

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2001

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 or 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)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.05 Par Value

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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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The approximate aggregate market value of the voting stock held by non-affiliates of the registrant was \$7,322,794 as of March 15, 2002.

The number of shares of Common Stock outstanding was 5,031,983 as of March 15, 2002.

PART I

ITEM 1. Business

Overview

Dynamic Materials Corporation ("DMC" or the "Company") is a worldwide leader in the high energy metal working business. The high energy metal working business includes the use of explosives to perform metallurgical bonding, or metal "cladding". The Company performs metal cladding using its proprietary technologies. In 1998, the Company established its Aerospace Group after acquiring three businesses that provide a variety of metalworking, fabrication, welding and assembly services to the aerospace industry.

Explosive Metalworking. The primary product of the Explosive Metalworking Group is explosion bonded clad metal plate. Clad metal plates are used in the construction of heavy, corrosion resistant pressure vessels and heat exchangers for chemical processing, refining, power and similar industries. Clad plates consist of a thin layer of an expensive, corrosive resistant metal, such as titanium or stainless steel, which is metallurgically bonded to a less expensive, less corrosive resistant, thick base metal, typically steel. Explosion clad occupies a well-defined technical and commercial niche in the broader clad metal marketplace. Explosion clad is a high performance, low cost alternative for many applications requiring corrosion resistant alloys. Explosive metalworking can also be used for precision metal forming, powder

metal compaction, and shock synthesis. The company has a long-term ongoing contract for shock synthesis of industrial diamonds.

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") are the primary manufacturers of explosion clad products in Europe and operate cladding businesses located in Rivesaltes, France and Likenas, Sweden, respectively, along with sales offices in each country. Products manufactured by Nobelclad and Nitro Metall are similar to those produced by DMC's domestic factory in Mount Braddock, Pennsylvania. 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 approximately \$5.3 million was financed through a \$4.0 million intercompany note agreement between the Company and SNPE, Inc. and the assumption of approximately \$1.23 million in third party bank debt associated with Nobelclad's acquisition of Nitro Metall from NEF prior to the Company's purchase of Nobelclad stock. 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.

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. 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 metalworking and welding operations are often performed to support the manufacture of completed assemblies and sub-assemblies required by its customers. Assembly and fabrication 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 aerospace, defense, aircraft, high technology and power generation industries.

In January 1998, the Company completed its acquisition of the assets of AMK Welding ("AMK"), a supplier of commercial aircraft engine, ground-based turbine and aerospace-related welding services that include the use of automatic and manual gas tungsten, electron beam and arc welding techniques. The Company completed its acquisition of the assets of Spin Forge, LLC ("Spin Forge"), a manufacturer of tactical missile motor cases and titanium pressure vessels for commercial aerospace and defense industries, in March 1998. In December 1998, the Company completed its acquisition of the assets of Precision Machined Products, Inc. ("PMP"), a contract machining shop specializing in

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high precision, high quality, complex machined parts used in the aerospace, satellite, medical equipment and high technology industries.

Stock Purchase Agreement with SNPE. 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. In addition, the Company borrowed \$1,200,000 under a convertible subordinated note from SNPE and \$3,500,000 under a credit facility with 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 December 2001, the SNPE credit facility was replaced by a bank facility.

Dynamic Materials Corporation, formerly Explosive Fabricators, Inc., was incorporated in Colorado in 1971 and was reincorporated in Delaware in 1997.

Financial Information about Industry Segments

See Note 8 to the Company's financial statements included under Item 8 for certain financial information about the Company's industry segments.

Investment Considerations

Except for the historical information contained herein, this report on Form 10-K contains forward-looking statements that involve risks and uncertainties. The Company wishes to caution readers that the risks detailed

below, among others, in some cases have affected the Company's results, and in others could cause the Company's results to differ materially from those expressed in any forward-looking statements made by the Company and could otherwise affect the Company's business, results of operations and financial condition. Certain of these factors are further discussed below and should be considered in evaluating the Company's forward-looking statements and any investment in the Company's Common Stock.

Fluctuations in Operating Results. The Company generated significant operating income in 2001 due principally to the strong financial performance of its Explosive Metalworking Group, which had earned a small operating profit in 2000 after incurring significant operating losses in 1999. In 2000, the Company experienced significant operating losses as a result of a significant decline in sales revenue and gross margin levels within its Aerospace Group. 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 other non-recurring expenses. Additionally, the Company has experienced, and expects to continue to experience, quarterly fluctuations in operating results caused by various factors, including the timing and size of orders by major customers, customer inventory levels, shifts in product mix, the occurrence of non-recurring costs associated with plant closings, plant start-ups, acquisitions and divestitures, and general economic conditions. In addition, 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. Significant portions of the Company's operating expenses are 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. 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Dependence on Clad Metal Business; Limitation on Growth in Existing Markets for Clad Metal Products. For the year ended December 31, 2001, the Company's cladding business accounted for approximately 71% of its net sales.

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The explosion bonded clad metal products industry in which the Company currently operates is mature and offers limited potential for substantial growth in existing markets. The Company estimates that it currently serves a major percentage of the world market for its explosion bonded clad metal products. Historically, the worldwide demand for clad metal products has been cyclical, with demand being at depressed levels during the major portion of the past three years. There can be no assurance that the demand for clad metal products will improve in the future, and such result could have a material adverse effect on the Company's business, financial condition and results of operations.

Importance of Aerospace Manufacturing. The Company's aerospace manufacturing business was established in 1998 and accounted for approximately 29% of the Company's net sales for the fiscal year ended December 31, 2001. The aerospace manufacturing industry is largely reliant on defense industry demand and positive economic conditions in general. Fluctuations or downturns in either could have a materially adverse impact on the Company. The Company currently estimates that it services a very small percentage of the aerospace industry. While the Company believes that it will be able to maintain and hopes to eventually increase its market share through the businesses it currently owns, there can be no assurance that its sales and marketing efforts will be successful. Failure to either increase or maintain market share could have a material adverse effect on the Company's business, financial condition and results of operations.

Availability of Suitable Cladding Sites. The cladding process involves the detonation of large amounts of explosives. As a result, the sites where the Company performs cladding must meet certain criteria, including lack of proximity to a dense population, the specific geological characteristics of the site, and the Company's ability to comply with local noise and vibration abatement regulations in conducting the process. The process of identifying suitable sites and obtaining permits for using the sites from local government agencies can be time-consuming or costly. In addition, the Company could experience difficulty in obtaining permits because of resistance from residents in the vicinity of proposed sites. The Company currently leases its only domestic cladding site in Dunbar, Pennsylvania. The lease term for the Pennsylvania site expires in 2005 but the underlying agreement has renewal options extending through 2029. The failure to obtain required governmental approvals or permits would have a material adverse effect on the Company's

business, financial condition and results of operations.

Competition. The Company's explosion clad products compete with explosion clad made by other like-kind manufacturers located throughout the world and with clad products manufactured using other technologies. The company's combined North American and European operations typically supply explosive clad for a major percentage of the worldwide market needs. There is one other major explosion clad supplier worldwide, Asahi Chemical of Japan. There are a number of much smaller companies worldwide with explosion clad manufacturing capability. There are no other significant North American based explosion clad suppliers. The company focuses strongly on reliability, product quality, on-time delivery performance, and low cost manufacture to minimize the potential of future competitive threats.

Explosion clad products also compete with clad manufactured by rollbond and overlay cladding processes. The technical and commercial niches of each process are well understood. The company has established exclusive sales arrangements with other manufacturers where explosion clad is not the low cost solution, and consequently participates as a sales agent in a significant share of the North American rollbond market. The company has minimal share of the world rollbond market, which is dominated by very large Japanese and European steel producers. The U.S. clad market is currently protected from Japanese and European competition by anti-dumping regulations. The Company's products compete with weld overlay clad products manufactured by a significant number of its fabricator customers. Competitive niche positions in the world market are strongly driven by currency exchange rates and regulatory factors. Unfavorable currency exchange and regulatory conditions in various parts of world could put the Company at a competitive disadvantage and have a material adverse effect on the Company's business, financial condition and results of operations.

Competition in the aerospace business is, and is expected to remain, intense. Competitors include domestic and international companies. Many of these competitors have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than those of the Company. In addition, many of these competitors

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have name recognition, established positions in the market, and long standing relationships with customers. To remain competitive, the Company will be required to continue to develop and provide technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete favorably on the basis of price. The Company believes that its primary competitors in the aerospace industry are Aircraft Welding and Manufacturing Company, Inc., Pressure Systems, Inc., Kaiser Electroprecision, Eagle-Picher, Custom Microwave and Alliant Techsystems Inc. The Company competes against aerospace manufacturers on the basis of product quality, performance and cost. There can be no assurance that the Company will continue to compete successfully against these companies.

Availability and Pricing of Raw Materials. Although the Company generally uses standard metals and other materials in manufacturing its products, certain materials such as specific grades of carbon steel, titanium, zirconium and nickel are currently obtained from single sources or are subject to supply shortages due to general economic conditions. While the Company seeks to maintain a sufficient inventory of these materials and believes that these materials are available from other sources, there can be no assurance that the Company would be able to obtain alternative supplies, or a sufficient inventory of materials, or obtain supplies at acceptable prices without production delays, additional costs or a loss of product quality. If the Company were to lose a single-source supply or fail to obtain sufficient supply on a timely basis or obtain supplies at acceptable prices, such loss or failure would have a material adverse effect on the Company's business, financial condition and results of operations. See "Suppliers."

Customer Concentration. A significant portion of the Company's net sales is derived from a relatively small number of customers. The Company expects to continue to depend upon its principal customers for a significant portion of its sales, although there can be no assurance that the Company's principal customers will continue to purchase products and services from the Company at current levels, if at all. The loss of one or more major customers or a change in their buying patterns could have a material adverse effect on the Company's business, financial condition and results of operations. Historically, the majority of the Company's revenues have been derived from customers in the chemical processing, power generation, petrochemical and aerospace industries. As was evidenced by the operating losses the Company incurred in 1999 and 2000, an economic downturn in any of these industries can have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Key Personnel; Need to Attract and Retain Employees. The Company's continued success depends to a large extent upon the efforts and

abilities of key managerial and technical employees. The loss of services of certain of these key personnel could have a material adverse effect on the Company's business, results of operations and financial condition. There can be no assurance that the Company will be able to attract and retain such individuals on acceptable terms, if at all, and the failure to do so could have a material adverse effect on the Company's business, financial condition and results of operations.

Government Regulation; Safety. The Company's explosive metal working business is subject to extensive government regulation in the United States, France and Sweden, including guidelines and regulations for the safe handling and transport of explosives provided by the U.S. Bureau of Alcohol, Tobacco and Firearms, the U.S. Department of Transportation set forth in the Federal Motor Carrier Safety Regulations and the Institute of Makers of Explosive Safety Library Publications. The Company must comply with licensing and regulations for the purchase, transport, manufacture and use of explosives. In addition, depending upon the types of explosives used, the detonation by-products may be subject to environmental regulation. The Company's activities are also subject to federal, state and local environmental and safety laws and regulations, including but not limited to, local noise abatement and air emissions regulations, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended, including the regulations issued and laws enforced by the labor and employment departments of states in which the Company conducts business, the U.S. Department of Commerce, the U.S. Environmental Protection Agency and by state and county health and safety agencies. Any failure to comply with present and future regulations could subject the Company to future liabilities. In addition, such regulations could restrict the Company's ability to expand its facilities, construct new facilities or could require the Company to incur other significant expenses in order to comply with government regulations. In particular, any failure by the Company to adequately control the discharge of its hazardous materials and wastes could subject it to future liabilities, which could be significant.

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The Company's explosive metalworking operation involves the detonation of large amounts of explosives. As a result, the Company is required to use specific safety precautions under the Occupational Safety and Health Administration guidelines. These include precautions which must be taken to protect employees from facility deterioration as well as exposure to sound and ground vibration.

Explosive Metalworking

The explosive metalworking business includes the use of explosives to perform metal cladding and shock synthesis of industrial diamonds. DMC believes that the characteristics of its high-energy metal working processes will enable the development of new products in a variety of industries.

Metal Cladding. The principal product of metal cladding is a metal plate composed of two or more dissimilar metals, usually a corrosion resistant alloy and carbon steel, bonded together at the atomic level. High energy metal cladding is performed by detonating an explosion on the surface of an assembly of two parallel metal plates, the cladding metal and the backing metal, separated by a "standoff space". The explosive force creates metallurgical bond between the two metal components. The technology is unique in that it can be used to weld non-compatible metals, which cannot be welded by conventional processes, such as titanium-steel, aluminum-steel, and aluminum-copper. It can also be used to weld compatible metals, such as stainless steels and nickel alloys to steel. DMC Detaclad(R) is used in the fabrication of pressure vessels and heat exchangers for chemical and petrochemical processing, power generation, petroleum refining, mining, air conditioning (HVAC) and other industries where corrosion, temperature, and pressure combine to produce demanding environments. DMC Detacouple (R) bimetal welding transition joints are used in ship construction, and a variety of electrochemical industries including aluminum smelters.

The Company's clad metal products are primarily produced on a project-by-project basis conforming to requirements set forth in customer purchase orders. Upon receipt of an order, the Company obtains the component materials from a variety of sources based on quality, availability and cost. The company explosively bonds the metals in one of its three manufacturing plants (Mount Braddock, PA, USA; Rivesaltes, France and Likenas, Sweden). Final products are processed to meet contract specific requirements for product configuration and quality/inspection level. Maintaining DMC's corporate culture and reputation for product quality and on-time delivery is a critical factor for management.

Shock Synthesis. In connection with the 1996 acquisition of the Detaclad division of DuPont, DMC entered into an agreement to provide explosive shock synthesis services associated with the manufacture of industrial diamonds. Shock synthesis is one step in a series of operations required for production of

industrial grade diamond abrasives.

Aerospace Manufacturing

Metalworking. The Company currently manufactures machined and formed metal parts for the commercial aircraft, aerospace and power generation industries. Products are made generally from sheet metal or forgings that are subsequently machined or formed into precise, three-dimensional shapes that are held to tight tolerances according to customers' specifications.

Traditional metalworking technologies used by DMC in its aerospace manufacturing operations include spinning, machining, rolling, and hydraulic expansion. These technologies were acquired in the 1998 purchases of Spin Forge and PMP. The equipment utilized in the spinning process at Spin Forge is believed to be the largest of its kind in North America, and is capable of producing large, thin wall, close tolerance parts. Formed and machined metal products include tactical and ballistic missile motor cases, high strength, light weight pressurant tanks utilizing specialty aerospace alloys and other high precision, high quality and complex parts. The industries served include space launch vehicle, defense, satellite, stationary power generation, commercial aircraft, medical and high technology.

The Company's products are produced on a project-by-project basis based on specifications set forth in a customer's purchase order. Upon receipt of an order for a product from a customer, the Company identifies sources for

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the specified raw materials, which typically include sheet metals composed of aluminum, titanium, inconels, monels, hastelloys, waspalloy, invar or stainless steel. The Company obtains the raw materials from a variety of sources based on quality, availability, transportation costs and unit price. Following the machining and forming processes, the Company treats the metal parts by using operations such as anodizing, heat-treating and painting. The Company completes the manufacturing process by performing testing for final certification of the product to the customer's specifications.

Welding. The Company's capabilities for providing welding services and assemblies reside primarily with AMK Welding and Spin Forge. Both AMK and Spin Forge provide welding and assembly services to the commercial aircraft, aerospace, power generation and defense industries. Welding services are provided on a project-by-project basis based on specifications set forth in customer's purchase orders. Upon receipt of an order for welded assemblies, the Company performs welding services using customer specific welding procedures.

The welding services are performed utilizing a variety of manual and automatic welding techniques, including electron beam and gas tungsten arc welding processes. The Company has considerable expertise in vacuum controlled atmospheric purged chamber welding which is a critical capability when welding titanium, zirconium, high temperature nickel alloys and other specialty alloys. In addition to its welding capabilities, the Company also utilizes various special stress relieving and non-destructive examination processes such as mag particle and radiographic inspection in support of its welding operations.

Metal Assembly Operations. The Company's metalworking and welding operations are often performed to support the manufacture of completed assemblies and sub-assemblies required by its customers. DMC's assembly capabilities are provided on a project-by-project basis according to specifications set forth in customers' purchase orders. After receiving customer orders for completed assemblies and sub-assemblies, the Company performs fabrication services utilizing its close-tolerance machining, forming, welding, inspection and other special service capabilities.

Strategy

The Company's strategy for growth is to expand and refine its basic processes and product offerings to generate solutions to the materials needs of customers in its target markets. Key elements of the Company's strategy include:

Take Advantage of Recent Investments in New Technology and Manufacturing Leadership. The Company seeks to take advantage of its technology leadership in the explosion metalworking business. In 1998 and 1999, the Company invested nearly \$7 million in new manufacturing equipment and technologies at Mount Braddock, Pennsylvania, that has substantially increased manufacturing efficiencies and plant capacity. Management believes this new clad plate manufacturing facility provides a significant advantage to the Company in the global marketplace for explosion bonded clad metal plates. In 2001, the Company invested approximately \$5.3 million in the acquisition of Nobelclad Europe, strengthening its competitive position in Europe and much of the rest of the world.

Establish Global Presence. The Company seeks to establish a global

sales and marketing presence in the major international markets for explosion metal working, including Europe, Australia, the Far East and the Americas. The Company is working to establish relationships with end users, engineering contractors, metal fabricators and independent sales representatives in these markets and has developed the capacity in its sales and marketing department to address these markets. The Company's plan to continue its international expansion depends on a number of factors. See "Investment Considerations" for a discussion of certain of the risks associated with the Company's ability to establish a global presence.

Add New Product Lines or Customers. The Company seeks to grow its sales base by adding new product lines and/or programs to its Aerospace Group and new customers to both of its business segments. The Company's future sales growth plans depend on a number of factors. See "Investment Considerations" for a discussion of certain of the risks associated with the Company's ability to achieve its planned sales growth.

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Suppliers

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 to have, from time to time, short-term adverse effects on the Company's business. The Company generally uses standard metals and other materials in manufacturing its products; however, certain materials such as specific grades of carbon steel, titanium, zirconium and nickel are currently obtained from single sources or are subject to supply shortages due to general economic conditions. If the Company were to lose a single-source supply or fail to obtain sufficient supply on a timely basis or obtain supplies at acceptable prices, such loss or failure could have a material adverse effect on the Company's business, financial condition and results of operations.

Competition

Competition in the explosion metal working business and the aerospace business is, and is expected to remain, intense. The Company's strong market position in the clad metal industry makes it a target for competitors attempting to gain market share. Competitors include major domestic and international companies. Competitors in the explosion metal working business use alternative technologies; additionally certain of DMC's customers and suppliers have in-house metalworking capabilities. Many of these companies have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than those of the Company. In addition, many of these companies have name recognition, established positions in the market, and long standing relationships with customers. To remain competitive, the Company will be required to continue to develop and provide technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete favorably on the basis of price.

Customer Profile and Marketing

The primary industries served by the Company are the chemical processing, power generation, petrochemical, commercial aerospace and marine engineering industries. The Company's metal cladding customers in these industries require metal products that can withstand exposure to corrosive materials, high temperatures and high pressures. The Company's Aerospace Group customers operate in industries that require metal products that meet rigorous criteria for tolerances, weight, strength and reliability.

At any given time, certain customers may account for significant portions of the Company's business. A significant portion of the Company's net sales is derived from a relatively small number of customers. Large customers also accounted for a significant portion of the Company's backlog in March 2002. The Company expects to continue to depend upon its principal customers for a significant portion of its sales, although there can be no assurance that the Company's principal customers will continue to purchase products and services from the Company at current levels, if at all. The loss of one or more major customers or a change in their buying pattern could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company extends its internal selling efforts by marketing its services to potential customers through senior management, direct sales personnel, program managers and independent sales representatives. Prospective accounts in specific industries are identified through networking in the industry, cooperative relationships with suppliers, public relations, customer references, inquiries from technical articles and seminars and trade shows. The

Company markets its clad metal products to three tiers of customers; the product end-users (e.g., operators of chemical processing plants), the engineering contractors in charge of specifying the metal parts to be used by the end-users, and the metal fabricators who manufacture the products or equipment that utilize the Company's metal products. By maintaining relationships with these parties and educating them as to the technical benefits of DMC's high-energy metal worked products, the Company endeavors to have its products specified as early as possible in the design process.

The DMC clad metal businesses have several exclusive or non-exclusive agreements with agents for sales and business promotion in specific territories defined by each agreement. These agency contracts cover sales in specific

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European, Middle East and Far East countries. Agency agreements are usually of one to two year's duration and, subject to agents meeting the Company's performance expectations, are automatically renewed.

Backlog

The Company's backlog was approximately \$11.3 million at December 31, 2001 including Nobelclad and Nitro Metall, compared with approximately \$9.0 million and \$11.8 million at December 31, 2000 and 1999, respectively. Backlog consists of firm purchase orders and commitments that the Company expects to fill within the next 12 months. The Company expects most of the backlog at December 31, 2001 to be filled during 2002. However, since orders may be rescheduled or canceled and a significant portion of the Company's net sales is derived from a small number of customers, backlog is not necessarily indicative of future sales levels.

Employees

The Company employs approximately 230 full-time employees as of March 15, 2002, the majority of whom are engaged in manufacturing operations. The Company believes that its relations with its employees are good. Of the 230 employees, there are 53 full-time employees working in France at the Nobelclad facility and 17 full-time employees working in Sweden for Nitro Metall. Twenty of the Nobelclad employees and all of the Swedish employees are members of trade unions.

Protection of Proprietary Information

The Company holds numerous patents related to the business of explosion metal working and metallic processes and also owns certain registered trademarks, including Detaclad(R), Detacouple(R), Dynalock(R), EFTEK(R) and NOBELCLAD(R). The Company's current patents expire on various dates through 2012. Since individual patents relate to specific product applications and not to core technology, the Company does not believe that such patents are material to its business and the expiration of any single patent is not expected to have a material adverse effect on the Company or its operations.

Financial Information about Foreign and Domestic Operations and Export Sales

See Note 8 to the Company's financial statements included under Item 8 for certain financial information about the Company's export sales.

ITEM 2. Properties

The Company's principal manufacturing site, which is owned by the Company, is located in Mount Braddock, Pennsylvania. The Company also leases property in Dunbar, Pennsylvania that serves as an explosion site. The lease for the Dunbar, Pennsylvania property will expire in December 2005, but has renewal options that extend through 2029. The Company leases office space in Boulder, Colorado to house its corporate headquarters under a sublease that expires in February 2003 and a direct lease with the building owner that expires in February 2006. The Company owns the land and buildings housing the operations of AMK in South Windsor, Connecticut. The Company leases the land and building occupied by its Spin Forge operations in El Segundo, California. The lease expires in January 2012, and the Company holds an option to purchase the land and building housing the Spin Forge operations at a fixed price through January 2003 and at market value thereafter. The Company also leases the land and building occupied by its PMP operations in Fort Collins, Colorado. The lease expires in December 2003, and the Company has an option to renew the lease for an additional five-year term. The Company also holds a first right of offer to purchase the land and building housing the PMP operations through December 2008. The Company, through its French subsidiary Nobelclad, owns the land and the buildings housing its operations in Rivesaltes, France and leases the land that serves as the shooting site in Tautavel, France. This lease expires in July 2011 and may be extended. The Company, through its Swedish subsidiary, Nitro Metall,

owns the buildings housing its manufacturing operations in Likenas, Sweden and

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leases the land. Both the buildings and the land housing the Nitro Metall sales office in Nora, Sweden are leased. These leases are automatically renewed every year, without risk of non-renewal. The Company believes that its current facilities are adequate for its existing operations and are in good condition. See "Item 1 - Investment Considerations" for a discussion of certain of the risks associated with the Company's ability to renew the leases for its current manufacturing sites and to identify and establish new manufacturing sites.

ITEM 3. Legal Proceedings

There are no significant pending legal proceedings against the Company or its subsidiary.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to security holders for vote during the fourth quarter of the fiscal year ended December 31, 2001.

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PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Common Stock of the Company was publicly traded on The Nasdaq Stock Market (National Market) under the symbol "BOOM" from January 3, 1997 through February 3, 2000. On February 4, 2000, the Company transferred to Nasdaq's SmallCap Market as a result of the Company's inability to maintain the \$5 million minimum market value of public float required by the Nasdaq National Market. The following table sets forth quarterly high and low bid quotations for the Common Stock during the Company's last two fiscal years, as reported by Nasdaq. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

2001	High	Low
First Quarter	\$ 2.125	\$ 0.875
Second Quarter	\$ 3.150	\$ 1.563
Third Quarter	\$ 3.620	\$ 2.010
Fourth Quarter	\$ 4.150	\$ 2.050
2000		
First Quarter	\$ 2.625	\$ 1.125
Second Quarter	\$ 1.844	\$ 0.750
Third Quarter	\$ 1.688	\$ 1.000
Fourth Quarter	\$ 1.375	\$ 0.750

As of March 15, 2002 there were approximately 483 holders of record of the Company's Common Stock.

The Company has never declared or paid cash dividends on its Common Stock. The Company currently intends to retain any future earnings to finance the growth and development of its business and therefore does not anticipate paying any cash dividends in 2002.

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ITEM 6. Selected Financial Data

The selected financial data set forth below has been derived from the financial statements of the Company.

<TABLE>
<CAPTION>

	2001	2000	1999	1998	
1997		(Restated) *			
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Operations					
Net sales	\$42,514,774	\$33,759,581	\$ 29,131,289	\$ 38,212,051	
\$32,119,585					
Cost of products sold	31,832,892	28,154,815	25,419,287	30,372,600	
24,459,168					
Gross profit	10,681,882	5,604,766	3,712,002	7,839,451	
7,660,417					
Costs and expenses	6,645,989	6,234,879	6,608,895	5,303,495	
4,370,091					
Income from operations	4,035,893	(630,113)	(2,896,893)	2,535,956	
3,290,326					
Other income (expense)	(845,063)	(866,386)	(975,215)	(263,200)	
(61,413)					
Income (loss) before income tax provision	3,190,830	(1,496,499)	(3,872,108)	2,272,756	
3,228,913					
Income tax benefit (provision)	(401,600)	(164,000)	1,154,000	(887,000)	
(1,221,000)					
Net income (loss) before extraordinary item	2,789,230	(1,660,499)	(2,718,108)	1,385,756	
2,007,913					
Extraordinary item - loss from extinguishment of debt	-	(80,111)	-	-	
-					
Net income (loss)	\$2,789,230	\$(1,740,610)	\$(2,718,108)	\$ 1,385,756	\$
2,007,913					
Net income (loss) per share:					
Basic	\$ 0.56	\$ (0.43)	\$ (0.96)	\$ 0.50	\$
0.75					
Diluted	\$ 0.55	\$ (0.43)	\$ (0.96)	\$ 0.49	\$
0.70					
Weighted average number of shares outstanding:					
Basic	5,003,399	4,004,873	2,822,184	2,770,139	
2,681,943					
Diluted	5,051,223	4,004,873	2,822,184	2,852,547	
2,875,703					
Financial Position					
Current assets	\$ 16,410,967	\$ 14,520,301	\$ 8,898,184	\$11,145,995	\$
9,809,503					
Total assets	36,913,345	35,406,455	30,087,318	33,201,578	
14,405,809					
Current liabilities	8,060,823	7,189,274	19,921,074	6,069,050	
3,455,700					
Non-current liabilities	14,206,528	10,477,887	136,261	14,503,617	
90,632					
Stockholders' equity	14,645,994	17,739,294	10,029,983	12,628,911	
10,859,477					

* The restatement of the year 2000 relates to the retroactive consolidation of Nobelclad and Nitro Metall, due to the purchase accounted for as a reorganization of entities under common control, as if the companies had been consolidated from June 2000, the date on which Groupe SNPE acquired its majority ownership in the Company.

Selected unaudited quarterly financial data for the years ended December 31, 2001 and 2000 is presented below:

<TABLE>
<CAPTION>

ended December 31,	Year ended December 31, 2001			
	Quarter ended	Quarter ended	Quarter ended	Quarter
	March 31, (Restated)*	June 30, (Restated)*	September 30,	
	<C>	<C>	<C>	<C>
Net sales 9,487,594	\$ 9,517,401	\$ 11,252,246	\$ 12,257,533	\$
Gross profit 1,925,365	\$ 2,190,106	\$ 3,197,677	\$ 3,368,734	\$
Net income (loss) 219,370	\$ 321,864	\$ 904,451	\$ 1,343,545	\$
Net income (loss) per share - basic 0.04	\$ 0.06	\$ 0.18	\$ 0.27	\$
Net income (loss) per share - diluted 0.04	\$ 0.06	\$ 0.18	\$ 0.26	\$

</TABLE>

<TABLE>
<CAPTION>

ended December 31, (Restated)*	Year ended December 31, 2000			
	Quarter ended	Quarter ended	Quarter ended	Quarter
	March 31,	June 30,	September 30, (Restated)*	
	<C>	<C>	<C>	<C>
Net sales 10,036,176	\$ 6,386,625	\$ 8,320,483	\$ 9,016,297	\$
Gross profit 1,875,134	\$ 834,837	\$ 1,083,165	\$ 1,811,630	\$
Net loss before extraordinary item (230,920)	\$ (576,815)	\$ (606,383)	\$ (246,381)	\$
Net (loss) income (230,920)	\$ (576,815)	\$ (686,494)	\$ (246,381)	\$
Net (loss) income per share - basic and diluted: Net (loss) income per share before (0.05) extraordinary item Extraordinary item -	\$ (0.20)	\$ (0.19)	\$ (0.05)	\$
	-	(0.02)	-	
Net (loss) income per share (0.05)	\$ (0.20)	\$ (0.21)	\$ (0.05)	\$

</TABLE>

* The restatement of the year 2000 relates to the retroactive consolidation of Nobelclad and Nitro Metall, due to the purchase accounted for as a reorganization of entities under common control, as if the companies had been consolidated from June 2000, the date on which Groupe SNPE acquired its majority ownership in the Company.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

DMC 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. The Company performs metal cladding using its proprietary technologies. The Company's revenues from its explosive metalworking businesses, as a proportion of total Company revenues, have increased from 58% in 1999 to 68% in 2000 (as restated) and 71% in 2001, with the 2000 and 2001 increases relating principally to the acquisition of Nobelclad Europe (including both Nobelclad and Nitro Metall) as further discussed below. The Company's Aerospace Group was formed as a result of the 1998 acquisitions of AMK Welding, Spin Forge and Precision Machined Products and accounted for 42%, 32% and 29% of the Company's 1999, 2000 and 2001 revenues, respectively.

