT (80,111)	-	-	-	
-----				
NET INCOME (LOSS) (1,527,689)	\$ 1,343,545	\$ (264,381)	\$ 2,569,860	\$
=====				
NET INCOME (LOSS) PER SHARE - BASIC				
Income (loss) before extraordinary item (0.39)	\$ 0.27	\$ (0.05)	\$ 0.51	\$
Extraordinary item (0.03)	-	-	-	
-----				
Net income (loss) per share (0.42)	\$ 0.27	\$ (0.05)	\$ 0.51	\$
=====				
NET INCOME (LOSS) PER SHARE - DILUTED				
Income (loss) before extraordinary item (0.39)	\$ 0.26	\$ (0.05)	\$ 0.51	\$
Extraordinary item (0.03)	-	-	-	
-----				
Net income (loss) per share	\$ 0.26	\$ (0.05)	\$ 0.51	\$

(0.42)

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC	5,016,125	4,972,545	4,999,110
3,673,750			
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED	5,098,081	4,972,545	5,038,873
3,673,750			

See Notes to Condensed Consolidated Financial Statements.

DYNAMIC MATERIALS CORPORATION  
STATEMENT OF STOCKHOLDERS' EQUITY (Restated - see Note 2)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001  
(unaudited)

<TABLE>  
<CAPTION>

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings of Parent	Equity of Nobelclad and Nitro Metall
Balances, December 31, 2000	4,990,331	\$ 249,517	\$12,262,109	\$ 792,668	\$ 4,759,000
Shares issued for stock option exercises	1,250	63	2,125	-	-
Shares issued in connection with the employee stock purchase plan	24,544	1,227	19,636	-	-
Dividends paid by Nobelclad and Nitro Metall to former parent company	-	-	-	-	(296,000)
Retroactive consolidation of Nobelclad and Nitro Metall effective June 30, 2000, to reflect the July 2001 reorganization of entities under common control	-	-	-	(830,000)	(4,463,000)
Net income	-	-	-	2,569,860	-
Currency translation adjustment	-	-	-	-	-
Balances, September 30, 2001	5,016,125	\$ 250,807	\$ 12,283,870	\$ 2,532,528	\$ -

	Other Cumulative Comprehensive Loss	Total	Comprehensive Income
Balances, December 31, 2000	\$ (138,000)	\$17,925,294	\$ -
Shares issued for stock option exercises	-	2,188	-
Shares issued in connection with the employee stock purchase plan	-	20,863	-
Dividends paid by Nobelclad and Nitro Metall to former parent company	-	(296,000)	-

Retroactive consolidation of Nobelclad and Nitro Metall effective June 30, 2000, to reflect the July 2001 reorganization of entities under common control	-	(5,293,000)	-
Net income	-	2,569,860	2,569,860
Currency translation adjustment	(294,000)	(294,000)	(294,000)
Balances, September 30, 2001	\$ (432,000)	\$ 14,635,205	\$ 2,275,860

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

DYNAMIC MATERIALS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Restated - see Note 2)

(unaudited)

<TABLE>  
<CAPTION>

	For the nine months ended September 30,	
	2001	2000
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$2,569,860	\$ (1,527,689)
Adjustments to reconcile net income (loss) to net cash from operating activities-		
Depreciation	1,226,790	1,055,920
Amortization	222,569	232,384
Amortization of deferred gain on swap termination	(12,039)	(51,039)
Provision for deferred income taxes	6,000	-
Amortization of deferred compensation	-	4,219
Unrealized foreign currency loss	25,000	-
Gain on sale of property, plant and equipment	-	(185,570)
Change in -		
Accounts receivable, net	(999,519)	(561,894)
Inventories	(509,537)	(646,968)
Prepaid expenses and other	(216,545)	590,213
Income tax receivable	-	1,360,000
Accounts payable	(763,107)	15,844
Accrued expenses	567,431	(51,811)
Net cash flows from operating activities	2,116,903	233,609
CASH FLOWS FROM INVESTING ACTIVITIES:		
Release of restricted cash and investments	-	255,008
Cash paid in connection with the construction of the new facility	-	(319,302)
Acquisition of property, plant and equipment	(1,155,834)	(339,027)
Proceeds from repayment of loan to related party	-	354,588
Change in other non-current assets	(70,002)	231,374
Proceeds from sale of property, plant and equipment	-	940,036
Net cash flows from investing activities	(1,225,836)	1,122,677