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. 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. 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.

Restatement of 2000 for Reorganization. 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 approximately \$5.3 million was financed through a \$4.0 million intercompany note agreement between the Company and SNPE, Inc. and the assumption of approximately \$1.23 million in third party bank debt associated with Nobelclad's acquisition of Nitro Metall from NEF prior to the Company's purchase of Nobelclad stock. 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.

Due largely to the operating loss the Company incurred during 1999, the Company violated certain financial covenants under its debt agreements beginning with the quarter ended September 30, 1999. Once it became apparent that financial covenant violations under its debt agreements would continue, the Company began to evaluate various business strategies and financing alternatives in connection with the need to restructure its debt agreements and/or re-

capitalize the Company's balance sheet. These efforts culminated in the Company entering into a Stock Purchase Agreement (the "Agreement") with SNPE, Inc. ("SNPE") that was signed on January 20, 2000 and subsequently approved by the Company's stockholders on June 14, 2000. 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 majority stockholder of the Company on the closing date. The Company also borrowed \$3,500,000 on June 14, 2000 under a credit facility with SNPE that was replaced by a bank credit facility in December 2001.

The Company generated significant operating income in 2001 due to the strong financial performance of its Explosive Metalworking Group, which had earned a small operating profit in 2000 after incurring significant operating losses in 1999. In 2000, the Company experienced significant operating losses as a result of a significant decline in sales revenue and gross margin levels within its Aerospace Group. 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 other non-recurring expenses. Additionally, the Company has 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 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.

Year Ended December 31, 2001 compared to Year Ended December 31, 2000 (as restated)

Net Sales. Net sales for 2001 increased 25.9% to \$42,514,774 from \$33,759,581 in 2000. Sales by the Explosive Metalworking Group, which includes explosion bonding of clad metal and shock synthesis of synthetic diamonds, increased 31.3% to \$30,019,586 in 2001 (70.6% of total sales) from \$22,862,677 in 2000 (67.7% of total sales). The significant Explosive Metalworking Group sales increase is attributable to the acquisition of Nobelclad and improved domestic demand for clad metal plate. Nobelclad's net sales for the full year 2001 and the last six months of 2000 are included in the Company's consolidated financial statements and totaled \$9,867,000 and \$5,897,000 for the respective periods. The Company's Aerospace Group contributed \$12,495,188 to 2001 sales (29.4% of total sales) versus sales of \$10,896,904 in 2000 (32.3% of total sales). This increase of \$1,598,284, or 14.7%, reflects year-to-year sales increases of 38% and 22% at AMK Welding and Spin Forge, respectively, that were partially offset by a 2% sales decrease at Precision Machined Products.

Gross Profit. Gross profit for 2001 increased by 90.6% to \$10,681,882 from \$5,604,766 in 2000. The Company's gross profit margin for 2001 was 25.1%, a 51.2% increase from the gross profit margin of 16.6% in 2000. The gross profit margin for the Company's Explosion Metalworking Group increased from 18.1% in 2000 to 30.9% in 2001, while the gross profit margin for the Aerospace Group decreased to 11.4% in 2001 from 13.5% in 2000. The large increase in the gross profit margin for the Explosive Metalworking Group is principally due to improved market conditions, favorable changes in product mix, continual improvements in operating efficiency at the Group's new production facility in Mount Braddock, Pennsylvania and the acquisition of Nobelclad whose gross margin increased slightly from 26.4% in 2000 to 27.4% in 2001. The decline in the gross margin rate for the Aerospace Group reflects a significant improvement in AMK Welding's gross margin and a modest improvement in the Spin Forge gross margin that were more than offset by the poor margin performance of the Group's Precision Machined Products Division

("PMP") whose gross margin fell from approximately 27% in 2000 to less than 10% in 2001. PMP's gross margin decline is principally attributable to product mix changes, but also reflects a reduction in sales that resulted in a lower absorption of fixed manufacturing costs.

General and Administrative. General and administrative expenses decreased by \$13,114, or 0.3%, to \$4,230,239 in 2001 from \$4,243,353 in 2000. If the general and administrative expenses of Nobelclad were excluded from the totals, general and administrative expenses would have decreased by 10.6% to \$3,238,658 in 2001 from \$3,622,403 in 2000. As a percentage of net sales, general and administrative expenses decreased from 12.6% in 2000 to 10.0% in 2001. This decreased percentage is attributable to the increase in the Company's sales during 2001 and lower year-to-year spending levels for the Company's U.S. operations and for Nobelclad.

Selling Expense. Selling expenses increased by 21.3% to \$2,415,750 in 2001 from \$1,991,526 in 2000. As a percentage of net sales, selling expenses decreased from 5.9% in 2000 to 5.7% in 2001. If the selling expenses of Nobelclad were excluded from the totals, selling expenses would have increased by only 8.2% to \$1,605,331 in 2001 from \$1,483,476 in 2000. This increase relates principally to compensation expense related to bonuses associated with the Explosive Metalworking Group's strong 2001 financial performance.

Income (Loss) from Operations. The Company reported income from operations of \$4,035,893 in 2001 compared to a \$630,113 loss from operations in 2000. The \$4,666,006 year-to-year increase in the Company's income from operations reflects a significant improvement in operating results for the Explosive Metalworking Group and a reduced operating loss for the Aerospace Group. The Explosive Metalworking Group reported income from operations of \$4,487,824 and \$518,149 in 2001 and 2000, respectively. This dramatic improvement in operating results is primarily attributable to the Group's ability to increase its gross margin from 18.1% in 2000 to 30.9% in 2001. With 2002 demand for clad metal plate expected to remain relatively flat with that of 2001, the Explosive Metalworking Group's operating results in 2002 are expected to be comparable with those of 2001. The Company's Aerospace Group reported a loss from operations of \$451,931 in 2001 as compared to an operating loss of \$1,148,262 in 2000. Both AMK Welding and Spin Forge reported improved operating results in 2001 that were partially offset by an increased operating loss at PMP. PMP is expecting 2002 to be another challenging year as its aerospace industry customers and a significant customer in the high technology industry are experiencing low demand for their products, with a corresponding decrease in the need for PMP's precision machining services. Spin Forge is expecting 2002 sales and operating results to be comparable with those of 2001, while demand for AMK Welding's services remains strong and should lead to additional improvement in AMK operating results in 2002.

Interest Expense. Interest expense decreased by 27.2% to \$799,571 in 2001 from \$1,098,181 in 2000. This decrease relates principally to the significant decline in interest rates during 2001 as average borrowing levels did not change significantly from 2000 to 2001. The reduction in revolving credit debt that was made possible by SNPE Inc.'s June 14, 2000 equity investment in the Company was largely offset by the term loan and revolving credit debt that was incurred in connection with the Company's July 3, 2001 acquisition of Nobelclad and its Nitro Metall subsidiary. Total related party interest expense was \$488,000 and \$202,000 in 2001 and 2000, respectively.

Income Tax Provision. The Company recorded a consolidated income tax provision of \$401,600 in 2001 versus \$164,000 in 2000 of which \$102,400 and zero, respectively, related to U.S. taxes, with the remainder relating to foreign taxes associated with acquired operations of Nobelclad. The Company did not record a U.S. tax benefit in its December 31, 2000 financial statements since it had utilized all of its tax loss carry-backs in 1999 and the Company's financial position and near-term operations outlook as of December 31, 2000 made the future realization of tax benefits associated with net operating loss carry-forwards uncertain. Thus, the Company recorded a large valuation allowance as of December 31, 2000 that it was able to reverse when it generated taxable income in 2001 and recognized the tax benefits associated with its operating loss carry-forwards. The provision for U.S. taxes includes alternative minimum tax expense of \$32,000 and deferred tax expense of \$70,400. Income tax provisions on the 2001 and 2000 earnings of Nobelclad and Nitro Metall have been provided based upon the respective French and Swedish statutory tax rates. Historically, in the absence of operating loss carry-backs, operating loss carry-forwards and any related valuation allowance, the Company's effective tax rate has ranged from 37% to 39%. Beginning in 2002, and assuming that it generates taxable income, the Company expects its future effective tax rates to return to normal levels.

Net Income (Loss). The Company recorded net income of \$2,789,230 in 2001 compared to a net loss of \$1,740,610 in 2000. This significant improvement is principally attributable to the \$4,666,006 increase in income from operations

discussed above and also reflects the benefit of a low, 12.6% effective income tax rate in 2001, as discussed above.

Year Ended December 31, 2000 (as restated) compared to Year Ended December 31, 1999

Net Sales. Net sales for 2000 increased 15.9% to \$33,759,581 from \$29,131,289 in 1999. Sales by the Explosive Metalworking Group, whose operations include explosion bonding of clad metal and shock synthesis of synthetic diamonds, increased 34.4% from \$17,014,639 in 1999 (58.4% of total sales) to \$22,862,677 in 2000 (67.7% of total sales). The Explosive Metalworking Group's year 2000 sales have been restated to include \$5,897,000 of Nobelclad sales (representing Nobelclad's sales for the last six months of 2000), with the Nobelclad sales accounting for the entire year-to-year increase in Group sales. The Company's Aerospace Group contributed \$10,896,904 to 2000 sales (32.3% of total sales) versus sales of \$12,116,650 in 1999 (41.6% of total sales). This decrease of \$1,219,746, or 10.1%, reflects a \$1,829,045 decline in sales at Spin Forge that is attributable to a major customer deferring shipments on a long-term production contract from 2000 to the latter part of 2001 and decreased sales under certain missile motor case programs.

Gross Profit. Gross profit for 2000 increased by 51.0% to \$5,604,766 from \$3,712,002 in 1999. The Company's gross profit margin for 2000 was 16.6%, a 30.7% increase from the gross profit margin of 12.7% in 1999. The gross profit margin for the Company's Explosion Metalworking Group increased from 4.4% in 1999 to 18.1% in 2000, while the gross profit margin for the Aerospace Group decreased to 13.5% in 2000 from 24.5% in 1999. The large increase in the gross profit margin for the Explosive Metalworking Group is principally due to significant reductions in fixed manufacturing overhead costs resulting from the July 1999 closing of the Group's Colorado manufacturing facility and the consolidation of all of the Group's manufacturing activities in its new Mount Braddock, Pennsylvania plant. Price increases during the last half of the year and the gross profit contribution on Nobelclad's sales of \$5,897,000 at a 26.4% gross margin rate also contributed to the Explosive Metalworking Group's improved gross margin performance. The significant decline in the gross margin rate for the Aerospace Group reflects a large decrease in sales at Spin Forge and a decrease in gross margin levels at PMP and AMK Welding due to product mix changes and higher operating expenses.

General and Administrative. General and administrative expenses increased by \$706,903, or 20.0%, to \$4,243,353 in 2000 from \$3,536,450 in 1999. This increase is largely due to the inclusion of Nobelclad general and administrative expenses in the amount of \$620,950 for the last half of 2000. As a percentage of sales, general and administrative expenses increased from 12.1% in 1999 to 12.6% in 2000. General and administrative expenses in 2000 included \$56,780 of non-recurring severance pay.

Selling Expense. Selling expenses increased by \$566,752, or 39.8%, to \$1,991,526 in 2000 from \$1,424,774 in 1999. This increase is largely due to the inclusion of Nobelclad selling expenses in the amount of \$508,050 for the last half of 2000. As a percentage of net sales, selling expenses increased from 4.9% in 1999 to 5.9% in 2000. Year 2000 selling expenses included \$80,284 of non-recurring expenses associated with severance pay and other employee separation costs within the Explosive Metalworking Group sales department.

Start-up Costs. In the third quarter of 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. These start-up costs included salaries, benefits and travel expenses for Company employees assigned to this project, field office expenses and other operating expenses directly associated with this construction 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. Start-up costs in 1999 totaled \$334,372.

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. For the year ended December 31, 1999, the Company recorded non-recurring charges of \$812,197 related to costs associated with this plant closing. No additional plant closing costs were incurred subsequent to December 31, 1999. Plant closing costs include severance pay to terminated employees, outplacement service fees and certain expenses 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.

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 to be abandoned and that had negligible fair market values. Accordingly, the Company recorded asset impairment write-down charges in the aggregate amount of \$179,004 during 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 1999 as a charge to cost of products sold.

Costs Related to Attempted Asset Disposition. 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 an unrelated third party for approximately \$17 million. However, on October 20, 1999, the prospective buyer notified the Company that it was terminating the Asset Purchase Agreement. In connection with the Company's efforts during 1999 to sell its Explosive Metalworking Group, the Company recorded non-recurring expenses of \$322,098. These expenses related principally to investment banking, legal and other third party fees associated with this terminated transaction.

Income (Loss) from Operations. The Company reported a \$630,113 loss from operations in 2000 compared to a loss from operations of \$2,896,893 in 1999. The \$2,266,780 year-to-year decrease in the Company's loss from operations reflects a significant improvement in operating results for the Explosive Metalworking Group that was partially offset by the first-ever operating loss for the Aerospace Group. The Explosive Metalworking Group reported income from operations of \$518,149 in 2000 as compared to a loss from operations of \$3,437,118 in 1999 that included \$1,325,573 of non-recurring expenses associated with new facility start-up costs, plant closing costs and asset impairment write-downs. Excluding these non-recurring expenses, the Explosive Metalworking Group operating results showed a year-to-year improvement of \$2,629,694 on increased sales of \$5,848,038. These improved results reflect an increase in the Group's gross margin from 4.4% in 1999 to 18.1% in 2000, resulting from fixed manufacturing cost savings in 2000 associated with the consolidation of manufacturing facilities in 1999, stronger selling prices during the second half of 2000 and \$436,000 of operating income generated by the inclusion of Nobelclad's results for the last half of 2000. The Company's Aerospace Group reported a loss from operations of \$1,148,262 in 2000 as compared to income from operations of \$862,323 in 1999. This unfavorable variance is attributable to the large decline in year-to-year sales at Spin Forge and reduced gross profit levels at PMP and AMK Welding.

Interest Expense. Interest expense increased by 8.7% to \$1,098,181 in 2000 from \$1,009,911 in 1999. This increase is attributable to interest expense under the Company's industrial development revenue bonds that were used to finance the new clad metal plate manufacturing facility in Pennsylvania. Interest expense on the bonds was capitalized during the construction period, which ended on August 1, 1999, and expensed thereafter as the facility became operational. The increase in bond interest expense was partly offset by a decrease in interest on other outstanding debt that resulted from the reduction in revolving credit debt that was made possible by the equity invested in the Company by SNPE, Inc. on June 14, 2000.

Income Tax Benefit. The Company recorded an income tax provision of \$164,000 in 2000 that related entirely to foreign taxes of Nobelclad and an income tax benefit of \$1,154,000 in 1999. As further explained below, the Company recorded no U.S. income tax benefit in 2000. In 1999, the Company was able to carry-back a major portion of its tax loss to prior years in which the Company generated taxable income and recognize a tax benefit associated with these loss carry-backs. However, the 1999 tax loss exceeded the amount of Federal tax that could be carried back to the 1997 and 1998 tax years and the Company did not recognize a tax benefit with respect to the portion of the 1999 tax loss that could be carried forward. Additionally, the 1999 tax loss could not be carried back for state tax purposes. As a result of the foregoing factors, the effective tax benefit rate of 29.8% in 1999 was significantly lower than the

Company's effective tax rate of 39.0% in 1998. In 2000, the Company did not record a tax benefit associated with its tax loss carry-forward since the future realization of the tax benefits associated with the tax loss carry-forwards was uncertain as of the date of the December 31, 2000 financial statements.

Extraordinary Item - Loss from Extinguishment of Debt. In December 1998, the Company entered into an interest rate swap agreement with its bank related to the bank lines of credit. The Company terminated this swap agreement in the third quarter of 1999 resulting in a deferred gain of \$45,600 that was being amortized over the terms of the acquisition line of credit. Once the bank lines of credit were extinguished as part of the SNPE transaction, the unamortized deferred gain of \$31,388 was offset against the unamortized deferred

finance charges of \$111,499 related to the lines of credit and recorded as an extraordinary loss on extinguishment.

Net Income (Loss). The Company recorded a net loss of \$1,740,610 in 2000 as compared to a net loss of \$2,718,108 in 1999. The \$977,498 decrease in the Company's net loss was much lower than the decreased operating loss from 1999 to 2000 would suggest due to the recognition of \$1,154,000 in tax benefits in 1999 versus the recognition of no tax benefit in 2000.

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 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 development revenue 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 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 majority 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 credit facility with SNPE that carried interest at the Federal Funds Rate plus 1.5% and provided for maximum borrowings of \$4,500,000. 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 a reimbursement agreement with its bank relating to a letter of credit in support of the Company's outstanding bonds. This original bank letter of credit, which expired in September 2001, was secured by the U.S.-based accounts receivable, inventory, property, plant and equipment of the Company's Explosive Metalworking Group and the bond proceeds not yet expended for construction. On September 5, 2001, the Company obtained a replacement letter of credit from a different bank that has a five-year term and does not require an asset pledge.

In connection with its July 3, 2001 acquisition of Nobelclad, the Company entered into a \$4,000,000 term loan agreement with SNPE. The term loan bears interest at the Federal Funds Rate plus 3.0%, payable quarterly. Commencing September 30, 2002 and on the last day of each calendar quarter thereafter, principal payments of \$333,333 are due, with a final principal payment of \$333,337 being due on June 30, 2005. The term loan is secured by a pledge of 65% of the capital stock of Nobelclad held by the Company. In anticipation of its acquisition by the Company, Nobelclad acquired the stock of Nitro Metall and financed this acquisition with proceeds obtained from a revolving credit facility with a French bank that provides for maximum borrowings of 1,488,266 Euros (\$1,276,000 based upon the December 31, 2001 exchange rate). This bank line of credit, which had outstanding borrowings of \$1,276,000 on December 31, 2001, carries interest at the Euro Interbank Offered Rate ("EURIBOR") plus 0.4%. Beginning on June 21, 2004 and on each anniversary date thereafter until final maturity on June 21, 2008, maximum borrowings available under the line become permanently reduced by \$255,200. The bank has the option of demanding

early repayment of any outstanding loans if Groupe SNPE's indirect ownership of Nobelclad falls below 50%. Nobelclad also maintains a 2 million Euro (\$1,762,600 based upon the December 31, 2001 exchange rate) intercompany working capital line with Groupe SNPE under which borrowings of \$360,000 were outstanding as of December 31, 2001. This intercompany line bears interest at EURIBOR plus 1.5%.

In December 2001, the Company obtained a \$6,000,000 revolving line of credit with a U.S. bank that replaced the \$4,500,000 credit facility between the Company and SNPE, Inc. This new bank line of credit will be used to finance ongoing working capital requirements of the Company's U.S. operations. Initial proceeds from the bank line of credit were used to repay \$3,650,000 of borrowings that were outstanding under the credit facility with SNPE, Inc. The bank line, which expires on December 4, 2004, carries an interest rate equal to the bank's prime rate plus 1.0% through February 28, 2002 and the bank's prime rate plus 0.5% thereafter. Borrowings under the line of credit are limited to a

calculated borrowing base that is a function of inventory and accounts receivable balances and are secured by accounts receivable and inventories of the Company's U.S. operations and by new investments in property, plant and equipment with respect to U.S. operations that are made during the term of the agreement. As of December 31, 2001, borrowing availability under the line of credit was approximately \$1,958,000 greater than the \$3,381,097 in outstanding borrowings as of that date.

The Company believes that its cash flow from operations and funds available under its credit facilities will be sufficient to fund working capital, debt service obligations and capital expenditure requirements of its current business operations for the foreseeable future. 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 Company's credit facilities could negatively affect the Company's ability to meet its future cash requirements. DMC attempts to minimize its risk of losing customers or specific contracts by continually improving product quality, delivering product on time and competing favorably on the basis of price. Risks associated with the availability of funds is minimized by borrowing from multiple lenders. The nature of DMC's business is largely insulated from the negative effects of inflation on sales and operating income because the pricing on custom orders reflects current raw material and other manufacturing costs.

Highlights From the Statement of Cash Flows for the Year Ended December 31, 2001

Net cash flows from operating activities for the year ended December 31, 2001 was \$4,685,334, which consisted primarily of net income of \$2,789,230 adjusted for non-cash depreciation and amortization expense of \$1,759,410. Positive net changes in various components of working capital contributed \$72,061 to cash flow from operating activities for the year.

Net cash flow used in investing activities for the year ended December 31, 2001 was \$1,362,307 and consisted primarily of \$1,360,186 in capital expenditures.

Net cash flow used in financing activities for the year ended December 31, 2001 was \$1,696,939. Significant sources of cash flow from financing activities included borrowings on new bank lines of credit in the aggregate amount of \$4,609,097 and \$4,000,000 in proceeds from a term loan with SNPE, Inc relating to the acquisition of Nobelclad. These sources were more than offset by the repayment of intercompany line of credit borrowings in the amount of \$3,941,000, distributions to the Company's parent related to July 2001 reorganization of Nobelclad/Nitro Metall in the amount of \$5,293,000, bond principal payments of \$725,000, and dividend payments of \$296,000 by Nobelclad and Nitro Metall to NEF, their former parent company.

Highlights From the Statement of Cash Flows for the Year Ended December 31, 2000 (as restated)

Net cash flows used in operating activities for the year ended December 31, 2000 was \$348,702. The Company's net loss of \$1,740,610 was offset by depreciation and amortization expense of \$1,770,210 and thus had little impact on cash flow from operating activities. However, the net loss included a non-cash gain of \$185,570 that,

along with net negative changes in various components of working capital in the amount of \$143,646, accounted for the majority of cash used in operating activities. Positive changes in working capital included a \$1,360,000 reduction in income tax receivable relating to the receipt of tax refunds associated with 1999 tax loss carry-backs and a \$2,026,507 increase in accounts payable and accrued expenses. The acquisition of Nobelclad accounted for \$1,640,000 of the increase in accounts payable and accrued expenses. These positive changes in working capital were more than offset by negative working capital changes relating to increases in accounts receivable, inventories, and prepaid expenses of \$2,814,244, \$292,327, and \$423,582, respectively. The acquisition of Nobelclad accounted for \$2,030,000 of the accounts receivable increase and \$422,000 of the increase in prepaid expenses.

Net cash flow from investing activities for the year ended December 31, 2000 was \$955,290. Significant sources of cash flow from investing activities included \$940,036 in proceeds from the sales of property, plant and equipment, \$354,588 from the repayment of a loan to a related party, \$255,008 from the release of bond proceeds and \$245,971 from other changes in non-current assets. These sources were partially offset by capital expenditures of \$830,223,

including \$336,347 of expenditures on the new manufacturing facility in Pennsylvania.

Financing activities for the year ended December 31, 2000 used \$651,058 of cash. Significant sources of cash flow from financing activities included net proceeds in the aggregate amount of \$10,186,252 from the SNPE transaction that closed on June 14, 2000 and \$696,000 in line of credit borrowings. Sources of cash flow from the SNPE transaction were more than offset by the repayment of \$10,255,000 in bank line of credit borrowings, \$680,000 of bond principal payments and dividends payments of \$298,000 by Nitro Metall to NEF, its former parent company.

Highlights from the Statement of Cash Flows for the year ended December 31, 1999

Net cash flows used in operating activities for the year ended December 31, 1999 was \$111,522, which was comprised of a net loss of \$2,718,108 that was largely offset by depreciation and amortization expense of \$1,514,103 and net positive changes in various components of working capital.

Net cash used from investing activities for the year ended December 31, 1999 was \$826,658. Significant uses of cash for investing activities included cash paid in connection with the construction of the Company's new cladding facility totaling \$5,082,680 and other capital expenditures totaling \$351,425. These uses of cash were partially offset by the release of bond proceeds of \$4,735,362 that were used to finance the new cladding facility.

Net cash flow from financing activities for the year ended December 31, 1999 was \$938,180. Significant sources of cash from investing activities included borrowings on the bank line of credit of \$1,500,000, cash received upon the termination of the swap agreements of \$150,900 and net proceeds from the issuance of common stock of \$102,305. These sources of cash were partly offset by the repayment of the bank overdraft of \$611,833 and bond principal payments of \$165,000.

Critical Accounting Policies

In response to the SEC's Release No. 33-8040, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, we identified the most critical accounting principles upon which our financial status depends. We determined the critical principles by considering accounting policies that involve the most complex or subjective decisions or assessments. We identified our most critical accounting policies to be those related to revenue recognition, inventory valuation and impact of foreign currency exchange rate risks. We state these accounting policies in the notes to the consolidated financial statements and at relevant sections in this discussion and analysis. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report.

Impact of SFAS No. 142

In June 2001, the FASB authorized the issuance of Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. 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. 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. The adoption of SFAS No. 142 will reduce the Company's amortization expense by approximately \$217,000 annually, beginning January 1, 2002. Upon adoption of SFAS No. 142, the carrying value of goodwill is to be evaluated based upon its current fair value as if the purchase price allocation occurred on January 1, 2002. Fair value for goodwill and intangible assets is determined based upon discounted cash flows and appraised values. The Company is currently evaluating the impact of adopting the standard and believes the effect of adoption will be a pre-tax charge against earnings associated with a cumulative effect from a change in accounting principle of approximately \$1.9 to \$3.8 million. This change in accounting principle must be reflected as a reduction in the carrying value of goodwill in 2002. Once the effect is determined, the

change in accounting principle must be reflected as of January 1, 2002. Thus, if the cumulative effect of the change in accounting principle is not determined before the Company releases its financial statements for the first quarter ended March 31, 2002, these first quarter financial statements will require restatement once the effect is determined and recorded.

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 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 which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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ITEM 7A. Quantitative and Qualitative Disclosure about Market Risk

The table below provides information about the Company's financial instruments that are sensitive to changes in interest rates, primarily debt obligations. Since most of the Company's obligations carry variable interest rates, there is no material difference between the book value and the fair value of those obligations.

<TABLE>
<CAPTION>

	As of December 31, 2001

<S>	<C>
Line of credit with SNPE S.A. - variable rate	\$360,000
Interest rate	4.91%
Subordinated note with SNPE, Inc. - fixed rate	\$1,200,000
Interest rate	5.00%
Term-loan, SNPE Inc. related to acquisition of Nobelclad - variable rate	\$4,000,000
Interest rate	4.52%
Industrial development revenue Bonds - variable rate	\$5,280,000
Interest rate	2.00%
Bank lines of credit - variable rates	\$4,657,097
Weighted average interest rate	5.16%
	As of December 31, 2000

Line of credit with SNPE, Inc. - variable rate	\$ 3,750,000
Interest rate	8.18%
Subordinated note with SNPE, Inc. - fixed rate	\$ 1,200,000
Interest rate	5.00%
Line of credit, NEF, former parent of Nobelclad - variable rate	\$606,000
Interest rate	4.86%
Industrial development revenue bonds - variable rate	\$ 6,005,000
Interest rate	5.10%

</TABLE>

Borrowing levels increased in 2001 principally as a result of the term-loan with SNPE related to the acquisition of Nobelclad. Additionally, in 2001, a new bank facility replaced DMC's line of credit with SNPE.

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The table below presents principal cash flows and related weighted-average interest rates by expected maturity dates for the Company's debt obligations.

<TABLE>
<CAPTION>

	As of December 31, 2001				
	2002	2003	2004	2005	2006 and Thereafter
Total					
<S> <C>	<C>	<C>	<C>	<C>	<C>
Bank lines of credit \$4,657,097	-	-	\$3,636,367	\$255,270	\$765,460
Weighted average interest rate 5.16%	5.16%	5.16%	5.16%	5.16%	5.16%
Line of Credit - SNPE S.A. \$360,000	\$360,000	-	-	-	-
4.91%	4.91%	-	-	-	-
Subordinated note with SNPE, Inc. \$1,200,000	-	-	-	\$1,200,000	-
5.00%	5.00%	5.00%	5.00%	5.00%	-
Term Loan with SNPE, Inc. \$4,000,000	\$666,666	\$1,333,332	\$1,333,332	\$666,670	-
Weighted average interest rate 4.52%	4.52%	4.52%	4.52%	4.52%	-
Industrial development revenue bonds \$5,280,000	\$795,000	\$855,000	\$930,000	\$790,000	\$1,910,000
Interest rate 2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

Prior to the acquisition of Nobelclad in 2001, all of DMC's sales were made in U.S. Dollars and, as a result, DMC was not exposed to foreign exchange risks. On a going forward basis, the functional currencies for the foreign operations of Nobelclad and Nitro Metall are the Euro and the Swedish Krona, respectively. Thus, the major foreign exchange risks relates to the Euro/Swedish Krona and Euro/U.S. Dollar conversion rates. Additionally, Nobelclad and Nitro Metall occasionally enter into transactions denominated in other than the local currency, which exposes them to other foreign exchange risks.

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ITEM 8. Consolidated Financial Statements

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARY
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2001 and 2000 and for the Three Years Ended
December 2001, 2000 and 1999

Report of Independent Public Accountants.....	Page 26
Financial Statements:	
Consolidated Balance Sheets.....	27
Consolidated Statements of Operations.....	29
Consolidated Statements of Stockholders' Equity.....	30
Consolidated Statements of Cash Flows.....	33

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Dynamic Materials Corporation:

We have audited the accompanying consolidated balance sheets of DYNAMIC MATERIALS CORPORATION (a Delaware corporation) and subsidiary as of December 31, 2001 and 2000 (as restated - see Note 2), and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001 (year ended December 31, 2000 as restated - see Note 2). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dynamic Materials Corporation and subsidiary as of December 31, 2001 and 2000 (as restated - see Note 2), and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 (year ended December 31, 2000 as restated - see Note 2), in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado
February 25, 2002

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2001 AND 2000 (Restated - See Note 2)

<TABLE>
<CAPTION>

	ASSETS	2001
2000	-----	
(Restated - See Note 2)		-----
-----		-----

<u><S></u>	<u><C></u>	<u><C></u>
CURRENT ASSETS:		
Cash and cash equivalents	\$	1,811,618
298,530		\$
Accounts receivable, net of allowance for doubtful accounts of \$234,304 and \$130,000, respectively		6,486,171
7,261,123		
Inventories		6,708,422
6,261,155		
Prepaid expenses and other		1,143,356
699,493		
Current deferred tax asset		261,400
-		
-----		-----
Total current assets		16,410,967
14,520,301		
-----		-----
PROPERTY, PLANT AND EQUIPMENT		21,255,725
20,050,509		
Less- Accumulated depreciation		(6,046,251)
(4,596,850)		
-----		-----
Property, plant and equipment--net		15,209,474
15,453,659		
-----		-----
RESTRICTED CASH AND INVESTMENTS		189,128
179,394		
INTANGIBLE ASSETS, net of accumulated amortization of \$1,383,851 and \$1,094,870, respectively		4,703,769
4,992,750		
OTHER ASSETS, net		400,007
260,351		
-----		-----
Total assets	\$	36,913,345
35,406,455		\$
=====		=====

</TABLE>

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2001 AND 2000 (Restated -
See Note 2)

<TABLE>
<CAPTION>

2000	LIABILITIES AND STOCKHOLDERS' EQUITY	2001
(Restated -	-----	
Note 2)		See
-----		-----

<u><S></u>	<u><C></u>	<u><C></u>
CURRENT LIABILITIES:		
Accounts payable	\$ 3,153,391	\$
3,871,301		
Accrued expenses	3,085,766	
2,010,579		
Current maturities on long-term debt	1,821,666	
1,304,000		
Current portion of capital lease obligation	-	
3,394		
-----	-----	----
Total current liabilities	8,060,823	
7,189,274		
LONG-TERM DEBT	13,675,431	
10,257,000		
NET DEFERRED TAX LIABILITIES	469,000	
143,000		
DEFERRED GAIN ON SWAP TERMINATION	62,097	
77,887		
-----	-----	----
Total liabilities	22,267,351	
17,667,161		
-----	-----	----
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
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; 5,029,983 and 4,990,331 shares issued and outstanding, respectively	251,500	
249,517		
Additional paid-in capital	12,315,596	
12,262,109		
Equity of Nobelclad and Nitro Metall	-	
4,600,000		
Retained earnings	2,592,898	
792,668		
Other cumulative comprehensive income (loss)	(514,000)	
(165,000)		
-----	-----	----
Total stockholders' equity	14,645,994	
17,739,294		
-----	-----	----
Total liabilities and stockholders' equity	\$ 36,913,345	
\$35,406,455		
=====	=====	=====

</TABLE>

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 (Restated - See Note 2) AND 1999

<TABLE>
<CAPTION>

1999	2001	2000
-----	-----	-----
		(Restated - See Note 2)
-----	-----	-----

<S>	<C>	<C>	<C>
NET SALES	\$42,514,774	\$33,759,581	
\$29,131,289			
COST OF PRODUCTS SOLD	31,832,892	28,154,815	
25,419,287			
-----	-----	-----	-----
Gross profit	10,681,882	5,604,766	
3,712,002			
-----	-----	-----	-----
COSTS AND EXPENSES:			
General and administrative expenses	4,230,239	4,243,353	
3,536,450			
Selling expenses	2,415,750	1,991,526	
1,424,774			
New facility start up costs	-	-	
334,372			
Plant closing costs	-	-	
812,197			
Impairment of long-lived assets	-	-	
179,004			
Costs related to attempted asset disposition	-	-	
322,098			
-----	-----	-----	-----
Total costs and expenses	6,645,989	6,234,879	
6,608,895			
-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	4,035,893	(630,113)	
(2,896,893)			
OTHER INCOME (EXPENSE):			
Other income (expense), net	(72,340)	200,290	
14,784			
Interest expense, net of amounts capitalized	(311,571)	(896,181)	
(1,009,911)			
Related party interest expense	(488,000)	(202,000)	
-			
Interest income	26,848	31,505	
19,912			
-----	-----	-----	-----
Income (loss) before income taxes	3,190,830	(1,496,499)	
(3,872,108)			
INCOME TAX (PROVISION) BENEFIT	(401,600)	(164,000)	
1,154,000			
-----	-----	-----	-----
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	2,789,230	(1,660,499)	
(2,718,108)			
EXTRAORDINARY ITEM - LOSS FROM EARLY EXTINGUISHMENT OF DEBT	-	(80,111)	
-			
-----	-----	-----	-----
NET INCOME (LOSS)	\$ 2,789,230	\$ (1,740,610)	\$
(2,718,108)			
=====	=====	=====	=====
NET INCOME (LOSS) PER SHARE - BASIC:			
Net income (loss) before extraordinary item	\$ 0.56	\$ (0.41)	\$
(0.96)			
Extraordinary item	-	(0.02)	
-			
-----	-----	-----	-----
Net income (loss)	\$ 0.56	\$ (0.43)	\$
(0.96)			
=====	=====	=====	=====
NET INCOME (LOSS) PER SHARE - DILUTED:			
Net income (loss) before extraordinary item	\$ 0.55	\$ (0.41)	\$
(0.96)			
Extraordinary item	-	(0.02)	
-			
-----	-----	-----	-----
Net income (loss)	\$ 0.55	\$ (0.43)	\$

(0.96)

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	5,003,399	4,004,873
2,822,184		
Diluted	5,051,223	4,004,873
2,822,184		

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000
(Restated - See Note 2) AND 1999

<TABLE>
<CAPTION>

	Common Stock Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings of the Company	Equity of Nobelclad and Nitro Metall
<S>	<C>	<C>	<C>	<C>	<C>
Balances, December 31, 1998	2,798,391	\$ 139,920	\$ 7,022,450	\$ 5,521,386	\$ -
Shares issued for stock option exercises	19,500	975	52,150	-	-
Shares issued in connection with the employee stock purchase plan	24,538	1,227	47,953	-	-
Amortization of deferred compensation	-	-	-	-	-
Net loss	-	-	-	(2,718,108)	-
Balances, December 31, 1999	2,842,429	\$ 142,122	\$ 7,122,553	\$ 2,803,278	\$ -

	Deferred Compensation	Other Cumulative Comprehensive Income	Total	Comprehensive Loss for the period
Balances, December 31, 1998	\$ (54,845)	\$ -	\$12,628,911	
Shares issued for stock option exercises	-	-	53,125	
Shares issued in connection with the employee stock purchase plan	-	-	49,180	
Amortization of deferred compensation	16,875	-	16,875	
Net loss	-	-	(2,718,108)	\$ (2,718,108)
Balances, December 31, 1999	\$ (37,970)	\$ -	\$10,029,983	\$ (2,718,108)

</TABLE>

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 (Restated - See Note 2) AND 1999

<TABLE>
<CAPTION>

	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings of the Company	Equity of Nobelclad and Nitro Metall
	-----	-----	-----	-----	-----
--					
<S>	<C>	<C>	<C>	<C>	<C>
Balances, December 31, 1999	2,842,429	\$142,122	\$ 7,122,553	\$ 2,803,278	\$ -
Shares issued to SNPE Inc., net of \$563,748 in issuance costs	2,109,091	105,455	5,130,797	-	-
Shares issued in connection with the employee stock purchase plan	42,561	2,128	42,322	-	-
Amortization of deferred compensation	-	-	-	-	-
Dividends paid by Nitro Metall to former parent company (See Note 2)	-	-	-	-	(298,000)
Retroactive consolidation of Nobelclad and Nitro Metall effective June 30, 2000, to reflect the July 2001 reorganization of entities under common control	-	-	-	-	4,628,000
Forfeiture of restricted stock grant	(3,750)	(188)	(33,563)	-	-
Net income (loss)	-	-	-	(2,010,610)	270,000
Change in cumulative translation adjustment	-	-	-	-	-
Balances, December 31, 2000 (Restated - See Note 2)	4,990,331	\$249,517	\$12,262,109	\$ 792,668	\$4,600,000
	=====	=====	=====	=====	=====

	Deferred Compensation	Other Cumulative Comprehensive Loss	Total	Comprehensive Loss for the period
	-----	-----	-----	-----
Balances, December 31, 1999	\$ (37,970)	\$ -	\$10,029,983	
Shares issued to SNPE Inc., net of \$563,748 in issuance costs	-	-	5,236,252	
Shares issued in connection with the employee stock purchase plan	-	-	44,450	
Amortization of deferred compensation	4,219	-	4,219	
Dividends paid by Nitro Metall to former parent company (See Note 2)	-	-	(298,000)	
Retroactive consolidation of Nobelclad and Nitro Metall effective June 30, 2000, to reflect the July 2001 reorganization of entities under common control	-	-	4,628,000	

Forfeiture of restricted stock grant	33,751	-	-	
Net income (loss)	-	-	(1,740,610)	\$ (1,740,610)
Change in cumulative translation adjustment	-	(165,000)	(165,000)	(165,000)
	-----	-----	-----	-----
Balances, December 31, 2000 (Restated - See Note 2)	-	\$ (165,000)	\$17,739,294	\$ (1,905,610)
	=====	=====	=====	=====

</TABLE>

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

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Page 3 of 3

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000
(Restated - See Note 2) AND 1999

<TABLE>
<CAPTION>

	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings of the Company	Equity of Nobelclad and Nitro Metall
	-----	-----	-----	-----	-----
	<C>	<C>	<C>	<C>	<C>
Balances, December 31, 2000 (Restated - See Note 2) 4,600,000	4,990,331	\$ 249,517	\$ 12,262,109	\$ 792,668	\$
Shares issued for stock option exercises	1,250	63	2,125	-	-
Shares issued in connection with the employee stock purchase plan	38,402	1,920	51,362	-	-
Dividends paid by Nobelclad and Nitro Metall to former parent company (see Note 2) (296,000)	-	-	-	-	-
Deemed dividend for debt obligation to SNPE and third party debt assumed in July 2001 as part of reorganization of entities under common control (See Note 2) (4,304,000)	-	-	-	(989,000)	-
Net income	-	-	-	2,789,230	-
Change in cumulative translation adjustment	-	-	-	-	-
	-----	-----	-----	-----	-----
Balances, December 31, 2001	5,029,983	\$ 251,500	\$ 12,315,596	\$ 2,592,898	\$ -
	=====	=====	=====	=====	

	Deferred Compensation	Other Cumulative Comprehensive Loss	Total	Comprehensive Income for the period
	-----	-----	-----	-----
Balances, December 31, 2000 (Restated - See Note 2)	-	\$ (165,000)	\$17,739,294	

Shares issued for stock option exercises	-	-	2,188	
Shares issued in connection with the employee stock purchase plan	-	-	53,282	
Dividends paid by Nobelclad and Nitro Metall to former parent company (see Note 2)	-	-	(296,000)	
Deemed dividend for debt obligation to SNPE and third party debt assumed in July 2001 as part of reorganization of entities under common control (See Note 2)	-	-	(5,293,000)	
Net income	-	-	2,789,230	\$ 2,789,230
Change in cumulative translation adjustment	-	(349,000)	(349,000)	(349,000)
Balances, December 31, 2001	\$ -	\$ (514,000)	\$14,645,994	\$ 2,440,230

</TABLE>

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 (Restated - See Note 2) AND 1999

<TABLE>
<CAPTION>

	2001	2000 (Restated - See Note 2)	1999
	-----	-----	-----

<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 2,789,230	\$ (1,740,610)	\$
(2,718,108)			
Adjustments to reconcile net income (loss) to net cash flows from operating activities-			
Depreciation	1,470,429	1,461,417	
1,187,785			
Amortization	288,981	308,793	
326,318			
Amortization of deferred compensation	-	4,219	
16,875			
Amortization of deferred gain on swap termination	(15,790)	(55,305)	
(17,708)			
Provision for deferred income taxes	79,600	2,000	
66,300			
Impairment of long-lived assets	-	-	
179,004			
Loss (gain) on sale of property, plant and equipment	823	(185,570)	-
Change in-			
Accounts receivable, net	631,952	(2,814,244)	
1,015,779			
Inventories	(600,267)	(292,327)	
1,963,001			
Prepaid expenses and other	(215,863)	(423,582)	
(95,701)			
Income tax receivable	-	1,360,000	
(860,068)			
Accounts payable	(605,910)	1,411,724	
(537,513)			
Accrued expenses	862,149	614,783	
(637,486)			
	-----	-----	-----

----	Net cash flows from operating activities	4,685,334	(348,702)	
(111,522)		-----	-----	-----
----	CASH FLOWS FROM INVESTING ACTIVITIES:			
(110,693)	Investment and earnings on bond proceeds	(9,734)	(10,090)	
4,735,362	Release of bond proceeds by trustee	-	255,008	
(5,082,680)	Cash paid in connection with the construction of the new facility	-	(336,347)	
(351,425)	Acquisition of property, plant and equipment	(1,360,186)	(493,876)	
(74,588)	Loan to related party	-	-	
57,366	Proceeds from repayment of loan to related party	-	354,588	-
	Change in other non-current assets	6,453	245,971	
	Proceeds from sale of property, plant and equipment	1,160	940,036	-
----	Net cash flows from investing activities	(1,362,307)	955,290	
(826,658)		-----	-----	-----

</TABLE>

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 (Restated - See Note 2) AND 1999

<TABLE>
<CAPTION>

	2001	2000 (Restated - See Note 2)	1999
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:			
1,500,000	\$ 3,381,097	\$ 696,000	\$
	-	(10,255,000)	-
	(3,941,000)	-	-
(165,000)	(725,000)	(680,000)	
	-	5,236,252	-
	-	3,750,000	-
	-	1,200,000	-
	4,000,000	-	-
	1,228,000	-	-
	(5,293,000)	-	-
	(296,000)	(298,000)	-
(5,742)	-	-	
(32,450)	(3,394)	(34,905)	
150,900	(146,109)	(116,384)	-
	-	-	
(611,833)	-	(193,471)	
102,305	55,467	44,450	

-----		-----	-----	-----
938,180	Net cash flows from financing activities	(1,739,939)	(651,058)	
-----		-----	-----	-----
	EFFECTS OF EXCHANGE RATES ON CASH	(70,000)	(39,000)	-
	NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,513,088	(83,470)	-
	CASH AND CASH EQUIVALENTS, beginning of the year	298,530	382,000	-
-----		-----	-----	-----
	CASH AND CASH EQUIVALENTS, end of the year	\$ 1,811,618	\$ 298,530	\$ -
=====		=====	=====	

SUPPLEMENTAL DISCLOSURE OF CASH FLOW
INFORMATION:

	Cash paid during the period for-			
951,507	Interest, net of amounts capitalized	\$ 683,542	\$ 856,026	\$
=====		=====	=====	
145,307	Income taxes	\$ 154,531	\$ 162,647	\$
=====		=====	=====	

</TABLE>

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

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001, 2000 AND 1999

(1) ORGANIZATION AND BUSINESS

Dynamic Materials Corporation and subsidiary (the "Company") was incorporated in the state of Colorado in 1971, and reincorporated in the state of Delaware during 1997, to provide products and services requiring explosive metalworking. The Company is headquartered in Boulder, Colorado and has manufacturing facilities in the United States, France and Sweden. Customers are located throughout North America, Western Europe, Australia and the Far East. The Company currently operates under two business groups - explosion metalworking, in which metals are metallurgically joined or altered by using explosives; and aerospace, in which parts are machined, formed or welded primarily for the commercial aircraft and aerospace industries. The Company's wholly-owned subsidiary, Nobelclad Europe S.A. ("Nobelclad"), was acquired during 2001 (See Note 2) from an affiliate of the Company's parent.

Transaction 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. In addition, the Company borrowed \$1,200,000 under a convertible subordinated note from SNPE. The Company also borrowed an original amount of \$3,500,000 under a credit facility with SNPE (see Note 4). 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. SNPE Inc. held 406,400 shares of the Company, prior to the Agreement, and purchased an additional 248,000 shares on June 20, 2000. SNPE, Inc. currently owns 2,763,491 shares or 55% of the Company's common stock.

(2) ACQUISITIONS

On July 3, 2001, the Company completed its acquisition of substantially all of the outstanding stock of 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 SNPE S.A. ("Groupe SNPE") and is a sister company to SNPE, Inc., which owns 55% of the Company's common stock. The purchase price of approximately \$5.3 million was financed through a \$4.0 million intercompany note agreement between the Company and SNPE, Inc. and the assumption of approximately \$1.23 million in third party bank debt associated with Nobelclad's acquisition of Nitro Metall from NEF prior to the Company's purchase of Nobelclad stock.

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 financial statements of the Company for the year ended December 31, 2000 have been retroactively restated to effectively combine the historical financial statements of Nobelclad and Nitro Metall prospectively, from June 2000, the date SNPE acquired a majority interest in the Company. The purchase price paid by the Company in July 2001 of \$5.3 million, the majority of which was financed by a note payable to SNPE and third-party debt assumed from SNPE, is reflected in the restated statement

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of stockholder's equity as a deemed dividend paid to SNPE at the time of the reorganization. The historical cost amounts for Nobelclad and Nitro Metall that were retroactively combined are as follows:

<TABLE>
<CAPTION>

	December 31, 2001	December 31, 2000	June 30, 2000
Balance sheet			
Current assets	\$ 5,546,000	\$ 5,593,000	\$ 3,594,000
Net property, plant & equipment	2,139,000	2,177,000	2,129,000
Total assets	7,685,000	7,770,000	5,723,000
Current liabilities	3,186,000	3,167,000	907,000
Non-current liabilities	1,413,000	170,000	189,000
Stockholders' equity	3,086,000	4,433,000	4,627,000

	Period from January 1, 2001 through December 31, 2001	Period from June 30, 2000 through December 31, 2000
--	--	---

Statement of Operations		
Net sales	\$ 9,867,000	\$ 5,897,000
Cost of products sold	7,014,000	4,332,000
Gross profit	2,853,000	1,565,000
Costs and expenses	1,802,000	1,129,000
Income from operations	1,051,000	436,000
Other income (expense)	(163,000)	(2,000)
Income before income tax provision	888,000	434,000
Income tax benefit (provision)	(299,000)	(164,000)
Net income	\$ 589,000	\$ 270,000

</TABLE>

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and subsidiary in which it has a greater than a 50% interest. All significant intercompany accounts, profits and transactions have been eliminated in consolidation. Investments in affiliates that are not majority-owned and

where the Company does not exercise significant influence are reported using the equity method of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Operations and Foreign Exchange Rate Risk

The functional currency for the Company's foreign operations is the applicable local currency for each affiliate company. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated at exchange rates in effect at period-end, and the statements of operations are translated at the average exchange rates during the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded as a separate component of stockholders' equity and are included in other cumulative comprehensive income (loss). Transactions denominated in currencies other than the local currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from the Company's operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. As a result, amounts related to assets and liabilities reported in the consolidated statements of cash flows will not agree to changes in the corresponding balances in the consolidated balance sheets. The effects of exchange rate changes on cash balances held in foreign currencies are reported as a separate line item below cash flows from financing activities.

Inventories

Inventories are stated at the lower-of-cost (first-in, first-out) or market value. Cost elements included in inventory are material, labor, subcontract costs and factory overhead.

Inventories consist of the following at December 31, 2001 and 2000:

<TABLE>
<CAPTION>

	2001	2000 (Restated - See Note 2)
	-----	-----
Raw material	\$ 2,414,394	\$ 2,366,620
Work in process	4,230,671	3,842,814
Supplies	63,357	51,721
	-----	-----
	\$ 6,708,422	\$ 6,261,155
	=====	=====

</TABLE>

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Additions, improvements and betterments are capitalized when incurred. Maintenance and repairs are charged to operations as the costs are incurred. Depreciation is computed using the straight-line method over the estimated useful life of the related asset as follows:

Building and improvements	3-20 years
Manufacturing equipment and tooling	3-15 years
Furniture, fixtures and computer equipment	3-10 years
Other	3-10 years

Property, plant and equipment consists of the following at December 31, 2001 and 2000:

<TABLE>
<CAPTION>

	-----	Note 2) -----
<S>	<C>	<C>
Land	\$ 435,736	\$ 397,600
Building and improvements	6,664,845	6,608,426
Manufacturing equipment and tooling	11,628,322	10,813,678
Furniture, fixtures and computer equipment	2,330,602	2,020,048
Other	196,220	210,757
	-----	-----
	\$21,255,725	\$20,050,509
	=====	=====

</TABLE>

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Intangible Assets and Goodwill

The Company holds numerous product and process patents related to the business of explosion metalworking and metallic products produced by various explosive processes. The Company's current patents expire between 2001 and 2012; however, expiration of any single patent is not expected to have a material adverse effect on the Company or its operations.

Patent costs are included in intangible assets in the accompanying balance sheets and include primarily legal and filing fees associated with the patent registration. These costs are amortized over the expected useful life of the issued patent, up to 17 years.

Intangible assets and goodwill are summarized as follows as of December 31, 2001 and 2000:

	2001	2000 (Restated - See Note 2)
	-----	-----
Goodwill	\$ 5,416,098	\$ 5,416,098
Non-compete agreements	420,000	400,000
Other	251,522	271,522
	-----	-----
	6,087,620	6,087,620
Accumulated amortization	(1,383,851)	(1,094,870)
	-----	-----
	\$ 4,703,769	\$ 4,992,750
	=====	=====

The Company evaluates the carrying value of its goodwill in accordance with the asset impairment accounting policy discussed below. However, if no events trigger a review under the asset impairment policy, the Company evaluates goodwill recoverability by reviewing whether ongoing events and circumstances throughout the year warrant revised estimates of goodwill useful lives. If estimates are changed and the useful life is shortened, the unamortized goodwill is allocated to the reduced number of remaining periods in the revised useful life, and the excess is expensed as a cost of operations. The Company has recorded no such revision to the carrying value of its goodwill during the years presented.

Asset Impairments

The Company reviews its long-lived assets and certain identifiable intangibles to be held and used by the Company for impairment whenever events or changes in circumstances indicate their carrying amount may not be recoverable. In so doing, the Company estimates the future net cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future net cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, and impairment loss is recognized to reduce the asset to its estimated fair value. Otherwise, an impairment loss is not recognized. Long-lived assets and certain identifiable intangibles to be disposed of, if any, are reported at the lower of carrying amount or fair value less cost to sell. Beginning in 2002, the Company will be required to adopt the new Accounting Principles related to evaluating impairments of long-lived assets. See the "New Accounting Principles" discussion below for further description.

Plant Closing Costs

On April 22, 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 plate manufacturing facility. The Company recorded a total of \$812,197 in non-recurring charges during the year ended December 31, 1999 to cover costs associated with this plant closing. Plant closing costs include severance pay to terminated employees, outplacement

service fees and certain expenses incurred in connection with final plant shutdown, clean-up and site reclamation work subsequent to the discontinuation of manufacturing activities at this facility.

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-downs of \$179,004 during the second and third quarters of 1999. The impaired assets, which after the write-down had no carrying value, have been disposed.

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 year ended December 31, 1999.

Other Assets

Included in other assets are deferred financing costs of \$212,623 and \$100,748, net of accumulated amortization of \$34,234 and \$15,636, as of December 31, 2001 and 2000, respectively. The deferred financing costs outstanding at December 31, 2001 related to the Company's new bank line of credit (see Note 4) and the replacement letter of credit on the industrial revenue bonds (see Note 4). The Company obtained the new bank line of credit in December 2001 and is amortizing the related deferred financing costs over the three-year term of the loan agreement. With the proceeds from the new bank line of credit, the Company paid off the intercompany line of credit with SNPE, Inc. All related deferred financing costs were fully amortized. The original letter of credit on the industrial revenue bonds expired in September 2001 at which time the Company obtained a replacement letter of credit. The deferred financing costs associated with the replacement letter of credit in the amount of \$100,225 are being amortized over its five-year term. Also included in other assets at December 31, 2001 and 2000 are net bond issue costs of \$101,367 and \$127,140, respectively, associated with the industrial development revenue bonds used to finance the Company's new manufacturing facility (Note 4). These costs, which originally totaled \$195,720, are being amortized over the life of the bonds.

Revenue Recognition

The Company's contracts with its customers generally require the production and delivery of multiple units or products. The Company records revenue from its contracts using the completed contract method as products are completed and shipped to the customer. If, as a contract proceeds toward completion, projected total cost on an individual contract indicates a potential loss, the Company provides currently for such anticipated loss.

Net Income (Loss) Per Share

Basic earnings per share ("EPS") is computed by dividing net (loss) income by the weighted average number of shares of common stock outstanding during the period. Diluted EPS recognizes the potential dilutive effects of dilutive securities. The following represents a reconciliation of the numerator and denominator used in the calculation of basic and diluted EPS:

<TABLE>
<CAPTION>

	For the year ended December 31, 2001		
	Income	Shares	Per share Amount
	-----	-----	-----
	<C>	<C>	<C>
-			
<S>			
Basic earnings per share:			
Income available to common shareholders	\$2,789,230	5,003,399	\$ 0.56 =====
Dilutive effect of options to purchase common stock	-	47,824	

Dilutive earnings per share:			
Income available to common shareholders	\$2,789,230	5,051,223	\$ 0.55

</TABLE>

During the years ended December 31, 2000 (as restated - see Note 2) and 1999, the Company incurred a net loss, therefore, there is no difference in basic and diluted loss per share because the effect of options to purchase common stock and the conversion of the convertible subordinated debt is antidilutive.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, trade accounts receivable and payable, accrued expenses and notes receivable are considered to approximate fair value due to the short-term nature of these instruments. The fair value of the Company's long-term debt is estimated to approximate carrying value based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future income tax consequences based on enacted tax laws of temporary differences between the financial reporting and tax bases of assets and liabilities. The Company recognizes deferred tax assets for the expected future effects of all deductible temporary differences. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized (see Note 6).

Cash and Cash Equivalents

For purposes of the financial statements, the Company considers highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash held in escrow and restricted to a specific use is classified based on the expected timing of such disbursement.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to a concentration of credit risk, consist primarily of cash, restricted cash, cash equivalents and accounts receivable. Generally, the Company does not require collateral to secure receivables. The Company currently has no significant financial instruments with off-balance sheet risk of accounting losses, such as foreign exchange contracts, options contracts, or other foreign currency hedging arrangements.

New Accounting Principles

In June 2001, the Financial Accounting Standards Board ("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. 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. The adoption of SFAS No. 142 will reduce the Company's amortization expense by approximately \$217,000 annually, beginning January 1, 2002. Upon adoption of SFAS No. 142, the carrying value of goodwill is to be evaluated based upon its current fair value as if the purchase price allocation occurred on January 1, 2002. Fair value for goodwill and intangible assets is determined based upon discounted cash flows and appraised values. The Company is currently evaluating the impact of adopting the standard and believes the effect of adoption will be a pre-tax charge against earnings associated with a cumulative effect from a change in accounting principle of approximately \$1.9 to \$3.8 million. This change in accounting principle must be reflected as a reduction in the carrying value of goodwill in 2002. Once the effect is determined, the change in accounting principle must be reflected as of January 1, 2002. Thus, if the cumulative effect of the change in accounting principle is not determined before the Company releases its financial statements for the first quarter ended March 31, 2002, these first quarter financial statements will require restatement once the effect is determined and recorded.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, 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 FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, 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) LONG-TERM DEBT

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

<TABLE>
<CAPTION>

	2001	2000 (Restated - See Note 2)
	-----	-----
<S>	<C>	<C>
Line of credit - SNPE, Inc.	\$ -	\$ 3,750,000
Line of credit - SNPE S.A.	360,000	-
Line of credit - NEF, former parent of Nobelclad	-	606,000
Convertible subordinated note - SNPE, Inc.	1,200,000	1,200,000
Term-loan - SNPE, Inc. related to the acquisition of Nobelclad	4,000,000	-
Bank lines of credit	4,657,097	-
Industrial development revenue bonds	5,280,000	6,005,000
	-----	-----
	15,497,097	11,561,000
Less- Current maturities	(1,821,666)	(1,304,000)
	-----	-----
	\$ 13,675,431	\$ 10,257,000
	=====	=====

</TABLE>

SNPE, Inc. Line of Credit

In connection with the SNPE, Inc. ("SNPE") transaction (see Note 1), the Company borrowed \$3,500,000 on June 14, 2000 under a new credit facility with SNPE. The SNPE credit facility, as amended, provided for maximum borrowings of \$4,500,000 and was used to finance working capital requirements and carried interest at the Federal Funds Rate plus 1.5%. The outstanding balance was repaid in full on December 4, 2001 with proceeds from a new bank line of credit.