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Restated - see Note 2)

(unaudited)

<TABLE>  
<CAPTION>

	For the nine months ended September 30,	
	2001	2000
<S>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on bank line of credit, net	-	155,000
Repayment on bank line of credit	-	(10,255,000)
Payment on industrial development revenue bonds	(540,000)	(505,000)
Proceeds from issuance of common stock to SNPE, Inc., net of issuance costs	-	5,236,252
Borrowings on SNPE, Inc. line of credit	350,000	3,750,000
Borrowings on SNPE, Inc. convertible subordinated note	-	1,200,000
Reorganization of entities under common control-		
Borrowed from parent under note payable	4,000,000	-
Borrowed from bank and distributed to parent	1,293,000	-
Distributions to parent for July 2001 reorganization	(5,293,000)	-
Borrowing on debt to related party	318,000	-
Payment on debt to related party	-	(230,000)
Payment of deferred financing costs	-	(116,384)
Payments on capital lease obligation	(3,394)	(26,028)
Net proceeds from issuance of common stock to employees	23,049	27,184
Bank overdraft	79,000	-
Repayment of bank overdraft	-	(193,471)
Dividends paid by Nobelclad/Nitro Metall to former parent company	(296,000)	(329,000)
	(69,345)	(1,286,447)
Net cash flows from financing activities		
EFFECTS OF EXCHANGE RATES ON CASH	(116,000)	(23,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	705,722	46,839
CASH AND CASH EQUIVALENTS, beginning of the period	300,530	382,000
CASH AND CASH EQUIVALENTS, end of the period	\$ 1,006,252	\$ 428,839
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for-		
Interest, net of amounts capitalized	\$ 494,988	\$ 603,277
	=====	=====
Income taxes	\$ 66,000	-
	=====	=====

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

DYNAMIC MATERIALS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 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, 2000; however, it should be noted that, due to the reorganization described in Note 2, the Company has restated operating results for all periods subsequent to June 14, 2000.

2. ACQUISITION OF NOBELCLAD EUROPE S.A. AND NITRO METALL AB FROM RELATED PARTY

On July 3, 2001, the Company completed its acquisition of substantially all of the outstanding stock of Nobelclad Europe S.A. ("Nobelclad") from Nobel Explosifs France ("NEF"). Nobelclad and its wholly-owned subsidiary, Nitro Metall AB ("Nitro Metall") operate cladding businesses located in Rivesaltes, France and Likenas, Sweden, respectively. NEF is wholly owned by Groupe SNPE and is a sister company to SNPE, Inc., which owns 55% of the Company's common stock. The purchase price of \$4 million was financed by a note agreement between the Company and SNPE, Inc. Third party bank debt held by Nobelclad in the amount of 9.5 million French Francs (approximately \$1.2 million as of July 3, 2001) also was assumed in the transaction. Proceeds from this bank debt were used to finance Nobelclad's June, 2001 acquisition of 100% of the stock of Nitro Metall from NEF.

As a result of the Company and Nobelclad both being majority owned by Groupe SNPE, the acquisition of Nobelclad has been accounted for as a reorganization of entities under common control. The historical financial position and operating results of the Company have been restated to reflect the addition of the Nobelclad and Nitro Metall historical financial results as if the companies had been consolidated from June 2000, the date on which Groupe SNPE acquired its majority ownership in the Company. The purchase price that the Company paid for the acquisition of Nobelclad and Nitro Metall has been reflected in the Company's consolidated financial statements at historical net book values due to the companies being under the common control of Groupe SNPE. In addition, there is a reduction to stockholders' equity of \$5,293,000 upon the issuance of the debt to finance the transaction in July 2001.

### 3. NEW ACCOUNTING PRINCIPLES

The Financial Accounting Standards Board ("FASB") 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 has implemented SFAS 133 effective January 1, 2001 with no impact.

In June 2001, the FASB authorized the issuance of Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 141 requires intangible assets to be recognized if they arise from contractual or legal rights or are "separable", i.e., it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. As a result, it is likely that more intangible assets will be recognized under SFAS No. 141 than its predecessor, APB Opinion No.16 although in some instances previously recognized intangibles will be subsumed into goodwill.