SNPE S.A. Line of Credit

The Company's subsidiary, Nobelclad, has a line of credit or "cash agreement" with SNPE S.A. ("Groupe SNPE") that provides for up to 2 million Euros (\$1,762,600 based upon the December 31, 2001 exchange rate) in cash advances to meet the working capital needs of Nobelclad. Borrowings under the line bear interest at EURIBOR plus 1.5%. The line expires on December 31, 2002 but is subject to annual renewal by the parties. The agreement automatically terminates if Groupe SNPE loses its indirect control of Nobelclad. The interest rate on outstanding borrowings as of December 31, 2001 was 4.91%. The predecessor line between Nobelclad and NEF, which had outstanding borrowings of \$606,000 as of December 31, 2000, contained similar terms.

SNPE, Inc. Convertible Subordinated Note

In connection with the SNPE transaction (see Note 1), a cash payment was made by SNPE to the Company to purchase a five-year, 5% Convertible Subordinated Note ("Subordinated Note"). SNPE may convert the \$1,200,000 Subordinated Note into common stock of the Company at a conversion price of \$6 at any time up to, and including the maturity date (June 14, 2005). If the note is not converted, the entire principal balance is due at the maturity date.

SNPE, Inc. Term Loan

In connection with its July 3, 2001 acquisition of Nobelclad, the Company entered into a \$4,000,000 term loan agreement with SNPE, Inc. The term loan bears interest at the Federal Funds Rate plus 3.0%, payable quarterly. Commencing September 30, 2002 and on the last day of each calendar quarter thereafter, principal payment of \$333,333 are due, with the final principal payment of \$333,337 being due on June 30, 2005. The term loan is secured by a pledge of 65% of the capital stock of Nobelclad held by the Company. The interest rate on outstanding borrowings as of December 31, 2001 was 4.52%.

Bank Lines of Credit

In June 2001, Nobelclad secured a revolving line of credit with a French bank that provides for maximum borrowings of 1,488,266 Euros (\$1,276,000 based upon the December 31, 2001 exchange rate), the full amount of which was outstanding as of December 31, 2001. Proceeds from the line of credit were used to finance Nobelclad's acquisition of the stock of Nitro Metall (see Note 2) and the full amount of the line was outstanding as of December 31, 2001. Borrowings under the line of credit bear interest at EURIBOR plus 0.4%. Beginning on June 21, 2004 and on each anniversary date thereafter until final maturity on June 21, 2008, maximum borrowings available under the line become permanently reduced by \$255,200. The bank has the option of demanding early repayment of any outstanding loans if Groupe SNPE's indirect ownership of Nobelclad falls below 50%. The interest rate on outstanding borrowings as of December 31, 2001 was 3.61%.

In December 2001, the Company obtained a \$6,000,000 revolving line of credit with a U.S. bank that had an outstanding balance of \$3,381,097 as of December 31, 2001. At closing, proceeds from the line of credit were used to retire line of credit borrowings from SNPE and the line will be used to finance ongoing working capital requirements of the Company's U.S. operations. The line of credit, which expires on December 4, 2004, carries an interest rate equal to the bank's prime rate plus 1% through February 28, 2002 and the bank's prime rate plus 0.5% thereafter. Maximum borrowings under the line of credit are limited to a calculated borrowing base (\$5,339,445 based on inventory and accounts receivable balances as of December 31, 2001) and are secured by accounts receivable and inventories of the Company's U.S. operations and by investments in property, plant and equipment with respect to U.S. operations that

are made during the term of the agreement and that constitute capital expenditures. The interest rate on outstanding borrowings as of December 31, 2001 was 5.75%.

As of December 31, 2001, the Company is in compliance with all financial covenants and other provisions of its debt agreements.

In December 1998, the Company entered into an interest rate swap agreement with its bank related to the bank lines of credit. The Company terminated this swap agreement in the third quarter of 1999 resulting in a deferred gain of \$45,600 that was being amortized over the terms of the acquisition line of credit. Once the bank lines of credit were extinguished as part of the SNPE transaction, the unamortized deferred gain of \$31,388 was offset against the unamortized deferred finance charges of \$111,499 related to the lines of credit and recorded as a extraordinary loss on extinguishment.

Industrial Development Revenue Bonds

During September 1998, the Company began construction on a new manufacturing facility in Fayette County, Pennsylvania. This project was being financed with proceeds from industrial development revenue bonds issued by the Fayette County Industrial Development Authority. The loan bears interest at a variable rate which is set weekly based on the current weekly market rate for tax-exempt bonds. The interest rate at December 31, 2001 and 2000 was 2.0% and 5.1%, respectively. The Company has established a bank letter of credit in the trustee's favor for the principal amount of outstanding bonds plus 98 days accrued interest on the bonds. The original letter of credit, which expired in September 2001, was secured by the U.S.-based accounts receivable, inventory, property, plant and equipment of the Company's Explosive Metalworking Group and the bond proceeds not yet expended for construction. On September 5, 2001, the Company obtained a replacement letter of credit from a different bank that has a five-year term and does not require an asset pledge. The portion of the borrowings not yet expended for construction was \$189,128 and \$179,394 as of December 31, 2001 and 2000, respectively, and was classified as restricted cash and investments in the accompanying balance sheets. A trustee holds the proceeds until qualified expenditures are made and reimbursed to the Company. The Company may redeem the bonds prior to their final maturity on September 1, 2013 at an amount equal to the outstanding principal plus any accrued interest.

In September 1998, the Company entered into an interest rate swap agreement with its bank under which the Company converted the variable interest rate on the bonds to a rate that is largely fixed. The Company terminated this swap agreement during the third quarter of 1999 resulting in a deferred gain of \$105,300, which is being amortized over the term of the bonds.

Loan Covenants and Restrictions

The Company's existing loan agreements include various covenants and restrictions, certain of which relate to the payment of dividends or other distributions to stockholders, redemption of capital stock, incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets and maintenance of specified financial ratios.

Scheduled Debt Maturity

The Company's long-term debt matures as follows:

Year ended December 31-	
2002	\$ 1,821,666
2003	2,188,332
2004	5,899,699
2005	2,911,940
2006	440,270
Thereafter	2,235,190

	\$ 15,497,097
	=====

(5) COMMON STOCK OPTIONS AND BENEFIT PLAN

Stock Option Plans

The Company maintains stock option plans that provide for grants of both incentive stock options and non-statutory stock options. During 1997, the 1992 Incentive Stock Option Plan and the 1994 Non-employee Director Stock Option Plan were both amended and restated in the form of the 1997 Equity Incentive Plan, which was approved by the Company's stockholders in May of 1997. Incentive stock options are granted at exercise prices that equal the fair market value at date of grant based upon the closing sales price of the Company's common stock on that date. Incentive stock options generally vest 25% annually and expire ten years from the date of grant. Non-statutory stock options are granted at exercise prices that range from 85% to 100% of the fair market value of the stock at date of grant. These options vest over periods ranging from one to four years and have expiration dates that range from five to ten years from the date of grant. Under the 1997 Equity Incentive Plan, there are 1,075,000 shares of common stock authorized to be granted, of which 385,250 remain available for future grants.

Statement of Financial Accounting Standards No. 123 ("SFAS 123")

SFAS 123, Accounting for Stock-Based Compensation, defines a fair value based method of accounting for employee stock options or similar equity instruments. However, SFAS 123 allows the continued measurement of compensation cost for such plans using the intrinsic value based method prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), provided that pro forma disclosures are made of net income and net income per share,

assuming the fair value based method of SFAS 123 had been applied. The Company has elected to account for its stock-based compensation plans under APB 25; accordingly, for purposes of the pro forma disclosures presented below, the Company has computed the fair values of all options granted during 2001, 2000 and 1999, using an acceptable option pricing model and the following weighted average assumptions:

<TABLE>
<CAPTION>

	2001	2000	1999
<S>	<C>	<C>	<C>
Risk-free interest rate	4.4%	6.4%	4.8%
Expected lives	4.0 years	4.0 years	4.0 years
Expected volatility	103.0%	97.2%	82.2%
Expected dividend yield	0%	0%	0%

</TABLE>

To estimate expected lives of options for this valuation, it was assumed options will be exercised upon becoming fully vested at the end of four years. All options are initially assumed to vest. Cumulative compensation cost recognized in pro forma net income with respect to options that are forfeited prior to vesting is adjusted as a reduction of pro forma compensation expense in the period of forfeiture.

The total fair value of options granted was computed to be approximately \$270,390, \$153,705 and \$260,900 for the years ended December 31, 2001, 2000 and 1999, respectively. These amounts are amortized on a straight-line basis over the vesting periods of the options. Pro forma stock-based compensation (including the effects of its Employee Stock Purchase Plan), net of the effect of forfeitures, was \$235,801, \$311,459 and \$597,200 for 2001, 2000 and 1999, respectively.

If the Company had accounted for its stock-based compensation plans in accordance with SFAS 123, the Company's net income (loss) and pro forma net income (loss) per common share would have been reported as follows:

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<TABLE>
<CAPTION>

	Year Ended December 31,		
	2001	2000 (Restated - See Note 2)	1999
<S>	<C>	<C>	<C>
Net (loss) income:			
As reported	\$2,789,230	\$ (1,740,610)	
Pro forma	\$2,553,429	\$ (2,052,069)	
Pro forma basic earnings per common share:			
As reported	\$0.56	\$ (0.43)	
Pro forma	\$0.51	\$ (0.50)	
Pro forma diluted earnings per common share:			
As reported	\$0.55	\$ (0.43)	
Pro forma	\$0.51	\$ (0.50)	

</TABLE>

Weighted average shares used to calculate pro forma diluted earnings per share were determined as described in Note 3, except in applying the treasury stock method to outstanding options, net proceeds assumed received upon exercise were increased by the amount of compensation costs attributable to future service periods and not yet recognized as pro forma expense and the amount of any tax benefits upon assumed exercise that would be credited to additional paid-in capital.

A summary of stock option activity for the years ended December 31,

2001, 2000 and 1999 is as follows:

	2001		2000		1999	
	Weighted Average Exercise		Weighted Average Exercise			
	Options	Price	Options	Price	Options	Price
Outstanding at beginning of year	354,251	\$ 5.75	540,334	\$ 6.66	540,625	\$
Granted	187,000	\$ 2.02	127,500	\$ 1.59	102,500	\$
Cancelled	(74,251)	\$ 5.69	(313,583)	\$ 5.62	(83,291)	\$
Exercised	(1,250)	\$ 1.75	-	-	(19,500)	\$
Outstanding at end of year	465,750	\$ 4.27	354,251	\$ 5.75	540,334	\$
Exercisable at end of year	239,941	\$ 5.93	212,376	\$ 7.22	262,962	

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The weighted average fair values and weighted average exercise prices of options granted are as follows:

	For the Year Ended December 31, 2001			For the Year Ended December 31, 2000			For the Year Ended December 31, 1999		
	Number	Fair Value	Exercise Price	Number	Fair Value	Exercise Price	Number	Fair Value	Exercise Price
Exercise Price									
Less than market price	35,000	\$1.83	\$2.65	47,500	\$1.14	\$1.33	20,000	\$2.90	\$3.72
Equal to market price	152,000	\$1.36	\$1.88	80,000	\$1.24	\$1.75	82,500	\$2.62	\$4.19
Greater than market price	-	-	-	-	-	-	-	-	-
Total	187,000	\$1.45	\$2.02	127,500	\$1.21	\$1.59	102,500	\$2.67	\$4.10

The following table summarizes information about employee stock options outstanding and exercisable at December 31, 2001:

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Range of	Options Outstanding			Options Exercisable	
	Number of Options Outstanding at	Weighted Average Remaining	Weighted	Number Exercisable at	Weighted

Exercise Prices	December 31, 2001	Contractual Life in Years	Average Exercise Price	December 31 2001	Average Exercise Price
\$1.33 - 1.75	80,250	8.43	\$1.50	55,691	\$1.39
\$1.88 - 1.88	140,000	9.12	\$1.88	-	-
\$2.00 - 4.19	70,000	8.26	\$3.25	25,000	\$3.73
\$5.31 - 7.88	103,500	6.09	\$7.50	89,500	\$7.46
\$7.92 - 9.63	72,000	5.41	\$8.38	69,750	\$8.39
	-----	-----	-----	-----	-----
\$1.33 - 9.63	465,750	7.63	\$4.27	239,941	\$5.93
	=====	=====	=====	=====	=====

</TABLE>

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan ("ESPP") which is authorized to issue up to 175,000 shares. The offerings begin on the first day following each previous offering ("Offering Date") and end six months from the offering date ("Purchase Date"). The ESPP provides that full time employees may authorize the Company to withhold up to 15% of their earnings, subject to certain limitations, to be used to purchase common stock of the Company at the lesser of 85% of the fair market value of the Company's common stock on the Offering Date or the Purchase Date. In connection with the ESPP, 38,402, 42,561 and 24,538 shares of the Company's stock were purchased during the years ended December 31, 2001, 2000 and 1999, respectively.

The pro forma net income calculation above reflects \$26,575, \$29,124 and \$29,200 in compensation expense associated with the ESPP for 2001, 2000 and 1999, respectively. The compensation expense represents the fair value of the employees' purchase rights which was estimated using an acceptable pricing model with the following weighted average assumptions:

<TABLE>
<CAPTION>

	Year Ended December 31,		
	2001	2000	1999
<S>	<C>	<C>	<C>
Risk-free interest rate	4.6%	6.3%	4.5%
Expected lives	0.5 year	0.5 year	0.5 year
Expected volatility	98.0%	149.3%	131.0%
Expected dividend yield	0%	0%	0%

</TABLE>

401(k) Plan

The Company offers a contributory 401(k) plan (the "Plan") to its employees. The Company made matching contributions to the Plan at 50% of the employees' contribution for the first 8% of the employees' compensation for 2001, 2000 and 1999. Total Company contributions were \$161,104, \$169,535 and \$185,747 for the years ended December 31, 2001, 2000 and 1999, respectively.

(6) INCOME TAXES

The components of the (benefit) provision for income taxes are as follows:

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<TABLE>
<CAPTION>

	2001	2000 (Restated - See Note 2)	1999
<S>	<C>	<C>	<C>
Current - Federal	\$ 32,000	\$ -	\$(1,061,660)
Current - State	-	-	(158,640)
Current - Foreign	290,000	162,000	-
Deferred - Federal	61,400	-	57,680
Deferred - State	9,200	-	8,620
Deferred - Foreign	9,000	2,000	-
	-----	-----	-----
Income tax provision (benefit)	\$ 401,600	\$164,000	\$(1,154,000)

</TABLE>

The Company's deferred tax assets and liabilities at December 31, 2001 and 2000 consist of the following:

<TABLE>
<CAPTION>

	2001	2000 (Restated - See Note 2)
	----- <C>	----- <C>
<S>		
Deferred tax assets-		
Federal net operating loss carry-forward	\$ 858,000	\$ 1,332,000
Federal AMT tax credit carry-forward	113,000	169,000
State net operating loss carry-forward	220,000	414,000
Inventory	13,200	15,500
Allowance for doubtful accounts	70,900	50,500
Repair reserve	29,200	31,500
Vacation accrual	113,000	121,500
Accrual for unbilled services	5,900	4,000
	-----	-----
	1,423,200	2,138,000
Deferred tax liability-		
Depreciation	(1,416,200)	(1,085,500)
Foreign income taxed in future periods	(137,000)	(143,000)
Other	(77,600)	(20,500)
Valuation allowance	-	(1,032,000)
	-----	-----
Net deferred tax liabilities	\$ (207,600)	\$ (143,000)
	=====	=====
Net current deferred tax assets	\$ 261,400	\$ 261,000
Net long-term deferred tax assets	-	628,000
Net long-term deferred tax liabilities	(469,000)	-
Valuation allowance	-	(1,032,000)
	-----	-----
	\$ (207,600)	\$ (143,000)
	=====	=====

</TABLE>

A reconciliation of the Company's income tax provision (benefit) computed by applying the federal statutory income tax rate of 34% to income before taxes is as follows:

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<TABLE>
<CAPTION>

	2001	2000 (Restated - See Note 2)	1999
	----- <C>	----- <C>	----- <C>
<S>			
Federal income tax at statutory rate	\$ 1,085,000	\$ (536,000)	\$ (1,316,500)
State tax items, net	116,500	(99,500)	(3,800)
Effect of difference between US Federal and Foreign tax rates	(3,000)	16,400	-
Nondeductible expenses	8,100	8,100	4,300
Federal tax net operating loss in excess of book net operating loss	-	-	(121,000)
Revision of prior years estimates	227,000	-	-
Federal AMT tax credit carry-forward - not recognized	-	-	26,000
Change in valuation allowance	(1,032,000)	775,000	257,000
	-----	-----	-----
Provision (benefit) for income taxes	\$ 401,600	\$ 164,000	\$ (1,154,000)
	=====	=====	=====

</TABLE>

The available tax loss carry-backs were fully utilized in 1999 and, were therefore, not available for any of the 2000 tax loss. The Company has \$2,522,503 in NOL carry-forwards for US Federal tax purposes that expire through 2021.

(7) RECEIVABLE FROM RELATED PARTY

In connection with the acquisition of Spin Forge, the Company advanced \$280,000 to the seller. Prior to the acquisition, Spin Forge was owned and controlled by an individual and his spouse. Later in 1998, this individual was named President and CEO of the Company and served in that capacity until his

resignation in the third quarter of 2000. The advance was made to allow the seller to retire certain debt that was outstanding on land and buildings that the Company currently leases from the seller and on which the Company holds a purchase option as discussed in Note 2. The Company also agreed to make additional advances to the seller in connection with future principal payments that the seller was required to make to satisfy debt obligations relating to the property. The Company made additional advances totaling \$74,588 during 1999, bringing the balance outstanding to \$354,588 as of December 31, 1999. No additional advances were made during 2000. The outstanding balance was paid in full during the first quarter of 2000. The Company's promissory note from the seller, which was to mature on January 1, 2002, earned no interest, was secured by a pledge of 50,000 shares of the Company's common stock held by the seller and was personally guaranteed by the seller's two owners.

(8) BUSINESS SEGMENTS

The Company is organized in the following two segments: the Explosive Metalworking Group ("Explosive Manufacturing") and the Aerospace Group ("Aerospace"). Explosive Manufacturing 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. Aerospace machines, forms and welds parts for the commercial aircraft, aerospace and defense industries.

The accounting policies of both segments are the same as those described in the summary of significant accounting policies.

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 years ended December 31, 2001, 2000 and 1999 as follows:

<TABLE>
<CAPTION>

	Explosive Manufacturing -----	Aerospace -----	Total -----

<S>	<C>	<C>	<C>
As of and for the year ended December 31, 2001:			
Net sales	\$30,019,586	\$ 12,495,188	
\$42,514,774	=====	=====	

Depreciation and amortization	\$ 999,465	\$ 759,945	\$
1,759,410	=====	=====	

Income (loss) from operations	\$ 4,487,824	\$ (451,931)	\$
4,035,893			
Unallocated amounts:			
Other income (expense)			
(72,340)			
Interest expense			
(799,571)			
Interest income			
26,848			
-----			-----
Consolidated income before income taxes			\$
3,190,830			

Segment assets	\$21,274,942	\$12,819,829	
\$34,094,771	=====	=====	

Assets not allocated to segments:			
Cash			
1,811,618			
Prepaid expenses and other			
347,326			

Current deferred tax asset
261,400
Other long-term corporate assets
398,230

Consolidated total assets
\$36,913,345

Capital expenditures
1,360,186

\$ 1,212,704 \$ 147,482 \$

=====

Explosive Aerospace Total
Manufacturing

As of and for the year ended December 31, 2000
(Restated - See Note 2):

Net sales
\$33,759,581

\$22,862,677 \$10,896,904

=====

Depreciation and amortization
1,770,210

\$ 970,953 \$ 799,257 \$

=====

Income (loss) from operations
(630,113)

\$ 518,149 \$(1,148,262) \$

Unallocated amounts:

Other income

200,290

Interest expense

(1,098,181)

Interest income

31,505

Consolidated loss before income taxes and extraordinary item
\$(1,496,499)

Segment assets
\$34,655,385

\$22,115,880 \$12,539,505

=====

Assets not allocated to segments:

Cash

298,530

Prepaid expenses and other

193,966

Other long-term corporate assets

258,574

Consolidated total assets
\$35,406,455

Capital expenditures
830,223

\$ 743,443 \$ 86,780 \$

=====

Explosive Aerospace Total
Manufacturing

As of and for the year ended December 31, 1999:

Net sales	\$17,014,639	\$ 12,116,650	
\$29,131,289			
=====	=====	=====	
Depreciation and amortization	\$ 785,958	\$ 728,145	\$
1,514,103			
=====	=====	=====	
Segment (loss) income from operations	\$(3,437,118)	\$ 862,323	
\$(2,574,795)			
Corporate non-recurring charge			
(322,098)			
-----			-----
Loss from operations			
\$(2,896,893)			
Unallocated amounts:			
Other income			
14,784			
Interest expense			
(1,009,911)			
Interest income			
19,912			
-----			-----
Consolidated loss before income taxes			
\$(3,872,108)			
=====			
Segment assets	\$15,250,163	\$12,561,020	
\$27,811,183			
=====	=====	=====	
Assets not allocated to segments:			
Prepaid expenses and other			
151,609			
Income tax receivable			
1,360,000			
Other long-term corporate assets			
764,526			
-----			-----
Consolidated total assets			
\$30,087,318			
=====			
Capital expenditures	\$ 5,244,292	\$ 189,813	\$
5,434,105			
=====	=====	=====	

</TABLE>

Capital expenditures for the Explosive Manufacturing segment included \$336,347 and \$5,082,680 of costs incurred related to the construction of the Company's new manufacturing facility and the acquisition of related manufacturing equipment during the years ended December 31, 2000 and 1999, respectively.

The geographic location of the Company's net long-lived assets is as follows:

	For the years ended December 31,	
	2001	2000 (Restated - See Note 2)
	-----	-----
United States	\$ 13,070,474	\$ 13,276,659
France	1,834,000	1,835,000
Sweden	305,000	342,000
Total	\$ 15,209,474	\$ 15,453,659
	=====	=====

All of the Company's sales are shipped from the manufacturing locations, located in the United States, France and Sweden. The following represents the Company's net sales based on the geographic location of the customer:

<TABLE>
<CAPTION>

	For the years ended December 31,		
	2001	2000 (Restated - See Note -2)	1999
<S>	<C>	<C>	<C>
United States	\$29,643,976	\$25,767,268	\$26,563,764
Belgium	1,839,361	664,549	-
Canada	1,687,545	1,419,841	1,516,580
Italy	1,540,802	782,774	-
France	1,190,898	593,403	-
South Korea	10,139	1,022,285	11,390
Russia	4,731	1,490,213	-
Other foreign countries	6,597,322	2,019,248	1,039,555
Total consolidated net sales	\$42,514,774	\$33,759,581	\$29,131,289

</TABLE>

During the years ended December 31, 2001 and 2000, no one customer accounted for more than 10% of total net sales. During the year ended December 31, 1999, sales to one customer represented approximately \$2,968,000 (10%) of total net sales.

(9) COMMITMENTS AND CONTINGENCIES

The Company leases certain office space, storage space, vehicles and other equipment under various operating lease agreements. Future minimum rental commitments under non-cancelable operating leases are as follows:

Year ended December 31-	
2002	\$ 527,273
2003	392,511
2004	257,623
2005	139,339
2006	18,530
Thereafter	31,350

	\$1,366,626
	=====

Total rental expense included in operations was \$830,754, \$885,726 and \$843,690 in the years ended December 31, 2001, 2000 and 1999, respectively.

In the normal course of business, the Company is a party to various contractual disputes and claims. After considering the Company's insurance coverage and evaluations by legal counsel regarding pending actions, management is of the opinion that the outcome of such actions will not have a material adverse effect on the financial position or results of operations of the Company.

Matters Pertaining to Arthur Andersen

The Company's independent certified public accountant, Arthur Andersen, has informed the Company that on March 14, 2002, it was indicted on federal obstruction of justice charges arising from the government's investigation of Enron. Arthur Andersen has indicated that it intends to contest vigorously the indictment. The Company's Audit Committee has been carefully monitoring this situation. As a public company, the Company is required to file with the SEC periodic financial statements audited or reviewed by an independent, certified public accountant. The SEC has said that it will continue accepting financial statements audited by Arthur Andersen, and interim financial statements reviewed by it, so long as Arthur Andersen is able to make certain representations to its clients. The Company's access to the capital markets and its ability to make timely SEC filings could be impaired if the SEC ceases accepting financial statements audited by Arthur Andersen, if Arthur Andersen becomes unable to make the required representations to the

Company or if for any other reason Arthur Andersen is unable to perform required audit-related services for the Company. In such a case, the Company would promptly seek to engage new independent certified public accountants or take

such other actions as may be necessary to enable the Company to maintain access to the capital markets and timely financial reporting.

(10) STOCKHOLDERS' EQUITY

On January 8, 1999, the Board of Directors of the Company declared a dividend of one preferred share purchase right for each outstanding share of common stock of the Company to record holders of common stock at the close of business on January 15, 1999. The rights were exercisable following the occurrence of certain specified events and each right would have entitled the holder, within certain limitations, to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock for \$22.50 subject to certain anti-dilution adjustments. If a person or group were to have acquired 15 percent of the Company's common stock, every other holder of a right would have been entitled to buy at the right's then-exercise price a number of shares of the Company's common stock having a value of twice such exercise price. After the threshold was crossed, the rights would have become non-redeemable, except that, prior to the time a person or group acquired 50% or more of the common stock, the rights other than those held by such person or group could be exchanged at a ratio of one share of common stock for each right. In the event of certain extraordinary transactions, including mergers, the rights entitle holders to buy at the right's then-exercise price equity in the acquiring company having a value of twice such exercise price. The rights did not have any voting rights nor were they entitled to dividends. The rights were redeemed by the Company at \$.001 each on June 20, 2000.

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ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

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PART III

ITEM 10. Directors and Executive Officers of the Registrant

Directors

Mr. Bernard Hueber. Mr. Hueber, age 60, has served as director of the Company and has been Chairman of the Board of the Company since June 2000. His current term as director will expire at the annual meeting of stockholders in 2003. Mr. Hueber served as the Chairman of the Board and Chief Executive Officer of Nobel Explosifs France, a company engaged in the manufacture and sale of commercial explosives for industrial applications and the explosive cladding business, from 1990 to December 2001. Currently, Mr. Hueber is General Manager of Groupe SNPE's Industrial Explosives operating unit.

Mr. Gerard Munera. Mr. Munera has served as a director of the Company since September 2000, and his current term will expire at the annual meeting of stockholders in 2003. From October 1996 to the present, Mr. Munera, age 66, has been chairman and CEO of Synergex, a personally controlled holding company, with majority participation in Arcadia (a manufacturer of low rise curtain walls, store fronts and office partitions) and in Estancia El Olmo, a large cattle ranch, as well as minority participation in other companies, particularly in the gold mining and high technology industries. Between 1990 and 1991, Mr. Munera was Senior Vice President Corporate Planning and Development and a member of the Executive Committee of RTZ plc. Between 1991 and 1994, Mr. Munera was President of Minorco (USA), a diversified \$1.5 billion natural resources group. From 1994 to October 1996, Mr. Munera was Chairman and CEO of Latin American Gold Inc., a gold exploration and mining company.

Mr. Michel Philippe. Mr. Philippe, age 58, has served as director of the Company since June 2000, and his current term will expire at the annual meeting of stockholders in 2002. Mr. Philippe is currently Senior Vice President of Corporate Financial and Legal affairs of Groupe SNPE, a position he has held since 1990.

Dr. George W. Morgenthaler. Dr. Morgenthaler, age 75, has served as a director of the Company since June 1986, and his current term will expire at the annual meeting of stockholders in 2004. Dr. Morgenthaler also served as a director during the period from 1971 to 1976. Dr. Morgenthaler has been a Professor of Aerospace Engineering at the University of Colorado at Boulder since 1986. He has served as Department Chair, Director of the University of

Colorado's BioServe Commercial Space Center and Associate Dean of Engineering for Research. Previously, Dr. Morgenthaler was Vice President of Technical Operations at Martin Marietta's Denver Aerospace Division, Vice President Primary Products Division of Martin Marietta Aluminum Co. and Vice President and General Manager of the Baltimore Division of Martin Marietta Aerospace Co. Dr. Morgenthaler has served as a director of Computer Technology Assoc. Inc. from 1993 to 1999 and served as a director of Columbia Aluminum Company from 1987 to 1996.