Under SFAS No. 142, goodwill will no longer be amortized on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a SFAS No. 131 operating segment or one level lower. Goodwill will no longer be allocated to other long-lived assets for impairment testing under SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. Additionally, goodwill on equity method investments will no longer be amortized; however, it will continue to be tested for impairment in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. Under SFAS No. 142 intangible assets with indefinite lives will not be amortized. Instead they will be carried at the lower cost or market value and tested for impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 although goodwill on business combinations consummated after July 1, 2001 will not be amortized. On adoption the Company may need to record a cumulative effect adjustment to reflect the impairment of previously recognized intangible assets. In addition, goodwill on prior business combinations will cease to be amortized. Had the Company adopted SFAS No. 142 at January 1, 2001 the Company would not have recorded a goodwill amortization charge of \$162,483 for the nine-month period ended September 30, 2001. The Company has not determined the impact that these Statements will have on intangible assets or whether a cumulative effect adjustment will be required upon adoption.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations ("SFAS 143"), which is effective for financial statements issued for

fiscal years beginning after June 15, 2002. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is currently evaluating the potential impact, if any, the adoption of SFAS 143 will have on its financial position and results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"), which is effective for fiscal periods beginning after December 15, 2001 and interim periods within those fiscal years. SFAS 144 supercedes SFAS 121, and establishes an accounting model for impairment or disposal of long-lived assets to be disposed of by sale. The Company is currently evaluating the potential impact, if any, the adoption of SFAS 144 will have on its financial position and results of operation.

#### 4. INVENTORIES

This caption on the Condensed Consolidated Balance Sheets include the following:

	September 30, 2001	December 31, 2000
	-----	-----
Raw Materials	\$ 2,064,334	\$ 2,300,632
Work-in-Process	4,492,787	3,730,802
Supplies	119,571	229,721
	-----	-----
	\$ 6,676,692	\$ 6,261,155
	=====	=====

#### 5. LONG-TERM DEBT

Long-term debt consists of the following at September 30, 2001 and December 31, 2000:

<TABLE>  
<CAPTION>

	September 30, 2001	December 31, 2000
	-----	-----
<S>	<C>	<C>
Line of credit, SNPE, Inc.	\$ 4,100,000	\$ 3,750,000
Convertible subordinated note, SNPE, Inc.	1,200,000	1,200,000
Term loan, SNPE, Inc. (related to acquisition of Nobelclad)	4,000,000	-
Bank line of credit (related to acquisition of Nitro Metall by Nobelclad)	1,318,000	-
Line of credit, Groupe SNPE	615,000	-
Line of credit, former parent of Nobelclad	-	493,000
Industrial development revenue bonds	5,465,000	6,005,000
	-----	-----
Total	16,698,000	11,448,000
Less current maturities	(5,823,333)	(1,218,000)
	-----	-----
Long-term portion	\$10,874,667	\$ 10,230,000
	=====	=====

</TABLE>

#### 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. As of September 30, 2001, the Company is in compliance with all financial covenants and other provisions of its debt agreements.

#### 6. INCOME TAXES

No income tax provision has been recorded for the nine months ended September 30, 2001 with respect to the Company's U.S. operations, as available net operating loss carry-forwards exceed pretax earnings projected for the year ended December 31, 2001. If such carry-forwards are utilized, the associated valuation allowance would be reversed when the Company believes it is probable of realizing such tax loss carry-forwards. In addition, any projected



alternative minimum tax ("AMT") payable would be offset by the recognition of deferred tax assets. The Company did not record tax benefits on its U.S. operations for either the nine months ended September 30, 2000 or the year ended December 31, 2000, since it had utilized all of its tax loss carry-backs in 1999 and the Company's financial position and near-term operations outlook made the future realization of tax benefits associated with net operating loss carry-forwards uncertain. Income tax provisions on the earnings of Nobelclad and its subsidiary, Nitro Metall, have been provided based upon the respective French and Swedish statutory tax rates.