Mr. Bernard Fontana. Mr. Fontana, age 41, has served as a director of the Company since June 2000 and was President and Chief Executive Officer of the Company from June 2000 to November 2000. Mr. Fontana's current term as director will expire at the annual meeting of stockholders in 2004. Mr. Fontana is currently Executive Vice President of Chemical activities of Groupe SNPE, a position he has held since February 2002. Previously, Mr. Fontana was Executive Vice President of the Fine Chemicals division of Groupe SNPE from January 2001 to January 2002. Mr. Fontana has also been Vice President of Groupe SNPE, North America since September 1999 and President of SNPE, Inc. since November 1999. Mr. Fontana was Vice President of Strategy and Business Development of the Chemicals division of Groupe SNPE from June 1998 to September 1999, General Manager of SNPE Chimie from September 1996 to June 1998 and General Manager, Bergerac N.C., a business unit of Groupe SNPE, from 1992 to September 15, 1996.

Mr. Bernard Riviere. Mr. Riviere, age 62, has served as director of the Company since June 2000, and his current term will expire at the annual meeting of stockholders in 2002. Mr. Riviere is currently Senior Vice President of Corporate Development for Groupe SNPE, a position he has held since February 2002. Previously, Mr. Riviere served as Senior Vice President and CEO of Groupe SNPE from September 1999 to February 2002. Mr. Riviere was Senior Vice President of the Chemicals division of Groupe SNPE from April 1996 to September 1999 and Senior Vice President of Business Development for Groupe SNPE from September 1994 to April 1996.

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Mr. Dean K. Allen. Mr. Allen, age 66, has served the Company as a director since July 1993, and his current term will expire at the annual meeting of stockholders in 2002. In January 2001, Mr. Allen retired as President of Parsons Europe, Middle East and South Africa, a position he had held since February 1996. Mr. Allen was Vice President and General Manager of Raytheon Engineers and Constructors, Europe, from February 1994 to December 1995.

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Executive Officers

The following individuals serve as executive officers of the Company. Each executive officer is elected by the Board of Directors and serves at the pleasure of the Board.

<TABLE>
<CAPTION>

Name	Position	Age
Mr. Yvon Pierre Cariou	President and Chief Executive Officer	56
Mr. Richard A. Santa	Vice President, Chief Financial Officer and Secretary	51
Mr. John G. Banker	Vice President, Marketing and Sales, Clad Metal Products Division	55

</TABLE>

Mr. Yvon Pierre Cariou. Mr. Cariou has served as President and Chief Executive Officer since November 2000. From March 2000 to November 2000, Mr. Cariou was a consultant who performed research and development projects for the oil industry and market research for a start-up company. From November 1998 to March 2000, Mr. Cariou was President and Chief Executive Officer of Astrocosmos Metallurgical Inc., a division of Groupe Carbone Lorraine of France, involved in the design and fabrication of process equipment for the chemical and pharmaceutical industries. From September 1993 to September 1998, Mr. Cariou was a Partner and Vice President Sales and Marketing of Hydrodyne/FPI Inc. From January 1991 to September 1993, Mr. Cariou was President of MAINCO Corp. and ESCO Corp., manufacturing divisions of Nu-Swift, a public company based in the United Kingdom.

Mr. Richard A. Santa. Mr. Santa has served as Vice President, Chief

Financial Officer and Secretary of the Company since October 1996 and served as interim Chief Financial Officer from August 1996 to October 1996. Prior to joining the Company in August 1996, Mr. Santa was Corporate Controller of Scott Sports Group Inc. from September 1993 to April 1996. From April 1996 to August 1996, Mr. Santa was a private investor. From June 1992 to August 1993, Mr. Santa was Chief Financial Officer of Scott USA, a sports equipment manufacturer and distributor. Earlier in his career, Mr. Santa was a senior manager with Price Waterhouse, where he was employed for ten years.

Mr. John G. Banker. Mr. Banker has served as Vice President, Marketing and Sales, Clad Metal Division since June 2000. From June 1996 to June 2000, Mr. Banker was President of CLAD Metal Products, Inc. From June 1977 to June 1996, Mr. Banker was employed by the Company and served in various technical, sales and management positions. Mr. Banker held the position of Senior Vice President, Sales and New Business Development from June 1991 to July 1995.

ITEM 11. Executive Compensation

SUMMARY OF COMPENSATION

The following table shows compensation awarded or paid to, or earned by, the Company's executive officers (the "Named Executive Officers") during the fiscal years ended December 31, 2001, 2000 and 1999:

<TABLE>
<CAPTION>

Summary Compensation Table

Name and Principal Other Position	Fiscal Year	Annual Compensation			Long-Term Compensation Awards	All
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(1)	Options (#)	
Yvon Pierre Cariou (3) President and Chief Executive Officer (2)	2001	185,000	101,000	-	30,000	285
	2000	23,130	10,000	-	-	-
Richard A. Santa..... (4) Vice President, Chief (5) Financial Officer and (6) Secretary	2001	200,000	64,000	-	23,000	8,519
	2000	157,037	16,500	-	10,000	6,537
	1999	136,930	-	-	10,000	6,021
John G. Banker..... (8) Vice President, (9) Sales and Marketing (7)	2001	125,000	100,241	-	23,000	8,366
	2000	65,866	10,000	-	-	1,528
Joseph P. Allwein (12) President and (13) Chief Executive Officer (10)	2001	-	-	-	-	-
	2000	136,107	-	-	20,000	6,290
	1999	209,167	-	51,701 (11)	40,000	5,379

(1) Except as disclosed in this column, the amount of perquisites provided to each Named Executive Officer did not exceed the lesser of \$50,000 or 10% of total salary and bonus for each fiscal year.
(2) Mr. Cariou joined the Company in November 2000.
(3) Includes \$285 of matching contributions under the 401(k) plan.
(4) Includes \$3,269 of life insurance premiums and \$5,250 of matching contributions under the 401(k) plan.
(5) Includes \$1,287 of life insurance premiums and \$5,250 of matching contributions under the 401(k) plan.
(6) Includes \$1,021 of life insurance premiums and \$5,000 of matching contributions under the 401(k) plan.

- (7) Mr. Banker joined the Company in June 2000.
- (8) Includes \$3,783 of life insurance premiums and \$4,583 of matching contributions under the 401(k) plan.
- (9) Includes \$1,528 of life insurance premiums.
- (10) Mr. Allwein joined the Company in March 1998 and terminated employment with the Company in August 2000.
- (11) Includes \$42,817 for the cost of a Company-provided apartment and \$8,884 for the cost of a Company-provided automobile.
- (12) Includes \$1,040 of life insurance premiums and \$5,250 of matching contributions under the 401(k) plan.
- (13) Includes \$1,212 of life insurance premiums and \$4,167 of matching contributions under the 401(k) plan.

STOCK OPTION EXERCISES

The Company grants options to its executive officers under its 1997 Equity Incentive Plan (the "1997 Plan"). As of March 15, 2002, options to purchase a total of 463,750 shares were outstanding under the 1997 Plan and options to purchase 385,250 shares remained available for grant thereunder.

The following table shows for the fiscal year ended December 31, 2001, certain information regarding options exercised by, and held at year-end by, the Named Executive Officers:

Option Exercises in Fiscal 2001 and Fiscal Year-End Option Values

<TABLE>
<CAPTION>

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at December 31, 2001	Value of Unexercised In-the-Money Options at December 31, 2001 (1)
			Exercisable/Unexercisable	Exercisable/Unexercisable
Yvon Pierre Cariou.....	-	-	-/30,000	-\$62,250
Richard A. Santa.....	-	-	66,250/41,750	\$5,500/\$64,225
John. G. Banker.....	-	-	-/23,000	-\$47,725

</TABLE>

(1) i.e., value of options for which the fair market value of the Company's Common Stock at December 31, 2001 (\$3.95) exceeds the exercise price.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the ownership of DMC's common stock as of March 15, 2002 by: (i) each person or group known by DMC to be the beneficial owner of more than 5% of DMC's common stock, (ii) each director of DMC; (iii) each executive officer; and (iv) all executive officers and directors of DMC as a group.

<TABLE>
<CAPTION>

Name and Address of Beneficial Owner (2)	Beneficial Ownership (1)	
	Number Of Shares	Percent of Total
SNPE Inc. 100 College Road East Princeton, NJ 08540 (3).....	2,763,491	54.92%
Mr. Yvon Pierre Cariou (4).....	7,500	*

Mr. Richard A. Santa (4).....	91,914	1.80%
Mr. John G. Banker (4).....	17,037	*
Mr. Bernard Hueber (4).....	7,500	*
Mr. Dean K. Allen (4).....	32,000	*
Mr. Bernard Fontana (4).....	7,500	*
Mr. George W. Morgenthaler (4).....	102,778	2.03%
Dr. Gerard Munera (4).....	7,500	*
Mr. Michel Philippe (4).....	7,500	*
Mr. Bernard Riviere (4).....	7,500	*
All executive officers and directors as a group (10 persons) (5).....	288,729	5.55%

- - - - -
*Less than 1%
</TABLE>

- (1) This table is based upon information supplied by officers, directors and principal stockholders and Schedules 13D and 13G, if any, filed with the Securities and Exchange Commission (the "SEC"). Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, DMC believes that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 5,031,983 shares outstanding on March 15, 2002 adjusted as required by rules promulgated by the SEC.
- (2) Unless otherwise indicated, the address of each beneficial owner is c/o Dynamic Materials Corporation, 5405 Spine Road, Boulder, Colorado 80301.
- (3) The information reported is based solely on information contained in the Form 4 filed by each of SNPE, Inc., SOFIGEXI, and SNPE. Each reported that it had shared voting and investment power and beneficial ownership of 2,763,491 shares.
- (4) Amounts reported include shares subject to stock options exercisable within 60 days of March 15, 2002 as follows: Mr. Cariou, 7,500 shares; Mr. Santa, 83,250 shares; Mr. Banker, 5,750 shares; Mr. Hueber, 7,500 shares; Mr. Allen, 20,000 shares; Mr. Fontana, 7,500 shares; Mr. Morgenthaler, 20,000 shares; Mr. Munera, 7,500 shares; Mr. Philippe, 7,500 shares and Mr. Riviere, 7,500 shares. Shares of common stock subject to options that are exercisable within 60 days of March 15, 2002 are deemed to be beneficially owned by the person holding those options for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing any other person's percentage ownership.
- (5) The amount reported includes 174,000 shares subject to stock options exercisable within 60 days of March 15, 2002. The applicable percentage is based on 5,205,983 shares outstanding, which includes shares subject to stock options exercisable within 60 days.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires DMC's directors and officers, and persons who own more than 10% of a registered class of DMC's equity securities, to file with the SEC an initial report of ownership and to report changes in ownership of common stock and other equity securities of DMC. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish DMC with copies of all Section 16(a) forms they file.

To DMC's knowledge, based solely on a review of the copies of such reports furnished to DMC and written representations that no other reports were required, during the fiscal year ended December 31, 2001, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with.

ITEM 13. Certain Relationships and Related Transactions

In connection with the acquisition of Spin Forge, the Company advanced \$280,000 to the seller. Prior to the acquisition, Spin Forge was owned and controlled by Joe Allwein and his spouse. Later in 1998, Mr. Allwein was named President and CEO of the Company and served in that capacity until his resignation in the third quarter of 2000. The advance was made to allow the seller to retire certain debt that was outstanding on land and buildings that the Company currently leases from the seller and on which the Company holds a purchase option as discussed in Note 2. The Company also agreed to make additional advances to the seller in connection with future principal payments

that the seller was required to make to satisfy debt obligations relating to the property. The Company made additional advances totaling \$74,588 during 1999, bringing the balance outstanding to \$354,588 as of December 31, 1999. No additional advances were made during 2000. The outstanding balance was paid in full during the first quarter of 2000.

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. 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 approximately \$5.3 million was financed through a \$4.0 million intercompany note agreement between the Company and SNPE, Inc. and the assumption of approximately \$1.23 million in third party bank debt associated with Nobelclad's planned acquisition of Nitro Metall from NEF prior to the Company's purchase of Nobelclad stock. The SNPE credit facility extended in June 2000 was replaced by a bank credit facility in December 2001.

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ITEM 14. Exhibits, List and Reports on Form 8-K

Exhibits

Exhibit Number	Description
3.1	Certificate of Incorporation (incorporated by reference to the Company's Definitive Proxy Statement filed with the Commission on July 14, 1997).
3.2	Bylaws of the Company (incorporated by reference to the Company's Definitive Proxy Statement filed with the Commission on July 14, 1997).
4.1	Shareholders Rights Plan, dated January 8, 1999 (incorporated by reference to the Company's Registration Statement filed with the Commission on January 21, 1999).
10.1	Employment Agreement between Company and Richard Santa dated October 21, 1996 (incorporated by reference to the Company's Form 10-K filed with the Commission on March 30, 2000).
10.2	1997 Equity Incentive Plan, adopted by the Directors on March 4, 1997, and approved by the Company's Shareholders on May 23, 1997 (incorporated by reference to the Company's Definitive Proxy Statement filed with the Commission on April 17, 1997).
10.3	Employee Stock Purchase Plan, dated January 9, 1998 (incorporated by reference to the Company's Definitive Proxy Statement filed with the Commission on April 22, 1998).
10.4	Operating Lease, dated as of March 18, 1998, between Company and Spin Forge, LLC (incorporated by reference to the Company's Form 8-K filed with the Commission on April 2, 1998).
10.5	Option Agreement, dated as of March 18, 1998, between Company and Spin Forge, LLC (incorporated by reference to the Company's Form 8-K filed with the Commission on April 2, 1998).
10.6	Loan Agreement between Company and Fayette County Industrial Development Authority, dated September 1, 1998 (incorporated by reference to the Company's Form 10-Q filed with the Commission on November 17, 1998).
10.7	Option and Right of First Offer Agreement, dated as of December 1, 1998, between the Company and JEA Property, LLC (incorporated by reference to the Company's Form 8-K filed with the Commission on December 8, 1998).
10.8	Operating Lease, dated as of December 1, 1998, between the Company and JEA Property, LLC (incorporated by reference to the Company's Form 8-K filed with the Commission on December 8, 1998).
10.9	Amended and Restated Employee Stock Option Plan approved by the Directors of the Company on March 26, 1999 (incorporated by reference to the Company's Definitive Proxy Statement filed with the Commission on April 26, 1999).

- 10.10 Stock Purchase Agreement, dated January 20, 2000, between the Company and SNPE, Inc. (incorporated by reference to the Company's Form 8-K filed with the Commission on January 31, 2000).
- 10.11 Agreement and Amendment to Operating Lease, dated as of February 1, 2000 between the Company and Spin Forge, LLC (incorporated by reference to the Company's Form 10-K filed with the Commission on March 30, 2000).
- 10.12 Letter Agreement, dated February 1, 2000 terminating a Loan Agreement between the Company and Spin Forge, LLC, which Loan Agreement was dated as of March 18, 1998 (incorporated by reference to the Company's Form 10-K filed with the Commission on March 30, 2000).
- 10.13 Second Amendment to Deferral and Waiver Agreement, dated as of March 27, 2000, between Company and Key Bank National Association (incorporated by reference to the Company's Form 10-K filed with the Commission on March 30, 2000).
- 10.14 Form of Directors and Officers Indemnification Agreement (incorporated by reference to the Company's Form 10-K filed with the Commission on March 30, 2000).
- 10.15 Stock Purchase Agreement, dated as of January 20, 2000, between the Company and SNPE, Inc. (incorporated by reference to the Company's Definitive Proxy Statement filed with the Commission on May 9, 2000).

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- 10.16 Amendment Number One to Stock Purchase Agreement, dated as of April 20, 2000, between the Company and SNPE, Inc. (incorporated by reference to the Company's Form 10-Q filed with the Commission on May 12, 2000).
- 10.17 Third Amendment to Deferral and Waiver Agreement, dated as of May 2, 2000, between the Company and Keybank National Association (incorporated by reference to the Company's Form 10-Q filed with the Commission on May 12, 2000).
- 10.18 Registration Rights Agreement, dated as of June 14, 2000, between the Company and SNPE, Inc. (incorporated by reference to the Company's Form 8-K filed with the Commission on June 22, 2000).
- 10.19 First Amendment to Rights Agreement, dated as of June 13, 2000, between the Company and Harris Trust & Savings Bank (incorporated by reference to the Company's Form 8-K filed with the Commission on June 22, 2000).
- 10.20 Credit Facility and Security Agreement, dated as of June 14, 2000, between the Company and SNPE, Inc. (incorporated by reference to the Company's Form 8-K filed with the Commission on June 22, 2000).
- 10.21 Convertible Subordinated Note, dated as of June 14, 2000, between the Company and SNPE, Inc. (incorporated by reference to the Company's Form 8-K filed with the Commission on June 22, 2000).
- 10.22 First Amendment to Reimbursement Agreement, dated as of June 14, 2000, between the Company and Keybank National Association (incorporated by reference to the Company's Form 8-K filed with the Commission on June 22, 2000).
- 10.23 Personal Services Agreement, dated as of June 16, 2000, between the Company and John G. Banker (incorporated by reference to the Company's Form 8-K filed with the Commission on June 22, 2000).
- 10.24 Stock Purchase Agreement, dated June 28, 2001, between DMC and Nobel Explosifs France (incorporated by reference to DMC's Form 8-k filed with the Commission on July 16, 2001).
- 10.25 Term Loan Agreement, dated July 3, 2001, between DMC and SNPE, Inc.
- 10.26 Stock Pledge Agreement, dated July 3, 2001, between DMC and SNPE, Inc.
- 10.27 Credit and Security Agreement, dated December 4, 2001, between DMC and Wells Fargo Business Credit, Inc.

(B) Reports on Form 8-K

None.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Company has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DYNAMIC MATERIALS CORPORATION

March 26, 2002

By: /s/ Richard A. Santa

 Richard A. Santa
 Vice President and Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

<TABLE>
 <CAPTION>

SIGNATURE	TITLE	DATE
<S>	<C>	<C>
/s/ Yvon Pierre Cariou ----- Yvon Pierre Cariou	President and Chief Executive Officer (Principal Executive Officer)	March 26, 2002
/s/ Richard A. Santa ----- Richard A. Santa	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 2002
/s/ Bernard Hueber ----- Bernard Hueber	Chairman and Director	March 26, 2002
/s/ Dean K. Allen ----- Dean K. Allen	Director	March 26, 2002
/s/ Bernard Fontana ----- Bernard Fontana	Director	March 26, 2002
/s/ George W. Morgenthaler ----- George W. Morgenthaler	Director	March 26, 2002
/s/ Gerard Munera ----- Gerard Munera	Director	March 26, 2002
/s/ Michel Philippe ----- Michel Philippe	Director	March 26, 2002
/s/ Bernard Riviere ----- Bernard Riviere	Director	March 26, 2002

</TABLE>

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Dynamic Materials Corporation:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Dynamic Materials Corporation as of December 31, 2001 and 2000 and for the three years in the period then ended, included in this Form 10-K and have issued our report thereon dated February 25, 2002. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the index of consolidated financial statements are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado
February 25, 2002

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DYNAMIC MATERIALS CORPORATION
SCHEDULE II (a) - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
ALLOWANCE FOR DOUBTFUL ACCOUNTS

<TABLE>
<CAPTION>

	Balance at beginning of period <C>	Additions Charged to income <C>	Accounts receivable written off <C>	Other Adjustments <C>	Balance at end of period <C>
<S> Year ended -					
December 31, 1999 112,000	\$ 225,000	\$ 24,698	\$ (137,698)	\$ -	\$
December 31, 2000 130,000	\$ 112,000	\$ 45,756	\$ (27,756)	\$ -	\$
December 31, 2001 234,304	\$ 130,000	\$ 101,304	\$ (14,036)	\$ 17,036	\$

</TABLE>

DYNAMIC MATERIALS CORPORATION
SCHEDULE II (b) - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
WARRANTY RESERVE

<TABLE>
<CAPTION>

<S> Year ended -	Balance at beginning of period <C>	Additions charged to income <C>	Repairs Allowed <C>	Balance at end of period <C>
December 31, 1999	\$ 125,000	\$ 80,296	\$ (52,296)	\$ 153,000
December 31, 2000	\$ 153,000	\$ 50,526	\$ (123,526)	\$ 80,000
December 31, 2001	\$ 80,000	\$ 48,325	\$ (53,325)	\$ 75,000

</TABLE>

TERM LOAN AGREEMENT

THIS TERM LOAN AGREEMENT (this "Agreement") is made, entered into, and effective as of July , 2001 by and between Dynamic Materials Corporation, a Delaware corporation ("Borrower"), and SNPE, Inc., a Delaware corporation ("Lender").

W I T N E S S E T H :

- - - - -

WHEREAS, Borrower has requested that Lender extend a \$4,000,000 term loan to Borrower;

WHEREAS, Lender has agreed to make such Term Loan available to Borrower, subject to the terms and on the conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the terms and conditions contained herein, and of any loan or other financial accommodation heretofore, now or hereafter made by Lender to or on behalf of Borrower, the parties hereby, intending to be legally bound, agree as follows:

SECTION 1. DEFINITIONS.

In addition to the capitalized terms defined elsewhere in this Agreement, the following capitalized terms shall have the meanings set forth below:

"Business Day" shall mean a day other than a Saturday, Sunday, or a legal holiday on which banks are authorized or required to be closed in the State of Colorado or the State of New York.

"Closing Date" shall mean July , 2001.

"Federal Funds Rate" shall mean for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day.

"Loan Documents" shall mean this Agreement, the Note, the Stock Pledge Agreement and any other instrument or agreement now or hereafter executed by Borrower in connection with the Term Loan.

"Note" shall mean the term note in the form of Exhibit A attached hereto as completed, executed and delivered by Borrower to Lender pursuant to the terms of this Agreement.

"Term Loan" shall have the meaning provided in Section 2.1 hereof.

"Termination Date" shall mean the four year anniversary of the Closing Date, as the same may be extended with the consent of Lender.

SECTION 2. TERM LOAN.

2.1. Term Loan. Lender agrees to make a term loan to Borrower in the aggregate principal amount of \$4,000,000 (the "Term Loan") from the date hereof until the Termination Date. The Term Loan shall be evidenced by a single Note made by Borrower payable to Lender in the original principal amount of \$4,000,000, in the form of Exhibit A.

2.2. Use of Proceeds. The proceeds of the Term Loan made hereunder shall be used only for the acquisition by the Borrower of all of the outstanding capital stock of Nobelclad Europe SA.

2.3. Interest Rates.

(a) Interest shall accrue on the outstanding Term Loan at a rate equal to the applicable Federal Funds Rate plus 3.0%. Interest shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed.

(b) Upon the occurrence of any Event of Default (as defined in Section 6 hereof) and so long as such Event of Default is continuing, the unpaid principal amount of the loan and accrued interest thereon, or any fees or any other sum payable hereunder, shall thereafter until paid in full bear interest

at a rate per annum equal to the applicable Federal Funds Rate plus 6.0% (the Penalty Rate); provided, that such rate shall be applied in lieu of and not in addition to the rate specified in 2.3(a) above.

2.4. Interest Payments. The Borrower shall pay to Lender quarterly interest on the unpaid principal balance of the Term Loan on March 31, June 30, September 30 and December 31 of each year (with the first interest payment being due on September 30, 2001).

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On the Termination Date, all amounts of accrued and unpaid interest shall be immediately due and payable.

2.5. Principal Payments. Commencing September 30, 2002, and on the last day of each calendar quarter thereafter, the Borrower shall make quarterly principal payments in the amount of \$333,333, with the final principal payment being due on June 30, 2005 and amounting to \$333,337. Borrower shall have the right to prepay the Term Loan in whole at any time, or in part from time to time, without premium or penalty, but with accrued interest on the principal amount prepaid to the date of such prepayment.

SECTION 3. CONDITIONS TO CLOSING. The obligations of Lender hereunder shall be subject to prior satisfaction of the following conditions:

3.1. Delivery of Note. Borrower shall have executed and delivered to Lender the Note.

3.2. Stock Pledge Agreement. Borrower shall have executed and delivered to Lender the Stock Pledge Agreement and shall have delivered all applicable stock certificates, together with all necessary instruments of transfer related thereto executed in blank.

3.3. Organizational Documents. Borrower shall have delivered to Lender (i) certificates by an authorized officer of Borrower, upon which Lender may conclusively rely until superseded by similar certificates delivered to Lender, certifying (A) all requisite action taken in connection with the transactions contemplated hereby, and (B) the names, signatures, and authority of Borrower's authorized signers executing the Loan Documents, and (ii) such other documents as Lender may reasonably require to be executed by, or delivered on behalf of Borrower.

SECTION 4. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants to Lender as follows:

4.1. Organization, Powers, Etc. Borrower is duly organized, validly existing and in good standing under the laws of the State of Delaware. Borrower has the corporate power and authority to own its properties and to carry on its business as presently conducted and to enter into this Agreement and the Note. Borrower is qualified to do business as a foreign corporation and is in good standing in each jurisdiction where failure to so qualify and be in good standing would have a material adverse effect on the financial condition or operations of Borrower.

4.2. Organizational Authority. The execution, delivery and performance of this Agreement and the other Loan Documents have been duly authorized. This Agreement and the other Loan Documents have been duly executed and delivered.

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4.3. No Violation. The execution, delivery and performance of this Agreement, the Note, and the other Loan Documents, and the borrowing of the Term Loan hereunder, will not violate or constitute a material breach under the organizational documents or by-laws of Borrower, nor any material indenture, agreement, or other instrument to which Borrower is a party or by which Borrower or its properties are bound, nor will it violate any laws, rules or regulations applicable to Borrower the violation of which would result in a material adverse effect on the financial condition or operations of Borrower. No consent, permission, authorization, order or license of any governmental authority is necessary in connection with the execution, delivery, performance or enforcement of the Loan Documents.

4.4. Enforceability of Agreement. This Agreement and the Note are legal, valid and binding agreements of Borrower, enforceable against Borrower in accordance with their terms, except as the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws relating to the enforcement of creditors' rights generally. The Stock Pledge Agreement is a legal, valid and

binding agreement of Borrower, enforceable against Borrower in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws relating to the enforcement of creditors' rights generally.

SECTION 5. COVENANTS.

Borrower covenants and agrees, until the Term Loan has been terminated and all amounts due hereunder have been paid in full, that:

5.1. Corporate Existence and Status. Borrower will cause to be done all things necessary to preserve and keep in full force and effect its existence and rights, to conduct its business in a prudent manner, to maintain in full force and effect, and renew from time to time, its franchises, permits, licenses, patents, and trademarks that are necessary to operate its business. The Borrower will comply in all material respects with all valid laws and regulations now in effect or hereafter promulgated by any properly constituted governmental authority having jurisdiction; provided, however, that the Borrower shall not be required to comply with any law or regulation which it is contesting in good faith by appropriate proceedings as long as either the effect of such law or regulation is stayed pending the resolution of such proceedings or

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the effect of not complying with such law or regulation is not to jeopardize any franchise, license, permit patent, or trademark necessary to conduct the Borrower's business.

5.2. Insurance; Maintenance of Properties. The Borrower will maintain with financially sound and reputable insurers, insurance with coverage and limits as may be required by law or as may be reasonably required by Lender. The Borrower will, upon request from time to time, furnish to Lender a schedule of all insurance carried by it, setting forth in detail the amount and type of such insurance. The Borrower will maintain in good repair, working order, and condition, all properties used or useful in the business of the Borrower.

5.3. Payment of Taxes. The Borrower will pay all taxes, assessments, and other governmental charges levied upon any of its properties or assets or in respect of its franchises, business, income, or profits before the same become delinquent, except that no such taxes, assessments, or other charges need be paid if contested by the Borrower in good faith and by appropriate proceedings promptly initiated and diligently conducted and if the Borrower has set aside proper amounts, determined in accordance with U.S. GAAP, for the payment of all such taxes, changes, and assessments.

5.4. Merger or Sale of Assets. Borrower shall not, without the written consent of Lender, which consent shall not be unreasonably withheld, (a) merge, consolidate or enter into a partnership or joint venture with any other person or (b) sell, lease, transfer or otherwise dispose of its assets other than (i) sales of inventory in the ordinary course of business and (ii) sales of obsolete equipment.

5.5. Inspection. The Borrower will make available for inspection by duly authorized representatives of Lender, or its designated agent, the Borrower's books, records, and properties when reasonably requested to do so, and will furnish Lender such information regarding its business affairs and financial condition within a reasonable time after written request therefor.

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SECTION 6. EVENTS OF DEFAULT.

The occurrence of any of the following shall constitute an "Event of Default" hereunder:

(a) Borrower shall fail to pay any principal or interest when due and such failure shall continue for a period of three (3) Business Days;

(b) Borrower shall fail to observe or perform any covenant contained in this Agreement or any other Loan Document, and such party shall not remedy such failure within thirty (30) days after receipt of notice thereof from Lender;

(c) Any representation or warranty made by Borrower herein proves untrue in any material respect as of the date of the making or furnishing thereof;

(d) There shall exist or occur any "Event of Default" (as defined in

such applicable agreement) under any loan agreement, guaranty, indenture or similar agreement to which Borrower is a party and for which Lender is the beneficiary; or

(e) Borrower shall (i) make an assignment for the benefit of its creditors; (ii) admit in writing its inability to pay its debts as they become due; (iii) file a petition under any applicable insolvency, debtor relief, or reorganization statute, including without limitation, the Federal Bankruptcy Code; (iv) be subject to an involuntary petition under any applicable insolvency, debtor relief or reorganization statute, including without limitation, the Federal Bankruptcy Code, which is not dismissed within sixty (60) days of its filing; (v) appoint or consent to the appointment of any receiver, conservator, liquidating agent or committee in any insolvency, readjustment of debts, marshaling of assets or liabilities, or similar proceedings of or relating to Borrower; or (vi) take any corporate action for the purpose of effecting any of the foregoing.