## 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 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 is marketed to different customer types and requires different manufacturing processes and technologies. Segment information is presented for the three and nine months ended September 30, 2001 and 2000 as follows:

<TABLE>  
<CAPTION>

	Explosive Manufacturing -----	Aerospace -----	Total -----
<S>	<C>	<C>	<C>
For the three months ended September 30, 2001:			
Net sales	\$8,739,949 =====	\$3,517,584 =====	\$12,257,533 =====
Depreciation and amortization	\$ 261,948 =====	\$ 212,222 =====	\$ 474,170 =====
Income from operations	\$ 1,607,974	\$ 18,421	\$ 1,626,395
Unallocated amounts:			
Other income			1,382
Interest expense, net			(247,232) -----
Consolidated income before income taxes and extraordinary items			\$ 1,380,545 =====

	Explosive Manufacturing -----	Aerospace -----	Total -----
For the three months ended September 30, 2000:			
Net sales	\$6,523,601 =====	\$2,491,696 =====	\$9,015,297 =====
Depreciation and amortization	\$ 286,752 =====	\$ 211,359 =====	\$ 498,111 =====
Income (loss) from operations	\$ 339,538	\$ (361,594)	\$ (22,056)
Unallocated amounts:			
Other income			7,469
Interest expense, net			(183,794) -----
Consolidated loss before income taxes and extraordinary items			\$ (198,381) =====

	Explosive Manufacturing -----	Aerospace -----	Total -----
For the nine months ended September 30, 2001:			
Net sales	\$23,243,106 =====	\$9,496,760 =====	\$32,739,866 =====
Depreciation and amortization	\$ 826,462 =====	\$ 622,897 =====	\$ 1,449,359 =====

Income (loss) from operations	\$ 3,578,865	\$ (40,919)	\$ 3,537,946
Unallocated amounts:			
Other income (expense)			(75,342)
Interest expense, net			(603,744)
			-----
Consolidated income before income taxes and extraordinary items			\$ 2,858,860
			=====
	Explosive Manufacturing	Aerospace	Total
	-----	-----	-----
For the nine months ended September 30, 2000:			
Net sales	\$15,206,219	\$8,516,186	\$23,722,405
	=====	=====	=====
Depreciation and amortization	\$ 655,152	\$ 633,152	\$ 1,288,304
	=====	=====	=====
Loss from operations	\$ (115,961)	\$ (573,264)	\$ (689,225)
Unallocated amounts:			
Other income			196,886
Interest expense, net			(889,239)
			-----
Consolidated loss before income taxes and extraordinary items			\$ (1,381,578)
			=====

</TABLE>

## 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 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.

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, we fabricate 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. DMC 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.

On July 3, 2001, DMC completed the acquisition of substantially all of the outstanding stock of Nobelclad Europe S.A. ("Nobelclad") from Nobel Explosifs France ("NEF"). Nobelclad and its wholly-owned subsidiary, Nitro Metall AB ("Nitro Metall") operate cladding businesses located in Rivesaltes, France and Likenas, Sweden, respectively, which generated combined revenues of approximately \$10.5 million in calendar year 2000. NEF is wholly owned by Groupe SNPE and is a sister company to SNPE, Inc., which owns 55% of our common stock. The purchase price of \$4 million was financed by a note agreement between the Company and SNPE, Inc. DMC also assumed third party bank debt held by Nobelclad in the amount of 9.5 million French Francs (approximately \$1.2 million as of July 3, 2001) in the transaction. Proceeds from this bank debt were used to finance Nobelclad's June, 2001 acquisition of 100% of the stock of Nitro Metall stock from NEF.

As a result of the Company and Nobelclad both being majority owned by Groupe SNPE, the acquisition of Nobelclad has been accounted for as a reorganization of entities under common control. The historical financial position and operating results of the Company have been restated to reflect the addition of the Nobelclad and Nitro Metall historical financial results as if the companies had been consolidated from June 2000, the date on which Groupe SNPE acquired its majority ownership in the Company. The purchase price that the Company paid for the acquisition of Nobelclad and Nitro Metall has been reflected in the Company's consolidated financial statements at historical net

book values due to the companies being under the common control of Groupe SNPE. In addition, there is a reduction to stockholders' equity of \$5,293,000 upon the issuance of the debt to finance the transaction in July 2001.

Aerospace Manufacturing. Products manufactured by the Aerospace Group are typically made from sheet metal and forgings that are subsequently machined or formed into precise, three-

dimensional shapes that are held to tight tolerances. Metal machining and forming is accomplished through traditional technologies, including spinning, machining, rolling and hydraulic expansion. The Company also performs welding services utilizing a variety of manual and automatic welding techniques that include electron beam and gas tungsten arc welding processes. 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 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.