Upon the occurrence of any Event of Default, Lender may, without further notice or demand, (i) terminate all other obligations of Lender to Borrower hereunder, (ii) declare all principal, interest and other amounts due hereunder (including, without limitation, the Term Loan) to be immediately due and payable without presentment, demand, protest or any other notice of any kind, all of which are expressly waived, and (iii) exercise any or all of its rights and remedies under this Agreement, the Note and Stock Pledge Agreement, or otherwise available by agreement or under law, all of which remedies shall be cumulative and may be exercised concurrently; provided, however, that if an Event of Default specified in subsection (e) shall occur, the Term Loan and all other obligations of Lender to Borrower hereunder shall automatically terminate and all principal, interest and other amounts due hereunder shall automatically become due and payable, without declaration, demand or notice by Lender.

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SECTION 7. MISCELLANEOUS.

7.1. Notices. All written notices, requests, or other communications herein provided for must be addressed:

to the Borrower, as follows:

Dynamic Materials Corporation
5405 Spine Road
Boulder, Colorado 80301
Attn: Richard A. Santa, Vice President and Chief Financial Officer
Facsimile: (303) 604-3938

to Lender as follows:

SNPE, Inc.
101 College Road East
Princeton, New Jersey 08540
Attention: Bernard Fontana, President
Facsimile: (609) 987-2767

or at such other address as either party may designate to the other in writing. Such communication will be effective (i) if by facsimile, when such facsimile is transmitted and the appropriate confirmation of delivery is received, (ii) if given by mail, 96 hours after such communication is deposited in the U.S. mail (certified mail return receipt requested), or (iii) if given by other means, when delivered at the address specified in this Section 7.1.

7.2. Non-Waiver. No delay or failure on the part of Lender in the exercise of any power or right shall operate as a waiver thereof, or as an acquiescence in any default, nor shall any single or partial exercise of any power or right preclude any other or future exercise thereof or the exercise of any other power or right. No acceptance of payments past the Termination Date thereof shall constitute a novation or waiver of the terms hereof. No waiver shall be valid against Lender unless made in writing and signed by Lender, and then only to the extent expressly specified therein.

7.3. Governing Law, Etc. THIS AGREEMENT, THE NOTE AND THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF NEW YORK. Time is of the essence hereunder. This Agreement may be executed in any number of counterparts, and all such counterparts taken together shall be deemed

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to constitute an original. This Agreement shall be binding upon, and shall inure

to the benefit of, Borrower and Lender and their respective successors and assigns.

7.4. Survival of Representations and Warranties. All representations and warranties contained herein or made by or furnished on behalf of Borrower in connection herewith shall survive the execution and delivery of this Agreement and all other Loan Documents.

7.5. Descriptive Headings. The descriptive headings of the several sections of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

7.6. Severability. In case any one provision contained in this Agreement, the Note or any other Loan Document shall be invalid, illegal or unenforceable in any respect, the legality, validity, or enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby.

7.7. Entire Agreement. This Agreement, the Note, and any other Loan Document integrate all the terms and conditions mentioned herein or incidental hereto and supersede all oral representations and negotiations and prior writings with respect to the subject matter hereof

7.8. JURY TRIAL WAIVER. THE BORROWER AND LENDER EACH WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, BETWEEN LENDER AND THE BORROWER ARISING OUT OF, IN CONNECTION WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THIS AGREEMENT OR ANY NOTE OR OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED THERETO.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered under seal the day and year first above written.

BORROWER:

Dynamic Materials Corporation

By: _____
Name:
Title:

LENDER:

SNPE, Inc.

By: _____
Name:
Title:

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EXHIBIT A

TERM NOTE

\$4,000,000

Denver, Colorado
July , 2001

FOR VALUE RECEIVED, the undersigned, Dynamic Materials Corporation, a Delaware corporation (the "Borrower"), hereby promises to pay to the order of SNPE, Inc., a Delaware corporation (the "Lender"), at its principal office at 101 College Road East, Princeton, New Jersey 08540, or at such other place as the holder hereof may designate in writing to Borrower, on or before the Termination Date (as defined in that certain Term Loan Agreement dated as of even date herewith, between Borrower and Lender, as hereinafter amended, restated, supplemented or modified from time to time, the "Term Loan Agreement";

capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Term Loan Agreement), the principal sum of FOUR MILLION AND NO/100 DOLLARS (\$4,000,000.00) pursuant to the terms of the Term Loan Agreement, plus all accrued and unpaid interest thereon as set forth in the Term Loan Agreement. Interest shall accrue from the date hereof up to and through the date on which all principal and interest hereunder is paid in full, shall be computed on the basis of actual days elapsed in a year of 360 days, and shall be calculated on the principal balance from time to time outstanding hereunder at such rates of interest per annum as provided for in the Term Loan Agreement. In addition to principal and interest, Borrower agrees to pay all reasonable costs of collection, including without limitation, reasonable attorneys' fees and expenses, if the indebtedness evidenced hereby is collected at law or by or through an attorney-at-law, or in bankruptcy, receivership, or other court proceedings. All amounts payable hereunder shall be paid in immediately available funds in lawful money of the United States of America.

Borrower may at any time prepay the indebtedness represented by this Term Note (this "Note") in whole or in part without penalty or premium. Payments shall be applied first to accrued and unpaid interest hereunder, and then to outstanding principal amounts.

This Note is issued pursuant to the Term Loan Agreement to which reference is hereby made for a complete description of the terms and conditions of the indebtedness evidenced by this Note. Lender or any holder hereof is and shall be entitled to the benefits of Stock Pledge Agreement executed and delivered to Lender pursuant to the requirements of the Term Loan Agreement. Upon the occurrence and during the continuation of any Event of Default (as defined in the Term Loan Agreement), the holder of this Note may, without further notice or demand, declare any unpaid balance hereof, including principal and accrued interest, to be immediately due and payable as provided in the Term Loan Agreement, and may exercise any and all remedies referred to in the Term Loan Agreement and the Stock Pledge Agreement, or otherwise existing under applicable law.

No delay or failure on the part of Lender or on the part of any holder of this Note in the exercise of any right, power or privilege granted under this Note or the Term Loan Agreement, or otherwise available by agreement, at law or in equity, shall impair any such right, power or privilege, or be construed as a waiver of any Event of Default or any acquiescence therein. No single or partial exercise of any such right, power or privilege shall preclude the further exercise of such right, power or privilege. No waiver shall be valid against Lender unless made in writing and signed by Lender, and then only to the extent expressly specified therein.

TIME IS OF THE ESSENCE HEREUNDER. THIS NOTE SHALL BE GOVERNED IN ALL RESPECTS BY THE LAWS OF THE STATE OF NEW YORK.

PRESENTMENT, DEMAND AND NOTICE OF DISHONOR ARE HEREBY WAIVED.

IN WITNESS WHEREOF, Borrower has caused this Note to be duly executed and delivered under seal on its behalf, all as of the date first above written.

Dynamic Materials Corporation

By: _____
Name:
Title:

[CORPORATE SEAL]

STOCK PLEDGE AGREEMENT

For good and valuable consideration, receipt whereof is hereby acknowledged, each of the undersigned, intending to be legally bound, hereby agree as follows:

1. The Collateral.

1.1. To secure the prompt payment and performance of all the obligations of Dynamic Materials Corporation (the "Pledgor") owing to SNPE Inc. (the "Pledgee") under that certain Term Loan Agreement of even date herewith (the "Loan Agreement") including, without limitation, the term loan of \$ 4,000,000 made by Pledgee to Pledgor pursuant to the Loan Agreement (such loan to include principal, interest and other fees owing in connection therewith) and all other charges for the maintenance, preservation, protection or enforcement of or realization upon the Collateral, as such term is hereinafter defined (all such indebtedness costs, expenses being hereinafter collectively called the "Obligations"), Pledgee shall have and Pledgor hereby pledges, grants to, and creates in favor of Pledgee a lien and security interest under the Uniform Commercial Code, as in effect in the State of New York (the "UCC"), in and to all the issued and outstanding shares of any class of the capital stock of NOBEL CLAD Europe S.A., up to a maximum amount of 65% of this capital stock (hereinafter called the "Collateral").

1.2. Pledgor represents, warrants and covenants that:

(1) 65% of the capital stock of NOBEL CLAD Europe S.A. is represented by a total of shares of _____ common stock without par value.

(2) There are no other classes of stock otherwise issued or outstanding of said company and Pledgor undertakes that it shall cause said company not to issue any additional stock of any class without the prior written consent of Pledgee.

(3) Pledgor has a valid and marketable title to all the Collateral free and clear of any claims, liens or other encumbrances.

(4) Pledgor will not sell, assign, transfer, pledge or otherwise encumber in any manner any of the Collateral or suffer to exist any encumbrances in the Collateral except for the lien created under this Agreement.

(5) The Collateral will be delivered to Pledgee with all necessary instruments of transfer, duly executed in blank, and Pledgee shall have the right at any time after and during the continuance of an Event of Default (as hereinafter defined) to have the Collateral registered in its own name or in the name of its nominee.

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1.3 Pledgor will do all such acts and things and execute and deliver all such documents and instruments, including, without limitation, further pledges, assignments, financing statements, and continuation statements, as Pledgee in its reasonable discretion may deem necessary or advisable from time to time in order to preserve, protect, and perfect such security interest in the Collateral. Cash dividends accrued and paid on the Collateral shall forthwith be delivered to Pledgee (up to an amount equal to 65% of total dividends paid) at the same time as principal amounts owing under the Loan Agreement are paid by Pledgor Stock dividends and other distributions on account of the Collateral (excluding cash dividends) shall be deemed additional Collateral hereunder.

2. Preservation of Collateral.

Pledgor assumes full responsibility for taking any and all necessary steps to preserve rights with respect to the Collateral against prior parties. Pledgee shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral held by Pledgee pursuant hereto if Pledgee takes such action for a purpose requested (in writing) by Pledgor; provided, that such requested action will not, in the reasonable judgement of Pledgee, impair Pledgee's security interest in the Collateral or the proceeds thereof or its rights in, or the value of, the Collateral or such proceeds; provided, further, that such written request is received by Pledgee in sufficient time to permit Pledgee to take the requested action.

3. Remedies on Event of Default.

3.1. If (a) an Event of Default (as defined in the Loan Agreement) shall occur under the Loan Agreement, or (b) Pledgor shall default in the due performance or observance of any of the covenants or agreements contained in this Agreement and such default shall continue unremedied for a period of ten (10) business days following written notice thereof from Pledgee, (each an "Event of Default" under this Agreement) then, and only then, Pledgee shall have such rights and remedies with respect to the Collateral or any part thereof and the proceeds thereof as are provided by the UCC and such other rights and remedies with respect thereto which it may have at law or in equity or under this Agreement including, without limitation, to the extent not inconsistent with the provisions of the UCC or other applicable law, the right to (i) transfer into Pledgee's name or into the name of its nominee or nominees or account at a Depository Trust Company, for the benefit of Pledgee, all or any portion of the Collateral and thereafter receive all interest and cash dividends accruing and paid thereon, vote the same, give all consents, waivers and ratifications in respect thereof and otherwise act with respect thereto as though it were the outright owner thereof and (ii) sell all or any portion of the Collateral at any broker's board or at public or private sale (in compliance with the terms of the UCC), each without prior notice to Pledgor or any other person, except as otherwise required by law (and if notice is required by law, after 10 business days prior written notice), at such place or places and

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at such time or times and in such manner and for such consideration as Pledgee may determine in its reasonable discretion, and apply the proceeds so received, first to the payment of the reasonable costs and expenses incurred by Pledgee in connection with such sale, including reasonable attorneys' fees and legal expenses, second to the repayment of the Obligations, whether on account of principal, interest, premium, or otherwise as Pledgee in its reasonable discretion may elect, and then to pay the balance, if any, to Pledgor or as otherwise required by law. If such proceeds are insufficient to pay the Obligations in full, Pledgor shall be liable for the deficiency.

3.2. Pledgor recognizes that Pledgee, after the occurrence and during the continuance of an Event of Default by Pledgor, may be unable to effect public sale of all or a portion of the Collateral by reason of certain prohibitions contained in the Securities Act of 1933, as amended, and applicable state securities laws, but may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Collateral for their own account for investment and not to engage in a distribution or resale thereof. Pledgor agrees that private sales so made may be at prices and on other terms less favorable to the seller than if such Collateral were sold at public sale and that Pledgee has no obligation to delay sale of any such Collateral for the period of time necessary to permit the issuers of such Collateral, even if such issuers would agree, to register or qualify such Collateral for public sale under the Securities Act of 1933, as amended, and applicable state securities laws. Pledgor agrees that private sales made under the foregoing circumstances and in compliance with applicable Federal and state securities laws shall be deemed to have been made in a commercially reasonable manner under the UCC.

4. Payment of Pledgee's Expenses.

Pledgor agrees to promptly pay to Pledgee all reasonable custody charges pertaining to the Collateral and all reasonable costs and expenses, including, without limitation, all attorneys' fees, related or incidental to the preparing for sale, selling, or realization upon any of the Collateral or to the establishment of any of the rights of Pledgee hereunder.

5. Assignment.

Pledgee may assign or otherwise transfer all or any of its rights and obligations hereunder and may deliver all or any of the Collateral to one or more transferees who thereupon shall become vested with all the rights, interests and obligations in respect thereof given to or held by Pledgee hereunder and Pledgee shall thereafter be forever relieved and fully discharged from any liability or responsibility with respect thereto, all without prejudice to the retention by Pledgee of all rights, interests or obligations not so transferred. Pledgor may not assign or transfer its rights hereunder without the prior written consent of Pledgee.

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6. Continuing Agreement.

This Agreement shall remain in full force and effect until all the Obligations have been paid in full. Upon the occurrence of the payment in full of all said Obligations, the security interest granted hereunder shall automatically terminate and all rights to the Collateral shall immediately revert to Pledgor. Upon any such termination, Pledgee will, at Pledgor's expense, deliver all certificates and instruments representing or evidencing the Collateral, together with any other Collateral hereunder, and execute and deliver to Pledgor, at Pledgor's expense, such documents as Pledgor shall reasonably request to evidence such termination. This Agreement shall bind each of Pledgor, Pledgee, and each such party's respective successors and assigns.

7. Miscellaneous.

7.1. No delay or failure on the part of Pledgee in exercising any right, remedy, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise thereof or the exercise of any other right, remedy power or privilege. The rights and remedies of Pledgee hereunder are cumulative and not exclusive of any rights or remedies which it would otherwise have.

7.2. Any waiver, permit, consent or approval of any kind or character on the part of Pledgee of any breach, default or Event of Default under this Agreement or any such waiver of any provision or condition of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. In the event of any action at law or suit in equity in relation to this Agreement or the Obligations or the Collateral, Pledgor, in addition to all other sums which it may be required to pay, will pay the reasonable costs of such action or suit and a reasonable sum for attorneys' fees incurred by Pledgee or its successors or assigns in connection with such action or suit. Notwithstanding the foregoing, in the event Pledgee shall bring such an action or suit against Pledgor and Pledgee shall lose such action or suit, Pledgor shall not be obligated to pay the costs and fees (including attorney's fees) associated therewith. All rights of Pledgee hereunder shall continue unimpaired and Pledgor shall be and remain bound by the Obligations in accordance with the terms hereof and thereof notwithstanding the release or substitution of any of the Collateral or of any rights or interests therein. Pledgee shall not be obligated to assert or enforce any rights or security interests hereunder or to take any action in reference thereto and Pledgee may, in its discretion at any time, relinquish its rights as to certain Collateral without thereby affecting or invalidating its rights hereunder as to other Collateral.

7.3. This Agreement shall take effect immediately upon execution by each of the undersigned. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same instrument. All notices delivered in connection with this Agreement shall comply with the notice provisions of the Loan Agreement

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8. Governing Law.

This Agreement shall be deemed a contract entered into under the laws of the State of New York and for all purposes shall be governed by and construed in accordance with the laws, including the conflict of laws and rules of the State of New York. Any legal action or proceeding arising out of or relating to this Agreement will be instituted in the courts of the State of New York, and each of the undersigned hereby irrevocably submits to the jurisdiction of each such court in any such action or proceeding.

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IN WITNESS WHEREOF, each of the undersigned has executed this Agreement as of the day of , 2001.

Dynamic Materials Corporation

By: _____
Name:
Title:

SNPE Inc.

By: _____

Name:

Title:

STATE OF _____)
) ss.
COUNTY OF _____)

On this ____ day of _____, 200__, before me personally came _____, to me known, who, being by me duly sworn, did depose and say that he is the _____ of DYNAMIC MATERIALS CORPORATION, the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation, and that he signed his name thereto by like order.

NOTARY PUBLIC

STATE OF _____)
) ss.
COUNTY OF _____)

On the ____ day of _____, 200__, before me personally came _____, to me known, who being by me duly sworn, did depose and say that he is a _____ of SNPE, Inc., the corporation described in and which executed the above instrument; and that he was authorized to sign his name thereto on behalf of said corporation.

Notary Public

=====

CREDIT AND SECURITY AGREEMENT

BY AND BETWEEN

DYNAMIC MATERIALS CORPORATION

AND

WELLS FARGO BUSINESS CREDIT, INC.

December 4, 2001

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CREDIT AND SECURITY AGREEMENT

Dated as of December 4, 2001

DYNAMIC MATERIALS CORPORATION, a Delaware corporation (the "Borrower"), and WELLS FARGO BUSINESS CREDIT, INC., a Minnesota corporation (the "Lender"), hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions. For all purposes of this Agreement, except as otherwise expressly provided, the following terms shall have the meanings assigned to them in this Section or in the Section referenced after such term:

"Accounts" means all of the Borrower's accounts, as such term is defined in the UCC, generated by the Borrower's U.S. operations, including each and every right of the Borrower to the payment of money, whether such right to payment now exists or hereafter arises, whether such right to payment arises out of a sale, lease or other disposition of goods or other property, out of a rendering of services, out of a loan, out of the overpayment of taxes or other liabilities, or otherwise arises under any contract or agreement, whether such right to payment is created, generated or earned by the Borrower or by some other person who subsequently transfers such person's interest to the Borrower, whether such right to payment is or is not already earned by performance, and howsoever such right to payment may be evidenced, together with all other rights and interests (including all Liens) which the Borrower may at any time have by law or agreement against any account debtor or other obligor obligated to make any such payment or against any property of such account debtor or other obligor; all including but not limited to all present and future accounts, contract rights, loans and obligations receivable, chattel papers, bonds, notes and other debt instruments, tax refunds and rights to payment in the nature of general intangibles.

"Affiliate" or "Affiliates" means any Person controlled by, controlling or under common control with the Borrower, including any Subsidiary of the Borrower. For purposes of this definition, "control," when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" means this Credit and Security Agreement.

"Availability" means the difference of (i) the Borrowing Base and (ii) the sum of (A) the outstanding principal balance of the Note plus (B) the L/C Amount plus (C) any reserves imposed by the Lender in its sole discretion.

"Banking Day" means a day on which the Federal Reserve Bank of New York is open for business.

"Base Rate" means the rate of interest publicly announced from time to time by Wells Fargo Bank National Association at its principal office in San Francisco as its "prime rate", with the understanding that the "prime rate" is one of Wells Fargo's base rates (not necessarily the lowest of such rates) and serves as the basis upon which effective rates of interest are calculated for loans making reference thereto.

"Book Net Worth" means the aggregate of the common and preferred shareholders' equity in the Borrower, excluding equity infusions after the date hereof and the impact of any asset impairment expense, and otherwise determined in accordance with GAAP.

"Borrowing Base" means at any time the lesser of:

(a) the Maximum Line; or

(b) subject to change from time to time in the Lender's sole discretion, the sum of:

(i) 80% of Eligible Accounts, plus

(ii) the lesser of (A) 50% of Eligible Inventory or (B) \$2,000,000.

"Capital Expenditures" means for a period, any expenditure of money during such period for the lease, purchase or other acquisition of any capital asset.

"Change of Control" means the occurrence of any of the following events: any Person, other than SNPE, Inc., or "group" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934) is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a Person will be deemed to have "beneficial ownership" of all securities that such Person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than fifty percent (50%) of the voting power of all classes of voting stock of the Borrower.

"Collateral" means (A) all of the Borrower's Accounts and Inventory, (B) all sums on deposit in any Collateral Account or in any other U.S. deposit account, any items in any Lockbox and all sums on deposit in the Special Account, (C) all of the following, acquired by the Borrower with respect to its U.S. operations after the date hereof the purchase of which constitutes a Capital Expenditure: all of the Borrower's chattel paper, documents, Equipment, General Intangibles, goods, instruments and Investment Property and (D) all of the following related to all of the foregoing: the Borrower's chattel paper, deposit accounts, documents, Equipment, General Intangibles, goods, instruments, Investment Property, letter-of-credit rights and letters of credit, together with (i) all substitutions and replacements for and products of any of the foregoing; (ii) in the case of all goods, all accessions; (iii) all accessories, attachments, parts, equipment and repairs now or hereafter attached or affixed to or used in connection with any goods; (iv) all warehouse receipts, bills of lading and other documents of title now or

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hereafter covering such goods; (v) all collateral subject to the Lien of any Security Document; (vi) any money, or other assets of the Borrower that now or hereafter come into the possession, custody, or control of the Lender; and (vii) proceeds of any and all of the foregoing.

"Collateral Account" means the "Lender Account" as defined in the Lockbox and Collection Account Agreement.

"Commitment" means the Lender's commitment to make Revolving Advances to, and to cause the Issuer to issue Letters of Credit for the account of, the Borrower pursuant to Article II.

"Constituent Documents" means with respect to any Person, as applicable, such Person's certificate of incorporation, articles of incorporation or by-laws.

"Credit Facility" means the credit facility being made available to the Borrower by the Lender under Article II.

"Current Maturities of Long Term Debt" means as of a given date, the amount of the Borrower's long-term debt and capitalized leases which became due and were actually paid during the applicable period ending on the designated date.

"Debt" means of a Person as of a given date, all items of indebtedness or liability which in accordance with GAAP would be included in determining total liabilities as shown on the liabilities side of a balance sheet for such Person and shall also include the aggregate payments required to be made by such Person at any time under any lease that is considered a capitalized lease under GAAP.

"Debt Service Coverage Ratio" means the ratio of (i) the sum of (A) Funds from Operations and (B) Interest Expense minus (C) unfinanced Capital Expenditures to (ii) the sum of (A) Current Maturities of Long Term Debt and (B) Interest Expense.

"Default" means an event that, with giving of notice or passage of time or both, would constitute an Event of Default.

"Default Period" means any period of time beginning on the first day of any month during which a Default or Event of Default has occurred and ending on the date the Lender notifies the Borrower in writing that such Default or Event of Default has been cured or waived.

"Default Rate" means an annual interest rate equal to three percent (3%) over the Floating Rate, which interest rate shall change when and as the Floating Rate changes.

"Director" means a director of the Borrower, if the Borrower is a corporation, a governor of the Borrower, if the Borrower is a limited liability

company, or a partner of the Borrower, if the Borrower is a partnership.

"ERISA" means the Employee Retirement Income Security Act of 1974.

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"ERISA Affiliate" means any trade or business (whether or not incorporated) that is a member of a group which includes the Borrower and which is treated as a single employer under Section 414 of the IRC.

"Eligible Accounts" means all unpaid Accounts arising from the sale or lease of goods or the performance of services, net of any credits, but excluding any such Accounts having any of the following characteristics:

(i) That portion of Accounts unpaid 90 days or more after the invoice date;

(ii) That portion of Accounts that is disputed or subject to a claim of offset or a contra account;

(iii) That portion of Accounts not yet earned by the final delivery of goods or rendition of services, as applicable, by the Borrower to the customer, including progress billings, and that portion of Accounts for which an invoice has not been sent to the applicable account debtor;

(iv) That portion of Accounts owed by account debtors located in the states of New Jersey, Minnesota, Indiana, or West Virginia (or any other state that requires a creditor to file a business activity report or similar document in order to bring suit or otherwise enforce its remedies against such account debtor in the courts or through any judicial process of such state), unless the Borrower has qualified to do business in such state, or has filed a notice of business activities report with the applicable division of taxation, the department of revenue, or with such other state offices, as appropriate, for the then-current year, or is exempt from such filing requirement;

(v) Accounts constituting (i) proceeds of copyrightable material unless such copyrightable material shall have been registered with the United States Copyright Office, or (ii) proceeds of patentable inventions unless such patentable inventions have been registered with the United States Patent and Trademark Office;

(vi) Accounts owed by any unit of government, whether foreign or domestic (provided, however, that there shall be included in Eligible Accounts that portion of Accounts owed by such units of government for which the Borrower has provided evidence satisfactory to the Lender that (A) the Lender has a first priority perfected security interest and (B) such Accounts may be enforced by the Lender directly against such unit of government under all applicable laws);

(vii) Accounts owed by an account debtor located outside the United States which are not (A) backed by a bank letter of credit naming the Lender as beneficiary or assigned to the Lender, in the Lender's possession or control, and with respect to which a control agreement concerning the letter-of-credit rights is in effect, and acceptable to the Lender in all respects, in its sole discretion, or (B) covered by a foreign receivables insurance policy acceptable to the Lender in its sole discretion;

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(viii) Accounts owed by an account debtor that is insolvent, the subject of bankruptcy proceedings or has gone out of business;

(ix) Accounts owed by an Owner, Subsidiary, Affiliate, Officer or employee of the Borrower;

(x) Accounts not subject to a duly perfected security interest in the Lender's favor or which are subject to any Lien in favor of any Person other than the Lender;

(xi) That portion of Accounts that has been restructured, extended, amended or modified;

(xii) That portion of Accounts that constitutes advertising, finance charges, service charges or sales or excise taxes;

(xiii) That portion of the aggregate Accounts owed by a single account debtor that exceeds 15% of all Accounts of the Borrower;

(xiv) Accounts owed by an account debtor, regardless of whether otherwise eligible, if 20% or more of the total amount due under Accounts from such debtor is ineligible under clauses (i), (ii) or (xi) above; and

(xv) Accounts, or portions thereof, otherwise deemed ineligible by the Lender in its sole discretion.

"Eligible Inventory" means all Inventory of the Borrower, at the lower of cost or market value as determined in accordance with GAAP; but excluding any Inventory having any of the following characteristics:

(i) Inventory that is: in-transit; located at any warehouse, job site or other premises not approved by the Lender in writing; located in any location for which the financing statements filed by the Lender would be insufficient to perfect a first priority security interest in such Inventory; covered by any negotiable or non-negotiable warehouse receipt, bill of lading or other document of title; on consignment from any Person; on consignment to any Person or subject to any bailment unless such consignee or bailee has executed an agreement with the Lender;

(ii) Supplies, packaging, maintenance parts or sample Inventory;

(iii) That portion of the aggregate work-in-process Inventory consisting of non-material components of work-in-process Inventory that exceeds 45% of all work-in-process Inventory of the Borrower;

(iv) Inventory that is damaged, obsolete, slow moving or not currently saleable in the normal course of the Borrower's operations;

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(v) Inventory that the Borrower has returned, has attempted to return, is in the process of returning or intends to return to the vendor thereof;

(vi) Inventory that is perishable or live;

(vii) Inventory manufactured by the Borrower pursuant to a license unless the applicable licensor has agreed in writing to permit the Lender to exercise its rights and remedies against such Inventory;

(viii) Inventory that is subject to a Lien in favor of any Person other than the Lender; and

(ix) Inventory otherwise deemed ineligible by the Lender in its sole discretion.

"Environmental Law" means any federal, state, local or other governmental statute, regulation, law or ordinance dealing with the protection of human health and the environment.

"Equipment" means all of the Borrower's equipment, as such term is defined in the UCC, held by its U.S. operations, whether now owned or hereafter acquired, including but not limited to all present and future machinery, vehicles, furniture, fixtures, manufacturing equipment, shop equipment, office and recordkeeping equipment, parts, tools, supplies, and including specifically the goods described in any equipment schedule or list herewith or hereafter furnished to the Lender by the Borrower.

"Event of Default" has the meaning specified in Section 7.1.

"Financial Covenants" means the covenants set forth in Section 6.2.

"Floating Rate" means, with respect to the Revolving Advances, an annual interest rate equal to the sum of the Base Rate plus the Interest Rate Margin.

"Funding Date" has the meaning specified in Section 2.1.

"Funds From Operations" means for a given period, the sum of (i) Net Income excluding extraordinary gains, (ii) depreciation and amortization, (iii) deferred income taxes, and (iv) other non-cash items, each as determined for such period in accordance with GAAP.

"GAAP" means generally accepted accounting principles, applied on a basis consistent with the accounting practices applied in the financial statements described in Section 5.6.

"General Intangibles" means all of the Borrower's general intangibles, as such term is defined in the UCC, held by its U.S. operations, whether now owned or hereafter acquired, including all present and future Intellectual Property Rights, customer or supplier lists and contracts, manuals, operating instructions, permits, franchises, the right to use the Borrower's name, and the goodwill of the Borrower's business.