In 2000, the Company experienced significant operating losses as a result of a significant decline in sales revenue and gross margin levels within our Aerospace Group. The Explosive Metalworking Group generated a small operating income in 2000 after incurring significant operating losses in 1999. DMC 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, the occurrence of acquisition and divestiture-related costs, 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 DMC's operating expenses is fixed, and planned expenditures are based primarily on sales forecasts and product development programs. If sales do not meet our 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, DMC 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 its gross profit margins. Although DMC 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 our 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 our common stock.

Three Months and Nine Months Ended September 30, 2001 Compared to Three Months and Nine Months Ended September 30, 2000

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

<TABLE>  
<CAPTION>

	Percentage of Net Sales			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	72.5%	79.9%	73.3%	84.4%
	-----	-----	-----	-----
Gross margin	27.5%	20.1%	26.7%	15.6%
General & administrative	9.2%	14.8%	10.4%	13.1%
Selling expenses	5.0%	5.6%	5.6%	5.4%
Income (loss) from operations	13.3%	(0.2%)	10.8%	(2.9%)
Interest expense	2.1%	2.2%	1.9%	3.8%
Income tax provision	0.3%	0.7%	0.9%	0.3%
Net income (loss)	11.0%	(2.9%)	7.8%	(6.4%)

</TABLE>

Net Sales. Net sales for the quarter ended September 30, 2001 increased by 36.0% to \$12,257,533 from \$9,015,297 in the third quarter of 2000. Sales by the Explosive Metalworking Group, which includes explosion bonding of clad metal and shock synthesis of synthetic diamonds, increased 34.0% to \$8,739,949 in the third quarter of 2001 from \$6,523,601 in the third quarter of 2000. Results for both the third quarter of 2001 and 2000 include net sales of Nobelclad in the amounts of \$3,044,000 and \$2,756,000 for the respective quarterly periods. The Aerospace Group contributed \$3,517,584 (28.7% of total sales) to third quarter 2001 sales versus sales of \$2,491,696 (27.6% of total sales) in the third quarter of 2000. For the nine months ended September 30, 2001, net sales increased by 38.0% to \$32,739,866 from \$23,722,405 for the comparable period of 2000. For the comparable nine-month periods, Explosive Metalworking Group sales increased by 52.9% to \$23,243,106 in 2001 from \$15,206,219 in 2000. Nobelclad contributed sales of \$8,422,000 and \$2,756,000 for the nine months ended September 30, 2001 and 2000, respectively. Aerospace Group sales for the nine months ended September 30, 2001 totaled \$9,496,760 (29.0% of total sales), an increase of 11.5% from sales of \$8,516,186 (35.9% of total sales) reported for the comparable period of 2000.

Gross Profit. Gross profit for the quarter ended September 30, 2001 increased by 86.0% to \$3,368,734 from \$1,811,630 in the third quarter of 2000. For the nine months ended September 30, 2001, gross profit increased 136.0% to \$8,757,517 from \$3,710,632 for the comparable period of 2000. The gross profit margin for the nine months ended September 30, 2001 was 26.7%, representing a 71.2% increase from the gross profit margin of 15.6% for the first nine months of 2000. The gross profit margin for the Explosive Metalworking Group increased to 33.0% in the third quarter of 2001 from 24.0% in the third quarter of 2000. For the comparable nine-month periods, Explosive Metalworking gross margins increased to 31.7% in 2001 from 16.2% in 2000. The increase in gross profit margins for the Explosive Metalworking Group is attributable to improved market conditions and favorable changes in product mix. The gross

profit margin for the Aerospace Group was 13.7% for the quarter ended September 30, 2001 as compared to 9.9% in the third quarter of 2000. For the comparable nine-month periods, Aerospace Group gross margins increased to 14.7% in 2001 from 14.6% in 2000. The Group's third quarter margin improvement relates to increased sales volume and profit margins at the Group's Spin Forge and AMK Welding Divisions, the positive effects of which were largely offset by the poor margin performance of the Group's Precision Machined Products Division that is expected to continue through at least the end of the year.

General and Administrative. General and administrative expenses for the quarter ended September 30, 2001 decreased by 15.5% to \$1,124,436 from \$1,331,367 in the third quarter of 2000. For the nine months ended September 30, 2001, general and administrative expenses increased by 9.1% to \$3,390,137 from \$3,108,108 in the comparable period of 2000. If the general and administrative expenses of Nobelclad were excluded from the nine-month totals, general and administrative expenses would have decreased by 5.1% to \$2,548,505 in 2001 from \$2,686,108 in 2000. As a percentage of net sales, general and administrative expenses decreased from 14.8% in the third quarter of 2000 to 9.2% for the quarter ended September 30, 2001 and decreased from 13.1% to 10.4% for the comparable nine-month periods.

Selling Expense. Selling expenses increased by 23.0% to \$617,903 for the quarter ended September 30, 2001 from \$502,319 in the third quarter of 2000. For the nine months ended September 30, 2001, selling expenses increased by 41.6% to \$1,829,434 from \$1,291,749 in the comparable period of 2000. If the selling expenses of Nobelclad were excluded from the nine-month totals, selling expenses would have increased by only 8.4% to \$1,214,066 in 2001 from \$1,119,749 in 2000. The increase for the quarter and nine months ended September 30, 2001, excluding the effects of Nobelclad, relates principally to the accrual of bonus expense associated with the Explosive Metalworking Group's strong 2001 financial performance. Selling expenses as a percentage of net sales decreased from 5.6% in the third quarter of 2000 to 5.0% for the quarter ended September 30, 2001 and increased from 5.4% for the nine months ended September 30, 2000 to 5.6% for the comparable period of 2001.

Income (Loss) from Operations. For the third quarter ended September 30, 2001, the Company reported income from operations of \$1,626,395 compared to an operating loss of \$22,056 for the third quarter of 2000. The Company reported operating income of \$3,537,946 for the nine months ended September 30, 2001 compared to an operating loss of \$689,225 for the comparable period of 2000. This improvement is attributable to an increase in gross profits of \$1,557,104 and \$5,046,885 for the three and nine months, respectively, ended September 30, 2001 versus the comparable periods of 2000.

For the quarter and nine months ended September 30, 2001, our Explosive Metalworking Group reported income from operations of \$1,607,974 and \$3,578,865, respectively, as compared to operating income of \$339,538 and an operating loss of \$115,961 for the respective comparable periods of 2000. For the quarter and nine months ended September 30, 2001, our Aerospace Group reported operating

income of \$18,421 and an operating loss of \$40,919, respectively, as compared to losses from operations of \$361,594 and \$573,264 for the comparable periods of 2000.

**Interest Expense.** Interest expense increased to \$252,311 for the quarter ended September 30, 2001 from \$195,455 in the third quarter of 2000. This increase relates to interest on new debt that was incurred in connection with the acquisition of Nobelclad and its Swedish subsidiary, Nitro Metall. For the nine months ended September 30, 2001, interest expense decreased to \$616,732 from \$902,589 in the comparable period of 2000. This decrease resulted from the reduction in revolving credit debt that was made possible by SNPE, Inc.'s June 14, 2000 equity investment in the Company.

**Income Tax Benefit (Expense).** No U.S. income tax provision has been recorded for the nine months ended September 30, 2001, as available net operating loss carry-forwards exceed pretax earnings projected for the year ended December 31, 2001. If such carry-forwards were utilized, the associated valuation allowance would be reversed when the Company believes it is probable that such tax loss carry-forwards will be realized. In addition, any projected alternative minimum tax ("AMT") payable would be offset by the recognition of deferred tax assets. The Company did not record tax benefits for either the nine months ended September 30, 2000 or the year ended December 31, 2000, since it had utilized all of its tax loss carry-backs in 1999 and the Company's financial position and near-term operations outlook made the future realization of tax benefits associated with net operating loss carry-forwards uncertain. Income tax provisions on the earnings of Nobelclad and Nitro Metall, have been provided based upon the respective French and Swedish statutory tax rates.

#### 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 incurred during 1999 and the first quarter of 2000, the Company violated certain financial covenants under both the revolving credit facility that was then in effect and the reimbursement agreement related to the letter of credit supporting payment of principal and interest under the Company's industrial revenue development bonds used to finance the construction of new manufacturing facilities in Pennsylvania. On June 14, 2000, DMC's stockholders approved a Stock Purchase Agreement between the Company and SNPE, Inc.. 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 DMC common stock at a price of \$2.75 per share thereby 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 that bears interest at the Federal Funds Rate plus 1.5% and currently provides for maximum borrowings of \$4,500,000 until March 31, 2002. Proceeds from the SNPE equity investment, convertible subordinated note issuance and credit facility borrowings aggregated \$10,500,000 and enabled DMC to repay all outstanding borrowings under the bank revolving credit facility on which it had been in default since September 30, 1999. The bank revolving credit facility was terminated on September 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. The original three-year bank letter of credit that supported the Company's industrial development revenue bonds