"Guarantor(s)" means any Person hereafter guarantying the Obligations. On the date hereof, there are no Guarantors.

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"Hazardous Substances" means pollutants, contaminants, hazardous substances, hazardous wastes, petroleum and fractions thereof, and all other chemicals, wastes, substances and materials listed in, regulated by or identified in any Environmental Law.

"IRC" means the Internal Revenue Code of 1986.

"Infringe" when used with respect to Intellectual Property Rights means any infringement or other violation of Intellectual Property Rights.

"Intellectual Property Rights" means all actual or prospective rights arising in connection with any intellectual property or other proprietary rights, including all rights arising in connection with copyrights, patents, service marks, trade dress, trade secrets, trademarks, trade names or mask works.

"Interest Expense" means for a fiscal year-to-date period, the Borrower's total gross interest expense during such period (excluding interest income), and shall in any event include (i) interest expensed (whether or not paid) on all Debt, (ii) the amortization of debt discounts, (iii) the amortization of all fees payable in connection with the incurrence of Debt to the extent included in interest expense, and (iv) the portion of any capitalized lease obligation allocable to interest expense.

"Interest Rate Margin" means one percent (1.0%); provided, however, that if (i) no Event of Default then exists, and (ii) the Borrower's audited financial statements for the fiscal year ending December 31, 2001, demonstrate that the Borrower's Net Income for such fiscal year equals or exceeds \$2,150,000, the Interest Rate Margin shall be reduced to one half of one percent (0.50%) as of the first day of the month following the month such financial statements are delivered to the Lender.

"Inventory" means all of the Borrower's inventory, as such term is defined in the UCC, held by its U.S. operations, whether now owned or hereafter acquired, whether consisting of whole goods, spare parts or components, supplies or materials, whether acquired, held or furnished for sale, for lease or under service contracts or for manufacture or processing, and wherever located.

"Investment Property" means all of the Borrower's investment property, as such term is defined in the UCC, held by its U.S. operations, whether now owned or hereafter acquired, including but not limited to all securities, security entitlements, securities accounts, commodity contracts, commodity accounts, stocks, bonds, mutual fund shares, money market shares and U.S. Government securities.

"Issuer" means the issuer of any Letter of Credit.

"L/C Amount" means the sum of (i) the aggregate face amount of any issued and outstanding Letters of Credit and (ii) the unpaid amount of the Obligation of Reimbursement.

"L/C Application" means an application and agreement for letters of credit in a form acceptable to the Issuer and the Lender.

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"Letter of Credit" has the meaning specified in Section 2.4.

"Licensed Intellectual Property" has the meaning specified in Section 5.11(c).

"Lien" means any security interest, mortgage, deed of trust, pledge, lien, charge, encumbrance, title retention agreement or analogous instrument or device, including the interest of each lessor under any capitalized lease and the interest of any bondsman under any payment or performance bond, in, of or on any assets or properties of a Person, whether now owned or hereafter acquired and whether arising by agreement or operation of law.

"Loan Documents" means this Agreement, the Note, the Security Documents and any L/C Application.

"Lockbox" means "Lockbox" as defined in the Lockbox and Collection Account Agreement.

"Lockbox and Collection Account Agreement" means the Lockbox and Collection Account Agreement by and among the Borrower, Wells Fargo Bank West, Regulus West, LLC and the Lender, of even date herewith.

"Material Adverse Effect" means any of the following:

(i) a material adverse effect on the business, operations, results of operations, prospects, assets, liabilities or financial condition of the Borrower;

(ii) a material adverse effect on the ability of the Borrower to perform its obligations under the Loan Documents;

(iii) a material adverse effect on the ability of the Lender to enforce the Obligations or to realize the intended benefits of the Security Documents, including a material adverse effect on the validity or enforceability of any Loan Document or of any rights against any Guarantor, or on the status, existence, perfection, priority (subject to Permitted Liens) or enforceability of any Lien securing payment or performance of the Obligations; or

(iv) any claim against the Borrower or threat of litigation which if determined adversely to the Borrower would cause the Borrower to be liable to pay an amount exceeding \$500,000 or would be an event described in clauses (i), (ii) and (iii) above.

"Maturity Date" means December 4, 2004.

"Maximum Line" means \$6,000,000 unless said amount is reduced pursuant to Section 2.12, in which event it means such lower amount.

"Minimum Interest Charge" has the meaning given in Section 2.8(b).

"Multiemployer Plan" means a multiemployer plan (as defined in Section 4001(a)(3) of ERISA) to which the Borrower or any ERISA Affiliate contributes or is obligated to contribute.

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"Net Income" means fiscal year-to-date after-tax net income from continuing operations, excluding the impact of any asset impairment expense, and otherwise as determined in accordance with GAAP.

"Note" means the Borrower's revolving promissory note, payable to the order of the Lender in substantially the form of Exhibit A hereto.

"Obligation of Reimbursement" has the meaning specified in Section 2.6(a).

"Obligations" means the Note, the Obligation of Reimbursement and each and every other debt, liability and obligation of every type and description which the Borrower may now or at any time hereafter owe to the Lender, whether such debt, liability or obligation now exists or is hereafter created or incurred, whether it arises in a transaction involving the Lender alone or in a transaction involving other creditors of the Borrower, and whether it is direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, or sole, joint, several or joint and several, and including all indebtedness of the Borrower arising under any Loan Document or guaranty between the Borrower and the Lender, whether now in effect or hereafter entered into.

"Officer" means with respect to the Borrower, an officer of the Borrower, if the Borrower is a corporation, a manager of the Borrower, if the Borrower is a limited liability company, or a partner of the Borrower, if the Borrower is a partnership.

"Owned Intellectual Property" has the meaning specified in Section 5.11(a).

"Owner" means with respect to the Borrower, each Person having legal or beneficial title to an ownership interest in the Borrower or a right to acquire such an interest.

"Pension Plan" means a pension plan (as defined in Section 3(2) of ERISA) maintained for employees of the Borrower or any ERISA Affiliate and covered by Title IV of ERISA.

"Permitted Lien" has the meaning specified in Section 6.3(a).

"Person" means any individual, corporation, partnership, joint venture, limited liability company, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Plan" means an employee benefit plan (as defined in Section 3(3) of ERISA) maintained for employees of the Borrower or any ERISA Affiliate.

"Premises" means all premises where the Borrower conducts its business and has any rights of possession, including the premises legally described in Exhibit C attached hereto.

"Related Documents" has the meaning specified in Section 2.7

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"Reportable Event" means a reportable event (as defined in Section 4043 of ERISA), other than an event for which the 30-day notice requirement under ERISA has been waived in regulations issued by the Pension Benefit Guaranty Corporation.

"Revolving Advance" has the meaning specified in Section 2.1.

"Security Documents" means this Agreement, the Lockbox and Collection Account Agreement and any other document delivered to the Lender from time to time to secure the Obligations.

"Security Interest" has the meaning specified in Section 3.1.

"SNPE Loan Agreement" means the Term Loan Agreement, by and between the Borrower and SNPE, Inc., dated as of July 3, 2001.

"SNPE Note" means the Borrower's Term Note, dated as of July 3, 2001, payable to the order of SNPE, Inc. in the original principal amount of \$4,000,000, together with all renewals, extensions and modifications thereof and any note or notes issued in substitution therefor.

"SNPE Indebtedness" means all obligations arising under the SNPE Note and the SNPE Loan Agreement.

"Special Account" means a specified cash collateral account maintained by a financial institution acceptable to the Lender in connection with Letters of Credit, as contemplated by Section 2.5.

"Subsidiary" means any corporation of which more than 50% of the outstanding shares of capital stock having general voting power under ordinary circumstances to elect a majority of the board of Directors of such corporation, irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency, is at the time directly or indirectly owned by the Borrower, by the Borrower and one or more other Subsidiaries, or by one or more other Subsidiaries.

"Termination Date" means the earliest of (i) the Maturity Date, (ii) the date the Borrower terminates the Credit Facility, or (iii) the date the Lender demands payment of the Obligations after an Event of Default pursuant to Section 7.2.

"UCC" means the Uniform Commercial Code as in effect in the state designated in Section 8.13 as the state whose laws shall govern this Agreement, or in any other state whose laws are held to govern this Agreement or any portion hereof.

"Unused Amount" has the meaning specified in Section 2.9(b).

"Wells Fargo Bank West" means Wells Fargo Bank West, National Association.

Section 1.2 Other Definitional Terms; Rules of Interpretation. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to

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this Agreement as a whole and not to any particular provision of this Agreement. All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP. All terms defined in the UCC and not otherwise defined herein have the meanings assigned to them in the UCC. References to Articles, Sections, subsections, Exhibits, Schedules and the like, are to Articles, Sections and subsections of, or Exhibits or Schedules attached to, this Agreement unless otherwise expressly provided. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". Unless the context in which used herein otherwise clearly requires, "or" has the inclusive meaning represented by the phrase "and/or". Defined terms

include in the singular number the plural and in the plural number the singular. Reference to any agreement (including the Loan Documents), document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof (and, if applicable, in accordance with the terms hereof and the other Loan Documents), except where otherwise explicitly provided, and reference to any promissory note includes any promissory note which is an extension or renewal thereof or a substitute or replacement therefor. Reference to any law, rule, regulation, order, decree, requirement, policy, guideline, directive or interpretation means as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect on the determination date, including rules and regulations promulgated thereunder.

ARTICLE II

AMOUNT AND TERMS OF THE CREDIT FACILITY

Section 2.1 Revolving Advances. The Lender agrees, on the terms and subject to the conditions herein set forth, to make advances to the Borrower from time to time from the date all of the conditions set forth in Section 4.1 are satisfied (the "Funding Date") to the Termination Date (the "Revolving Advances"). The Lender shall have no obligation to make a Revolving Advance to the extent the amount of the requested Revolving Advance exceeds Availability. The Borrower's obligation to pay the Revolving Advances shall be evidenced by the Note and shall be secured by the Collateral. Within the limits set forth in this Section 2.1, the Borrower may borrow, prepay pursuant to Section 2.12 and reborrow.

Section 2.2 Procedures for Requesting Revolving Advances. The Borrower shall comply with the following procedures in requesting Revolving Advances:

(a) Time for Requests. The Borrower shall request each Revolving Advance not later than 10:00 a.m., Denver, Colorado time on the Banking Day which is the date the Revolving Advance is to be made. Each such request shall be effective upon receipt by the Lender, shall be in writing or by telephone or teletype transmission, to be confirmed in writing by the Borrower if so requested by the Lender, shall be by (i) an Officer of the Borrower; or (ii) a person designated as the Borrower's agent by an Officer of the Borrower in a writing delivered to the Lender; or (iii) a person whom the Lender reasonably believes to be an Officer of the Borrower or such a designated agent. The Borrower shall repay all Revolving Advances even if the Lender does not receive such confirmation and even if the person requesting a Revolving Advance was not in fact authorized to do so. Any request for a Revolving Advance, whether written or

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telephonic, shall be deemed to be a representation by the Borrower that the conditions set forth in Section 4.2 have been satisfied as of the time of the request.

(b) Disbursement. Upon fulfillment of the applicable conditions set forth in Article IV, the Lender shall disburse the proceeds of the requested Revolving Advance by crediting the same to the Borrower's demand deposit account maintained with Wells Fargo Bank West unless the Lender and the Borrower shall agree in writing to another manner of disbursement.

Section 2.3 Capital Adequacy. If the Lender determines at any time that its Return has been reduced as a result of any Rule Change, the Lender may so notify the Borrower and require the Borrower, beginning thirty (30) days after such notice, to pay it the amount necessary to restore its Return to what it would have been had there been no Rule Change. For purposes of this Section 2.3:

(i) "Capital Adequacy Rule" means any law, rule, regulation, guideline, directive, requirement or request regarding capital adequacy, or the interpretation or administration thereof by any governmental or regulatory authority, central bank or comparable agency, whether or not having the force of law, that applies to any Related Lender, including rules requiring financial institutions to maintain total capital in amounts based upon percentages of outstanding loans, binding loan commitments and letters of credit.

(ii) "L/C Rule" means any law, rule, regulation, guideline, directive, requirement or request regarding letters of credit, or the interpretation or administration thereof by any governmental or regulatory authority, central bank or comparable agency, whether or not having the force of law, that applies to any Related Lender, including those that impose taxes, duties or other similar charges, or mandate reserves, special deposits or similar requirements against assets of, deposits with or for the account of, or credit extended by any Related Lender, on letters of credit.

(iii) "Related Lender" includes (but is not limited to) the Lender,

any parent of the Lender, any assignee of any interest of the Lender hereunder and any participant in the Credit Facility.

(iv) "Return", for any period, means the percentage determined by dividing (i) the sum of interest and ongoing fees earned by the Lender under this Agreement during such period, by (ii) the average capital the Lender is required to maintain during such period as a result of its being a party to this Agreement, as determined by the Lender based upon its total capital requirements and a reasonable attribution formula that takes account of the Capital Adequacy Rules and L/C Rules then in effect, costs of issuing or maintaining any Revolving Advance or Letter of Credit and amounts received or receivable under this Agreement or the Note with respect to any Revolving Advance or Letter of Credit. Return may be calculated for each calendar quarter and for the shorter period between the end of a calendar quarter and the date of termination in whole of this Agreement.

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(v) "Rule Change" means any change in any Capital Adequacy Rule or L/C Rule occurring after the date of this Agreement, or any change in the interpretation or administration thereof by any governmental or regulatory authority, but the term does not include any changes that at the Funding Date are scheduled to take place under the existing Capital Adequacy Rules or L/C Rules or any increases in the capital that the Lender is required to maintain to the extent that the increases are required due to a regulatory authority's assessment of that Lender's financial condition.

The initial notice sent by the Lender shall be sent as promptly as practicable after the Lender learns that its Return has been reduced, shall include a demand for payment of the amount necessary to restore the Lender's Return for the quarter in which the notice is sent, and shall state in reasonable detail the cause for the reduction in its Return and its calculation of the amount of such reduction. Thereafter, the Lender may send a new notice during each calendar quarter setting forth the calculation of the reduced Return for that quarter and including a demand for payment of the amount necessary to restore its Return for that quarter. The Lender's calculation in any such notice shall be conclusive and binding absent demonstrable error.

Section 2.4 Letters of Credit.

(a) The Lender agrees, on the terms and subject to the conditions herein set forth, to cause an Issuer to issue, from the Funding Date to the Termination Date, one or more irrevocable standby or documentary letters of credit (each, a "Letter of Credit") for the Borrower's account by guaranteeing payment of the Borrower's obligations or being a co-applicant. The Lender shall have no obligation to cause an Issuer to issue any Letter of Credit if the face amount of the Letter of Credit to be issued would exceed the lesser of:

- (i) \$500,000 less the L/C Amount, or
- (ii) Availability.

Each Letter of Credit, if any, shall be issued pursuant to a separate L/C Application entered into between the Borrower and the Lender for the benefit of the Issuer, completed in a manner satisfactory to the Lender and the Issuer. The terms and conditions set forth in each such L/C Application shall supplement the terms and conditions hereof, but if the terms of any such L/C Application and the terms of this Agreement are inconsistent, the terms hereof shall control.

(b) No Letter of Credit shall be issued with an expiry date later than the Termination Date in effect as of the date of issuance.

(c) Any request to cause an Issuer to issue a Letter of Credit shall be deemed to be a representation by the Borrower that the conditions set forth in Section 4.2 have been satisfied as of the date of the request.

Section 2.5 Special Account. If the Credit Facility is terminated for any reason while any Letter of Credit is outstanding, the Borrower shall thereupon pay the Lender in immediately

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available funds for deposit in the Special Account an amount equal to the L/C Amount. The Special Account shall be an interest bearing account maintained for the Lender by any financial institution acceptable to the Lender. Any interest earned on amounts deposited in the Special Account shall be credited to the

Special Account. The Lender may apply amounts on deposit in the Special Account at any time or from time to time to the Obligations in the Lender's sole discretion. The Borrower may not withdraw any amounts on deposit in the Special Account as long as the Lender maintains a security interest therein. The Lender agrees to transfer any balance in the Special Account to the Borrower when the Lender is required to release its security interest in the Special Account under applicable law.

Section 2.6 Payment of Amounts Drawn Under Letters of Credit; Obligation of Reimbursement. The Borrower acknowledges that the Lender, as co-applicant, will be liable to the Issuer for reimbursement of any and all draws under Letters of Credit and for all other amounts required to be paid under the applicable L/C Application. Accordingly, the Borrower shall pay to the Lender any and all amounts required to be paid under the applicable L/C Application, when and as required to be paid thereby, and the amounts designated below, when and as designated:

(a) The Borrower shall pay to the Lender on the day a draft is honored under any Letter of Credit a sum equal to all amounts drawn under such Letter of Credit plus any and all reasonable charges and expenses that the Issuer or the Lender may pay or incur relative to such draw and the applicable L/C Application, plus interest on all such amounts, charges and expenses as set forth below (the Borrower's obligation to pay all such amounts is herein referred to as the "Obligation of Reimbursement").

(b) Whenever a draft is submitted under a Letter of Credit, the Borrower authorizes the Lender to make a Revolving Advance in the amount of the Obligation of Reimbursement and to apply the proceeds of such Revolving Advance thereto. Such Revolving Advance shall be repayable in accordance with and be treated in all other respects as a Revolving Advance hereunder.

(c) If a draft is submitted under a Letter of Credit when the Borrower is unable, because a Default Period exists or for any other reason, to obtain a Revolving Advance to pay the Obligation of Reimbursement, the Borrower shall pay to the Lender on demand and in immediately available funds, the amount of the Obligation of Reimbursement together with interest, accrued from the date of the draft until payment in full at the Default Rate. Notwithstanding the Borrower's inability to obtain a Revolving Advance for any reason, the Lender is irrevocably authorized, in its sole discretion, to make a Revolving Advance in an amount sufficient to discharge the Obligation of Reimbursement and all accrued but unpaid interest thereon.

(d) The Borrower's obligation to pay any Revolving Advance made under this Section 2.6, shall be evidenced by the Note and shall bear interest as provided in Section 2.8.

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Section 2.7 Obligations Absolute. The Borrower's obligations arising under Section 2.6 shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of Section 2.6, under all circumstances whatsoever, including (without limitation) the following circumstances:

(a) any lack of validity or enforceability of any Letter of Credit or any other agreement or instrument relating to any Letter of Credit (collectively the "Related Documents");

(b) any amendment or waiver of or any consent to departure from all or any of the Related Documents;

(c) the existence of any claim, setoff, defense or other right which the Borrower may have at any time, against any beneficiary or any transferee of any Letter of Credit (or any persons or entities for whom any such beneficiary or any such transferee may be acting), or other person or entity, whether in connection with this Agreement, the transactions contemplated herein or in the Related Documents or any unrelated transactions;

(d) any statement or any other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(e) payment by or on behalf of the Issuer under any Letter of Credit against presentation of a draft or certificate which does not strictly comply with the terms of such Letter of Credit; or

(f) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

Section 2.8 Interest; Minimum Interest Charge; Default Interest; Clearance

(a) Note. Except as set forth in subsections (c) and (f), the outstanding principal balance of the Note shall bear interest at the Floating Rate.

(b) Minimum Interest Charge. Notwithstanding the interest payable pursuant to subsection (a), the Borrower shall pay to the Lender interest of not less than \$10,000 per calendar month (the "Minimum Interest Charge") during the term of this Agreement, and the Borrower shall pay any deficiency between the Minimum Interest Charge and the amount of interest otherwise calculated under subsection (a) on the first day of each month and on the Termination Date.

(c) Default Interest Rate. At any time during any Default Period, in the Lender's sole discretion and without waiving any of its other rights and remedies, the principal of the Revolving Advances outstanding from time to time shall bear interest at

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the Default Rate, effective for any periods designated by the Lender from time to time during that Default Period.

(d) Clearance Days. Notwithstanding Section 2.11(b)(ii), interest at the interest rate applicable under this Section 2.8 shall accrue on the amount of all payments (even if in the form of immediately available federal funds) for one (1) day for clearance.

(e) Participations. If any Person shall acquire a participation in the Revolving Advances under this Agreement, the Borrower shall be obligated to the Lender to pay the full amount of all interest calculated under this Agreement, along with all other fees, charges and other amounts due under this Agreement, regardless if such Person elects to accept interest with respect to its participation at a lower rate than the Floating Rate, or otherwise elects to accept less than its prorata share of such fees, charges and other amounts due under this Agreement.

(f) Usury. In any event no rate change shall be put into effect which would result in a rate greater than the highest rate permitted by law. Notwithstanding anything to the contrary contained in any Loan Document, all agreements which either now are or which shall become agreements between the Borrower and the Lender are hereby limited so that in no contingency or event whatsoever shall the total liability for payments in the nature of interest, additional interest and other charges exceed the applicable limits imposed by any applicable usury laws. If any payments in the nature of interest, additional interest and other charges made under any Loan Document are held to be in excess of the limits imposed by any applicable usury laws, it is agreed that any such amount held to be in excess shall be considered payment of principal hereunder, and the indebtedness evidenced hereby shall be reduced by such amount so that the total liability for payments in the nature of interest, additional interest and other charges shall not exceed the applicable limits imposed by any applicable usury laws, in compliance with the desires of the Borrower and the Lender. This provision shall never be superseded or waived and shall control every other provision of the Loan Documents and all agreements between the Borrower and the Lender, or their successors and assigns.

Section 2.9 Fees.

(a) Origination Fee. The Borrower shall pay the Lender a fully earned and non-refundable origination fee of \$30,000, due and payable upon the execution of this Agreement. The Lender has received \$30,000 toward payment of this fee and the fees, costs and expenses described in Section 2.9(c) and 8.5.

(b) Unused Line Fee. For the purposes of this Section 2.9, "Unused Amount" means the Maximum Line reduced by outstanding Revolving Advances and the L/C Amount. The Borrower agrees to pay to the Lender an unused line fee at the rate of one quarter of one percent (0.25%) per annum on the average daily Unused Amount from the date of this Agreement to and including the Termination Date, due and payable monthly in arrears on the first day of the month following the month in which such fee accrues and on the Termination Date.

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(c) Audit Fees. The Borrower shall pay the Lender, on demand, audit fees in connection with any audits or inspections conducted by the Lender

of any Collateral or the Borrower's operations or business at the rates established from time to time by the Lender as its audit fees (which fees are currently \$85 per hour per auditor), together with all actual out-of-pocket costs and expenses incurred in conducting any such audit or inspection; provided, however, that except during Default Periods, the Borrower shall not have to reimburse the Lender for such fees, costs and expenses related to audits in excess of one audit per quarter.

(d) Termination and Line Reduction Fees. If the Credit Facility is terminated (i) by the Lender during a Default Period that begins before a Maturity Date, (ii) by the Borrower (A) as of a date other than a Maturity Date or (B) as of a Maturity Date but without the Lender having received written notice of such termination at least 90 days before such Maturity Date, or if the Borrower reduces the Maximum Line, the Borrower shall pay to the Lender a fee in an amount equal to a percentage of the Maximum Line (or the reduction of the Maximum Line, as the case may be) as follows: (A) one and one half percent (1.50%) if the termination or reduction occurs on or before the first anniversary of the Funding Date; (B) one percent (1.0%) if the termination or reduction occurs after the first anniversary of the Funding Date but on or before the second anniversary of the Funding Date; and (C) one half of one percent (0.50%) if the termination or reduction occurs after the second anniversary of the Funding Date.

(e) Waiver of Termination and Line Reduction Fees. The Borrower will not be required to pay the termination and line reduction fees otherwise due under subsection (e) if such termination or line reduction is made because of refinancing by an affiliate of the Lender.

(f) Letter of Credit Fees. The Borrower agrees to pay to the Lender on the date of the issuance of each Letter of Credit issued hereunder, a fully earned and non-refundable Letter of Credit fee equal to two percent (2.0%) of the face amount of each Letter of Credit issued hereunder.

(g) Other Fees. The Lender may from time to time, upon five (5) days prior notice to the Borrower during a Default Period, charge additional fees for Revolving Advances made in excess of the Borrowing Base, for late delivery of reports, in lieu of imposing interest at the Default Rate, and for other reasons. The Borrower's request for a Revolving Advance at any time after such notice is given and such five (5) day period has elapsed shall constitute the Borrower's agreement to pay the fees described in such notice.

Section 2.10 Time for Interest Payments; Payment on Non-Banking Days; Computation of Interest and Fees.

(a) Time For Interest Payments. Interest shall be due and payable in arrears on the first day of each month following the month in which such interest accrues and on the Termination Date.

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(b) Payment on Non-Banking Days. Whenever any payment to be made hereunder shall be stated to be due on a day which is not a Banking Day, such payment may be made on the next succeeding Banking Day, and such extension of time shall in such case be included in the computation of interest on the Revolving Advances or the fees hereunder, as the case may be.

(c) Computation of Interest and Fees. Interest accruing on the outstanding principal balance of the Revolving Advances and fees hereunder outstanding from time to time shall be computed on the basis of actual number of days elapsed in a year of 360 days.

Section 2.11 Lockbox; Collateral Account; Application of Payments.

(a) Lockbox and Collateral Account.

(i) The Borrower shall instruct all account debtors to pay all Accounts directly to the Lockbox. If, notwithstanding such instructions, the Borrower receives any payments on Accounts, the Borrower shall deposit such payments into the Collateral Account. Until so deposited, the Borrower shall hold all such payments in trust for and as the property of the Lender and shall not commingle such payments with any of its other funds or property. All deposits in the Collateral Account shall constitute proceeds of Collateral and shall not constitute payment of the Obligations.

(ii) All items deposited in the Collateral Account shall be subject to final payment. If any such item is returned uncollected, the Borrower will immediately pay the Lender, or, for items deposited in the Collateral Account, the bank maintaining such account, the amount of that item, or such bank at its discretion may charge any

uncollected item to the Borrower's commercial account or other account. The Borrower shall be liable as an endorser on all items deposited in the Collateral Account, whether or not in fact endorsed by the Borrower.

(b) Application of Payments.

(i) The Borrower may, from time to time, in accordance with the Lockbox and Collection Account Agreement, cause funds in the Collateral Account to be transferred to the Lender's general account for payment of the Obligations. Except as provided in the preceding sentence, amounts deposited in the Collateral Account shall not be subject to withdrawal by the Borrower, except after full payment and discharge of all Obligations.

(ii) All payments to the Lender shall be made in immediately available funds and shall be applied to the Obligations upon receipt by the Lender. Funds received from the Collateral Account shall be deemed to be immediately available. The Lender may hold all payments not constituting immediately

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available funds for three (3) additional days before applying them to the Obligations.

Section 2.12 Voluntary Prepayment; Reduction of the Maximum Line; Termination of the Credit Facility by the Borrower. Except as otherwise provided herein, the Borrower may prepay the Revolving Advances in whole at any time or from time to time in part. The Borrower may terminate the Credit Facility or reduce the Maximum Line at any time if it (i) gives the Lender at least 30 days' prior written notice and (ii) pays the Lender termination and Maximum Line reduction fees in accordance with Sections 2.5(e). Any reduction in the Maximum Line must be in an amount of not less than \$100,000 or an integral multiple thereof. If the Borrower reduces the Maximum Line to zero, all Obligations shall be immediately due and payable. Subject to termination of the Credit Facility and payment and performance of all Obligations, the Lender shall, at the Borrower's expense, release or terminate the Security Interest and the Security Documents to which the Borrower is entitled by law, including Revised Article 9 of the UCC.

Section 2.13 Mandatory Prepayment. Without notice or demand, if the sum of the outstanding principal balance of the Revolving Advances plus the L/C Amount shall at any time exceed the Borrowing Base, the Borrower shall (i) first, immediately prepay the Revolving Advances to the extent necessary to eliminate such excess and (ii) if prepayment in full of the Revolving Advances is insufficient to eliminate such excess, pay to the Lender in immediately available funds for deposit in the Special Account an amount equal to the remaining excess.. Any payment received by the Lender under this Section 2.13 or under Section 2.12 may be applied to the Obligations, in such order and in such amounts as the Lender, in its discretion, may from time to time determine.

Section 2.14 Revolving Advances to Pay Obligations. Notwithstanding anything in Section 2.1, the Lender may, in its discretion at any time or from time to time, without the Borrower's request and even if the conditions set forth in Section 4.2 would not be satisfied, make a Revolving Advance in an amount equal to the portion of the Obligations from time to time due and payable.

Section 2.15 Use of Proceeds. The Borrower shall use the proceeds of Revolving Advances and each Letter of Credit for ordinary working capital purposes and to retire certain debt owed to SNPE, Inc.

Section 2.16 Liability Records. The Lender may maintain from time to time, at its discretion, records as to the Obligations. All entries made on any such record shall be presumed correct until the Borrower establishes the contrary. Upon the Lender's demand, the Borrower will admit and certify in writing the exact principal balance of the Obligations that the Borrower then asserts to be outstanding. Any billing statement or accounting rendered by the Lender shall be conclusive and fully binding on the Borrower unless the Borrower gives the Lender specific written notice of exception within 30 days after receipt.

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ARTICLE III

SECURITY INTEREST; OCCUPANCY; SETOFF

Section 3.1 Grant of Security Interest. The Borrower hereby pledges, assigns and grants to the Lender a lien and security interest (collectively referred to as the "Security Interest") in the Collateral, as security for the payment and performance of the Obligations. Upon request by the Lender, the Borrower will grant the Lender a security interest in all commercial tort claims it may have against any Person.