expired in September 2001 and was replaced by a new five-year letter of credit issued by a different bank. The Company 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, 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 our current business operations for the foreseeable future. SNPE has agreed to extend its credit facility, which was originally callable upon 90 days' notice and had an original maturity date of June 30, 2001, to March 31, 2002. Management of the Company intends to replace the SNPE credit facility with a new third party credit facility before the end of 2001 and believes that the Company's strengthened balance sheet and improving operating results will enable it to secure such third party financing on reasonable terms. Until the Company is able to secure such third party financing on reasonable terms, it will continue to rely on the financial support of SNPE. 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.

#### Highlights from the Statement of Cash Flows for the Nine Months Ended September 30, 2001

Net cash flows from operations for the nine months ended September 30, 2001 were \$2,116,903. Significant sources of operating cash flow included net income of \$2,569,860 and depreciation and amortization of \$1,437,320. These sources were partially offset by negative changes in working capital totaling \$1,921,277.

Cash used in investing activities totaled \$1,225,836 and was comprised primarily of acquisitions of property, plant and equipment.

Net cash flows used in financing activities totaled \$69,345. The primary sources and uses of cash from financing activities were term loan and revolving credit borrowings of \$4,000,000 and \$1,283,000, respectively, used to finance the transaction with Nobelclad and Nitro Metall.

#### Highlights from the Statement of Cash Flows for the Nine Months Ended September 30, 2000

Net cash flows from operating activities for the nine months ended September 30, 2000 were \$233,609. Significant uses included a net loss of \$1,527,689 and a gain on the sale of property, plant and equipment of \$185,570. These uses were more than offset by depreciation and amortization totaling \$1,237,265 and a positive change in working capital totaling \$705,384.

Net cash flows from investing activities totaled \$1,122,677 for the nine months ended September 30, 2000. Sources of cash included \$940,036 in proceeds from the sale of property, plant and equipment, \$354,588 in proceeds from the receipt of payment on a loan to a related party, \$231,374 related to an increase in other non-current assets and \$255,008 from the release of restricted cash and investments. Significant uses, partly offsetting the sources, included \$319,302 paid in connection with the construction of the Company's Pennsylvania manufacturing facility and \$339,027 of property, plant and equipment acquisitions.

Net cash flows used in financing activities totaled \$1,286,447. The primary uses were \$10,255,000 for the repayment of the bank line of credit, \$505,000 in principal payments on the industrial development revenue bonds, \$230,000 of payments on related party debt, \$116,384 in payment of deferred financing costs, a \$193,471 repayment of bank overdraft and \$329,000 in dividends paid by Nobelclad and Nitro Metall to their former parent company. The primary sources of cash included net borrowings of \$155,000 on the bank line of credit prior to its being repaid in full, proceeds from the issuance of common stock to SNPE (net of issuance costs) totaling \$5,236,252, and borrowings on the SNPE line of credit and convertible subordinated note of \$3,750,000 and \$1,200,000, respectively.

#### 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 our businesses; the timing and size of expenditures; the timely receipt of government approvals and permits; the adequacy of local labor supplies at our 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. 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.

#### ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no events that materially effect our quantitative and qualitative disclosure about market risk as reported in our Annual Report on

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 13, 2001. 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 and (ii) ratified the selection of Arthur Andersen LLP as independent accountants of the Company for its fiscal year ending December 31, 2001.

The Company had 5,019,875 shares of Common Stock outstanding as of July 31, 2001, the record date for the Annual Meeting. At the Annual Meeting, holders of a total of 4,837,579 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
GeorgeW Morgenthaler	4,805,707	31,872
Bernard Fontana	4,773,028	64,551

Proposal 3: Ratification of Selection of Independent Accountants

Shares Voted "FOR"	Shares Voted "AGAINST"	Shares "ABSTAINING"	Shares not voted
4,823,659	3,300	10,620	0

Item 5. Other Information

None

Item 6.

(a) Exhibits

None.

(b) Reports on Form 8-K

Report on Form 8-K, filed July 16, 2001, reporting DMC acquisition of Nobelclad and Nitro Metall.

Amendment to Report on Form 8-K filed September 14, 2001 with financial statements and pro forma financial information required by Item 7 of Form 8-K.

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.

(Registrant)

Date: November 14, 2001

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