Section 3.2 Notification of Account Debtors and Other Obligors. The Lender may at any time, during a Default Period, notify any account debtor or other person obligated to pay the amount due that such right to payment has been assigned or transferred to the Lender for security and shall be paid directly to the Lender. The Borrower will join in giving such notice if the Lender so requests. At any time after the Borrower or the Lender gives such notice to an account debtor or other obligor and so long as a Default Period exists, the Lender may, but need not, in the Lender's name or in the Borrower's name, (a) demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, any such right to payment, or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligations (including collateral obligations) of any such account debtor or other obligor; and (b) as the Borrower's agent and attorney-in-fact, notify the United States Postal Service to change the address for delivery of the Borrower's mail to any address designated by the Lender, otherwise intercept the Borrower's mail, and receive, open and dispose of the Borrower's mail, applying all Collateral as permitted under this Agreement and holding all other mail for the Borrower's account or forwarding such mail to the Borrower's last known address.

Section 3.3 Assignment of Insurance. As additional security for the payment and performance of the Obligations, the Borrower hereby assigns to the Lender any and all monies (including proceeds of insurance and refunds of unearned premiums) due or to become due under, and all other rights of the Borrower with respect to, any and all policies of insurance now or at any time hereafter covering the Collateral or any evidence thereof or any business records or valuable papers pertaining thereto, and the Borrower hereby directs the issuer of any such policy to pay all such monies directly to the Lender. At any time, whether or not a Default Period then exists, the Lender may (but need not), in the Lender's name or in the Borrower's name, execute and deliver proof of claim, receive all such monies, endorse checks and other instruments representing payment of such monies, and adjust, litigate, compromise or release any claim against the issuer of any such policy.

Section 3.4 Occupancy.

(a) The Borrower hereby irrevocably grants to the Lender the right to take exclusive possession of the Premises at any time during a Default Period.

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(b) The Lender may use the Premises only to hold, process, manufacture, sell, use, store, liquidate, realize upon or otherwise dispose of goods that are Collateral and for other purposes that the Lender may in good faith deem to be related or incidental purposes.

(c) The Lender's right to hold the Premises shall cease and terminate upon the earlier of (i) payment in full and discharge of all Obligations and termination of the Credit Facility, (ii) final sale or disposition of all goods constituting Collateral and delivery of all such goods to purchasers, and (iii) the end of a Default Period.

(d) The Lender shall not be obligated to pay or account for any rent or other compensation for the possession, occupancy or use of any of the Premises; provided, however, that if the Lender does pay or account for any rent or other compensation for the possession, occupancy or use of any of the Premises, including any rent owed by Mypodiamond, Inc. to its landlord, the Borrower shall reimburse the Lender promptly for the full amount thereof. In addition, the Borrower will pay, or reimburse the Lender for, all taxes, fees, duties, imposts, charges and expenses at any time incurred by or imposed upon the Lender by reason of the execution, delivery, existence, recordation, performance or enforcement of this Agreement or the provisions of this Section 3.4.

Section 3.5 License. Without limiting the generality of any other Security Document, the Borrower hereby grants to the Lender a non-exclusive, worldwide and royalty-free license to use or otherwise exploit all Intellectual Property Rights of the Borrower for the purpose of: (a) completing the manufacture of any in-process materials during any Default Period so that such materials become saleable Inventory, all in accordance with the same quality standards previously adopted by the Borrower for its own manufacturing and subject to the Borrower's reasonable exercise of quality control; and (b) selling, leasing or otherwise disposing of any or all Collateral during any Default Period.

Section 3.6 Financing Statement. The Borrower authorizes the Lender to file from time to time where permitted by law, such financing statements against collateral described as "all personal property" as the Lender deems necessary or useful to perfect the Security Interest. A carbon, photographic or other reproduction of this Agreement or of any financing statements signed by the Borrower is sufficient as a financing statement and may be filed as a financing statement in any state to perfect the security interests granted hereby. For this purpose, the following information is set forth:

Name and address of Debtor:

Dynamic Materials Corporation
5405 Spine Road
Boulder, CO 80301
Federal Employer Identification No. 84-0608431

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Name and address of Secured Party:

Wells Fargo Business Credit, Inc.
MAC C7300-300
1740 Broadway
Denver, Colorado 80274
Federal Employer Identification No. 41-1237652

Section 3.7 Setoff. The Lender may at any time or from time to time, at its sole discretion and without demand and without notice to anyone, setoff any liability owed to the Borrower by the Lender, whether or not due, against any Obligation, whether or not due. In addition, each other Person holding a participating interest in any Obligations shall have the right to appropriate or setoff any deposit or other liability then owed by such Person to the Borrower, whether or not due, and apply the same to the payment of said participating interest, as fully as if such Person had lent directly to the Borrower the amount of such participating interest.

Section 3.8 Collateral. This Agreement does not contemplate a sale of accounts, contract rights or chattel paper, and, as provided by law, the Borrower is entitled to any surplus and shall remain liable for any deficiency. The Lender's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if it exercises reasonable care in physically keeping such Collateral, or in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and the Lender need not otherwise preserve, protect, insure or care for any Collateral. The Lender shall not be obligated to preserve any rights the Borrower may have against prior parties, to realize on the Collateral at all or in any particular manner or order or to apply any cash proceeds of the Collateral in any particular order of application. The Lender has no obligation to clean-up or otherwise prepare the Collateral for sale. The Borrower waives any right it may have to require the Lender to pursue any third person for any of the Obligations.

ARTICLE IV

CONDITIONS OF LENDING

Section 4.1 Conditions Precedent to the Initial Revolving Advance and Letter of Credit. The Lender's obligation to make the initial Revolving Advance or to cause any Letters of Credit to be issued shall be subject to the condition precedent that the Lender shall have received all of the following, each in form and substance satisfactory to the Lender:

(a) This Agreement, properly executed by the Borrower.

(b) The Note, properly executed by the Borrower.

(c) A true and correct copy of any and all leases pursuant to which the Borrower is leasing the Premises, together with a landlord's disclaimer and consent with respect to each such lease.

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(d) A true and correct copy of any and all mortgages pursuant to which the Borrower has mortgaged the Premises, together with a mortgagee's disclaimer and consent with respect to each such mortgage.

(e) A true and correct copy of any and all agreements pursuant to which the Borrower's property is in the possession of any Person other than the Borrower, together with, in the case of any goods held by such Person

for resale, (i) a consignee's acknowledgment and waiver of Liens, (ii) UCC financing statements sufficient to protect the Borrower's and the Lender's interests in such goods, and (iii) UCC searches showing that no other secured party has filed a financing statement against such Person and covering property similar to the Borrower's other than the Borrower, or if there exists any such secured party, evidence that each such secured party has received notice from the Borrower and the Lender sufficient to protect the Borrower's and the Lender's interests in the Borrower's goods from any claim by such secured party.

(f) An acknowledgment and waiver of Liens from each warehouse in which the Borrower is storing Inventory.

(g) A true and correct copy of any and all agreements pursuant to which the Borrower's property is in the possession of any Person other than the Borrower, together with, (i) an acknowledgment and waiver of Liens from each subcontractor who has possession of the Borrower's goods from time to time, (ii) UCC financing statements sufficient to protect the Borrower's and the Lender's interests in such goods, and (iii) UCC searches showing that no other secured party has filed a financing statement covering such Person's property other than the Borrower, or if there exists any such secured party, evidence that each such secured party has received notice from the Borrower and the Lender sufficient to protect the Borrower's and the Lender's interests in the Borrower's goods from any claim by such secured party.

(h) The Lockbox and Collection Account Agreement, properly executed by the Borrower and Wells Fargo Bank West.

(i) Control agreements, properly executed by the Borrower and each bank at which the Borrower maintains deposit accounts.

(j) Current searches of appropriate filing offices showing that (i) no Liens have been filed and remain in effect against the Borrower except Permitted Liens or Liens held by Persons who have agreed in writing that upon receipt of proceeds of the initial Revolving Advances, they will satisfy, release or terminate such Liens in a manner satisfactory to the Lender, and (ii) the Lender has duly filed all financing statements necessary to perfect the Security Interest, to the extent the Security Interest is capable of being perfected by filing.

(k) A certificate of the Borrower's Secretary or Assistant Secretary certifying that attached to such certificate are (i) the resolutions of the Borrower's Directors and, if required, Owners, authorizing the execution, delivery and performance of the Loan Documents, (ii) true, correct and complete copies of the Borrower's Constituent

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Documents, and (iii) examples of the signatures of the Borrower's Officers or agents authorized to execute and deliver the Loan Documents and other instruments, agreements and certificates, including Revolving Advance requests, on the Borrower's behalf.

(l) A current certificate issued by the Delaware Secretary of State, certifying that the Borrower is in compliance with all applicable organizational requirements of the State of Delaware.

(m) Evidence that the Borrower is duly licensed or qualified to transact business in all jurisdictions where the character of the property owned or leased or the nature of the business transacted by it makes such licensing or qualification necessary.

(n) A certificate of an Officer of the Borrower confirming, in his personal capacity, the representations and warranties set forth in Article V.

(o) An opinion of counsel to the Borrower, addressed to the Lender.

(p) Certificates of the insurance required hereunder, with all hazard insurance containing a lender's loss payable endorsement in the Lender's favor and with all liability insurance naming the Lender as an additional insured.

(q) Payment of the fees and commissions due under Section 2.9 through the date of the initial Revolving Advance or Letter of Credit and expenses incurred by the Lender through such date and required to be paid by the Borrower under Section 8.5, including all legal expenses, including reasonable legal fees, incurred through the date of this Agreement.

(r) Evidence that after making the initial Revolving Advance, satisfying all obligations owed to the Borrower's prior lender, satisfying

all intercompany debt obligations, satisfying all trade payables older than 60 days from invoice date, book overdrafts and closing costs, Availability shall be not less than \$500,000.

(s) Documentation of satisfactory test results at the Mount Braddock, Pennsylvania location.

(t) The Amendment to Convertible Subordinated Note properly executed by SNPE, Inc. and the Borrower.

(u) Such other documents as the Lender in its sole discretion may require.

Section 4.2 Conditions Precedent to All Revolving Advances and Letters of Credit. The Lender's obligation to make each Revolving Advance and to cause each Letter of Credit to be issued shall be subject to the further conditions precedent that:

(a) the representations and warranties contained in Article V are correct on and as of the date of such Revolving Advance or issuance of a Letter of Credit as though

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made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date; and

(b) no event has occurred and is continuing, or would result from such Revolving Advance or issuance of a Letter of Credit which constitutes a Default or an Event of Default.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lender as follows:

Section 5.1 Existence and Power; Name; Chief Executive Office; Inventory and Equipment Locations; Federal Employer Identification Number. The Borrower is a corporation, duly organized, validly existing and in good standing under the laws of the State of Delaware and is duly licensed or qualified to transact business in all jurisdictions where the character of the property owned or leased or the nature of the business transacted by it makes such licensing or qualification necessary. The Borrower has all requisite power and authority to conduct its business, to own its properties and to execute and deliver, and to perform all of its obligations under, the Loan Documents. During its existence, the Borrower has done business solely under the names set forth in Schedule 5.1 and Boom, Inc. The Borrower's chief executive office and principal place of business is located at the address set forth in Schedule 5.1, and all of the Borrower's records relating to its business or the Collateral are kept at that location. All Inventory and Equipment is located at that location or at one of the other locations listed in Schedule 5.1. The Borrower's federal employer identification number is correctly set forth in Section 3.6.

Section 5.2 Capitalization. Schedule 5.2 constitutes a correct and complete list of all Persons holding ownership interests and rights to acquire ownership interests which if fully exercised would cause such Person to hold more than five percent (5%) of all ownership interests of the Borrower on a fully diluted basis, and an organizational chart showing the ownership structure of all Subsidiaries of the Borrower.

Section 5.3 Authorization of Borrowing; No Conflict as to Law or Agreements. The execution, delivery and performance by the Borrower of the Loan Documents and the borrowings from time to time hereunder have been duly authorized by all necessary corporate action and do not and will not (i) require any consent or approval of the Borrower's Owners; (ii) require any authorization, consent or approval by, or registration, declaration or filing with, or notice to, any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, or any third party, except such authorization, consent, approval, registration, declaration, filing or notice as has been obtained, accomplished or given prior to the date hereof; (iii) violate any provision of any law, rule or regulation (including Regulation X of the Board of Governors of the Federal Reserve System) or of any order, writ, injunction or decree presently in effect having applicability to the Borrower or of the Borrower's Constituent Documents; (iv) result in a breach of or constitute a default under any indenture or

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loan or credit agreement or any other material agreement, lease or instrument to which the Borrower is a party or by which it or its properties may be bound or affected; or (v) result in, or require, the creation or imposition of any Lien (other than the Security Interest) upon or with respect to any of the properties now owned or hereafter acquired by the Borrower.

Section 5.4 Legal Agreements. This Agreement constitutes and, upon due execution by the Borrower, the other Loan Documents will constitute the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, except as enforcement may be limited by equitable principals or by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally.

Section 5.5 Subsidiaries. Except as set forth in Schedule 5.5 hereto, the Borrower has no Subsidiaries.

Section 5.6 Financial Condition; No Adverse Change. The Borrower has furnished to the Lender its audited financial statements for its fiscal year ended December 31, 2000 and unaudited financial statements for the fiscal-year-to-date period ended September 30, 2001, and those statements fairly present the Borrower's financial condition on the dates thereof and the results of its operations and cash flows for the periods then ended and were prepared in accordance with GAAP. Since the date of the most recent financial statements, there has been no change in the Borrower's business, properties or condition (financial or otherwise) which has had a Material Adverse Effect.

Section 5.7 Litigation. There are no actions, suits or proceedings pending or, to the Borrower's knowledge, threatened against or affecting the Borrower or any of its Affiliates or the properties of the Borrower or any of its Affiliates before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which, if determined adversely to the Borrower or any of its Affiliates, would have a Material Adverse Effect.

Section 5.8 Regulation U. The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Revolving Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock.

Section 5.9 Taxes. The Borrower and its Affiliates have paid or caused to be paid to the proper authorities when due all U.S. federal, state and local taxes required to be withheld by each of them. Prior to July 3, 2001, the Borrower and its Affiliates have paid or caused to be paid to the proper authorities when due all foreign federal, state, provincial, local and other taxes required to be withheld by each of them. On and after July 3, 2001, to the knowledge of the Borrower, the Borrower and its Affiliates have paid or caused to be paid to the proper authorities when due all foreign federal, state, provincial, local and other taxes required to be withheld by each of them. The Borrower and its Affiliates have filed all foreign and U.S. federal, state, provincial, local or other tax returns which to the knowledge of the Officers of the Borrower or

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any Affiliate, as the case may be, are required to be filed, and the Borrower and its Affiliates have paid or caused to be paid to the respective taxing authorities all taxes as shown on said returns or on any assessment received by any of them to the extent such taxes have become due.

Section 5.10 Titles and Liens. The Borrower has good and absolute title to all Collateral free and clear of all Liens other than Permitted Liens. No financing statement naming the Borrower as debtor is on file in any office except to perfect only Permitted Liens.

Section 5.11 Intellectual Property Rights.

(a) Owned Intellectual Property. Schedule 5.11 is a complete list of all patents, applications for patents, trademarks, applications to register trademarks, service marks, applications to register service marks, mask works, trade dress and copyrights for which the Borrower is the owner of record (the "Owned Intellectual Property"). Except as disclosed on Schedule 5.11, (i) the Borrower owns the Owned Intellectual Property free and clear of all restrictions (including covenants not to sue a third party), court orders, injunctions, decrees, writs or Liens, whether by written agreement or otherwise, (ii) no Person other than the Borrower owns or has been granted any right in the Owned Intellectual Property, (iii) all Owned Intellectual Property is valid, subsisting and enforceable and (iv) the Borrower has taken all commercially reasonable action necessary to maintain and protect the Owned Intellectual Property.

(b) Agreements with Employees and Contractors. The Borrower has

entered into a legally enforceable agreement with each of its employees and subcontractors listed on Schedule 5.11, obligating each such Person to assign to the Borrower, without any additional compensation, any Intellectual Property Rights created, discovered or invented by such Person in the course of such Person's employment or engagement with the Borrower (except to the extent prohibited by law), and further requiring such Person to cooperate with the Borrower, without any additional compensation, in connection with securing and enforcing any Intellectual Property Rights therein; provided, however, that the foregoing shall not apply with respect to employees and subcontractors whose job descriptions are of the type such that no such assignments are reasonably foreseeable.

(c) Intellectual Property Rights Licensed from Others. Schedule 5.11 is a complete list of all agreements under which the Borrower has licensed Intellectual Property Rights from another Person ("Licensed Intellectual Property") other than readily available, non-negotiated licenses of computer software and other intellectual property used solely for performing accounting, word processing and similar administrative tasks ("Off-the-shelf Software") and a summary of any ongoing payments the Borrower is obligated to make with respect thereto. Except as disclosed on Schedule 5.11 and in written agreements copies of which have been given to the Lender, the Borrower's licenses to use the Licensed Intellectual Property are free and clear of all restrictions, Liens, court orders, injunctions, decrees, or writs, whether by written agreement or otherwise. Except as disclosed on Schedule 5.11, the Borrower is not obligated or under any liability whatsoever to make any payments of a material nature by way of royalties,

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fees or otherwise to any owner of, licensor of, or other claimant to, any Intellectual Property Rights.

(d) Other Intellectual Property Needed for Business. Except for Off-the-shelf Software and as disclosed on Schedule 5.11, the Owned Intellectual Property and the Licensed Intellectual Property constitute all Intellectual Property Rights used or necessary to conduct the Borrower's business as it is presently conducted or as the Borrower reasonably foresees conducting it.

(e) Infringement. Except as disclosed on Schedule 5.11, the Borrower has no knowledge of, and has not received any written claim or notice alleging, any Infringement of another Person's Intellectual Property Rights (including any written claim that the Borrower must license or refrain from using the Intellectual Property Rights of any third party) nor, to the Borrower's knowledge, is there any threatened claim or any reasonable basis for any such claim.

Section 5.12 Plans. Except as disclosed to the Lender in writing prior to the date hereof, neither the Borrower nor any ERISA Affiliate (i) maintains or has maintained any Pension Plan, (ii) contributes or has contributed to any Multiemployer Plan or (iii) provides or has provided post-retirement medical or insurance benefits with respect to employees or former employees (other than benefits required under Section 601 of ERISA, Section 4980B of the IRC or applicable state law). Neither the Borrower nor any ERISA Affiliate has received any notice or has any knowledge to the effect that it is not in full compliance with any of the requirements of ERISA, the IRC or applicable state law with respect to any Plan. No Reportable Event exists in connection with any Pension Plan. Each Plan which is intended to qualify under the IRC is so qualified, and no fact or circumstance exists which may have an adverse effect on the Plan's tax-qualified status. Neither the Borrower nor any ERISA Affiliate has (i) any accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the IRC) under any Plan, whether or not waived, (ii) any liability under Section 4201 or 4243 of ERISA for any withdrawal, partial withdrawal, reorganization or other event under any Multiemployer Plan or (iii) any liability or knowledge of any facts or circumstances which could result in any liability to the Pension Benefit Guaranty Corporation, the Internal Revenue Service, the Department of Labor or any participant in connection with any Plan (other than routine claims for benefits under the Plan).

Section 5.13 Default. The Borrower is in compliance with all provisions of all agreements, instruments, decrees and orders to which it is a party or by which it or its property is bound or affected, the breach or default of which could have a Material Adverse Effect.

Section 5.14 Environmental Matters.

(a) To the Borrower's best knowledge, there are not present in, on or under the Premises any Hazardous Substances in such form or quantity as to create any material liability or obligation for either the Borrower or the Lender under the common law of any jurisdiction or under any Environmental Law, and no Hazardous Substances have ever

been stored, buried, spilled, leaked, discharged, emitted or released in, on or under the Premises in such a way as to create any such material liability.

(b) To the Borrower's best knowledge, the Borrower has not disposed of Hazardous Substances in such a manner as to create any material liability under any Environmental Law.

(c) Except as provided on Schedule 5.14, There are not and there never have been any requests, claims, notices, investigations, demands, administrative proceedings, hearings or litigation, relating in any way to the Premises owned by the Borrower or the Borrower, alleging material liability under, violation of, or noncompliance with any Environmental Law or any license, permit or other authorization issued pursuant thereto. To the Borrower's knowledge, there are not and there never have been any requests, claims, notices, investigations, demands, administrative proceedings, hearings or litigation, relating in any way to the Premises leased by the Borrower, alleging material liability under, violation of, or noncompliance with any Environmental Law or any license, permit or other authorization issued pursuant thereto. To the Borrower's best knowledge, no such matter is threatened or impending.

(d) To the Borrower's best knowledge, the Borrower's businesses are and have in the past always been conducted in accordance with all Environmental Laws and all licenses, permits and other authorizations required pursuant to any Environmental Law and necessary for the lawful and efficient operation of such businesses are in the Borrower's possession and are in full force and effect. No permit required under any Environmental Law is scheduled to expire within 12 months and, to the Borrower's knowledge, there is no threat that any such permit will be withdrawn, terminated, limited or materially changed.

(e) To the Borrower's best knowledge, the Premises are not and never have been listed on the National Priorities List, the Comprehensive Environmental Response, Compensation and Liability Information System or any similar federal, state or local list, schedule, log, inventory or database.

(f) The Borrower has delivered to Lender all environmental assessments, audits, reports, permits, licenses and other documents describing or relating in any way to the Premises or Borrower's businesses.

Section 5.15 Submissions to Lender. All financial and other information provided to the Lender by or on behalf of the Borrower in connection with the Borrower's request for the credit facilities contemplated hereby is (i) true and correct in all material respects, (ii) does not omit any material fact necessary to make such information not misleading and, (iii) as to projections, valuations or proforma financial statements, present a good faith opinion as to such projections, valuations and proforma condition and results.

Section 5.16 Financing Statements. The Borrower has provided to the Lender signed financing statements and has authorized the filing of financing statements sufficient when filed to perfect the Security Interest and the other security interests created by the Security

Documents. When such financing statements are filed in the offices noted therein, the Lender will have a valid and perfected security interest in all Collateral which is capable of being perfected by filing financing statements. None of the Collateral is or will become a fixture on real estate, unless a sufficient fixture filing is in effect with respect thereto.

Section 5.17 Rights to Payment. Each right to payment and each instrument, document, chattel paper and other agreement constituting or evidencing Collateral is (or, in the case of all future Collateral, will be when arising or issued) the valid, genuine and legally enforceable obligation, subject to no defense, setoff or counterclaim, of the account debtor or other obligor named therein or in the Borrower's records pertaining thereto as being obligated to pay such obligation.

ARTICLE VI

COVENANTS

So long as the Obligations shall remain unpaid, or the Credit Facility

shall remain outstanding, the Borrower will comply with the following requirements, unless the Lender shall otherwise consent in writing which consent shall be given as determined by the Lender in its sole discretion in compliance with applicable lender liability laws:

Section 6.1 Reporting Requirements. The Borrower will deliver, or cause to be delivered, to the Lender each of the following, which shall be in form and detail acceptable to the Lender:

(a) Annual Financial Statements. As soon as available, and in any event within 90 days after the end of each fiscal year of the Borrower, the Borrower will deliver, or cause to be delivered, to the Lender, the Borrower's audited financial statements with the unqualified opinion of independent certified public accountants selected by the Borrower and acceptable to the Lender, which annual financial statements shall include the Borrower's balance sheet as at the end of such fiscal year and the related statements of the Borrower's income, retained earnings and cash flows for the fiscal year then ended, prepared on a consolidated basis to include any Affiliates, all in reasonable detail and prepared in accordance with GAAP, together with (i) copies of all management letters prepared by such accountants; (ii) a report signed by such accountants stating that in making the investigations necessary for said opinion they obtained no knowledge, except as specifically stated, of any Default or Event of Default and all relevant facts in reasonable detail to evidence, and the computations as to, whether or not the Borrower is in compliance with the Financial Covenants; and (iii) a certificate of the Borrower's chief financial officer stating that such financial statements have been prepared in accordance with GAAP and whether or not such Officer has knowledge of the occurrence of any Default or Event of Default and, if so, stating in reasonable detail the facts with respect thereto. As soon as available, and in any event within 90 days after the end of each fiscal year of the Borrower, the Borrower will deliver, or cause to be delivered, to the Lender, the Borrower's internally prepared financial statements for the Borrower's U.S. operations, prepared on a consolidating basis, which annual financial statements shall

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include the Borrower's balance sheet as at the end of such fiscal year and the related statements of the Borrower's income, retained earnings and cash flows for the fiscal year then ended, all in reasonable detail and prepared in accordance with GAAP, together with a certificate of the Borrower's chief financial officer stating that such financial statements have been prepared in accordance with GAAP and whether or not such Officer has knowledge of the occurrence of any Default or Event of Default and, if so, stating in reasonable detail the facts with respect thereto.

(b) Monthly Financial Statements. As soon as available and in any event within 20 days after the end of each month, the Borrower will deliver to the Lender an unaudited/internal balance sheet and statements of income and retained earnings of the Borrower for the Borrower's U.S. operations as at the end of and for such month and for the year to date period then ended, prepared, if the Lender so requests, on a consolidated basis to include any Affiliates, in reasonable detail and stating in comparative form the figures for the corresponding date and periods in the previous year, all prepared in accordance with GAAP, subject to year-end audit adjustments; and accompanied by a certificate of the Borrower's chief financial officer, substantially in the form of Exhibit B hereto stating (i) that such financial statements have been prepared in accordance with GAAP, subject to year-end audit adjustments, (ii) whether or not such Officer has knowledge of the occurrence of any Default or Event of Default not theretofore reported and remedied and, if so, stating in reasonable detail the facts with respect thereto, and (iii) all relevant facts in reasonable detail to evidence, and the computations as to, whether or not the Borrower is in compliance with the Financial Covenants.

(c) Quarterly Financial Statements. As soon as available and in any event within 45 days after the end of each month, the Borrower will deliver to the Lender an unaudited/internal balance sheet and statements of income and retained earnings of the Borrower for the Borrower's U.S. operations as at the end of and for such month and for the year to date period then ended, prepared on a consolidating basis, in reasonable detail and stating in comparative form the figures for the corresponding date and periods in the previous year, all prepared in accordance with GAAP, subject to year-end audit adjustments; and accompanied by a certificate of the Borrower's chief financial officer, stating that such financial statements have been prepared in accordance with GAAP, subject to year-end audit adjustments and whether or not such Officer has knowledge of the occurrence of any Default or Event of Default not theretofore reported and remedied and, if so, stating in reasonable detail the facts with respect thereto.

(d) Collateral Reports. Within 15 days after the end of each month or

more frequently if the Lender so requires, the Borrower will deliver to the Lender agings of the Borrower's accounts receivable and its accounts payable, an inventory certification report, a backlog report of sales orders backed by firm purchase orders, a calculation of the Borrower's Accounts, Eligible Accounts, Inventory and Eligible Inventory as at the end of such month or shorter time period and a Borrowing Base reconciliation report.

(e) Projections. At least 30 days before the beginning of each fiscal year of the Borrower, the Borrower will deliver to the Lender the projected balance sheets and

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income statements for each month of such year, each in reasonable detail, representing the Borrower's good faith projections and certified by the Borrower's chief financial Officer as being the most accurate projections available and identical to the projections used by the Borrower for internal planning purposes, together with a statement of underlying assumptions and such supporting schedules and information as the Lender may in its discretion require.

(f) Weekly Reports. Weekly or more frequently if the Lender so requires, the Borrower will deliver to the Lender all credit memos, sales reports, inventory reports listing inventory levels, receivables schedules, collection reports, copies of invoices to account debtors in excess of \$250,000, shipment documents and delivery receipts for goods sold in excess of \$250,000 and copies of all deposit slips.

(g) Litigation. Reasonably promptly after the commencement thereof, the Borrower will deliver to the Lender notice in writing of all litigation and of all proceedings before any governmental or regulatory agency affecting the Borrower (i) of the type described in Section 5.14(c) or (ii) which seek a monetary recovery against the Borrower in excess of \$50,000.

(h) Defaults. As promptly as practicable (but in any event not later than five business days) after an Officer of the Borrower obtains knowledge of the occurrence of any Default or Event of Default, the Borrower will deliver to the Lender notice of such occurrence, together with a detailed statement by a responsible Officer of the Borrower of the steps being taken by the Borrower to cure the effect thereof.

(i) Plans. As soon as possible, and in any event within 30 days after the Borrower knows or has reason to know that any Reportable Event with respect to any Pension Plan has occurred, the Borrower will deliver to the Lender a statement of the Borrower's chief financial Officer setting forth details as to such Reportable Event and the action which the Borrower proposes to take with respect thereto, together with a copy of the notice of such Reportable Event to the Pension Benefit Guaranty Corporation. As soon as possible, and in any event within 10 days after the Borrower fails to make any quarterly contribution required with respect to any Pension Plan under Section 412(m) of the IRC, the Borrower will deliver to the Lender a statement of the Borrower's chief financial Officer setting forth details as to such failure and the action which the Borrower proposes to take with respect thereto, together with a copy of any notice of such failure required to be provided to the Pension Benefit Guaranty Corporation. As soon as possible, and in any event within 10 days after the Borrower knows or has reason to know that it has or is reasonably expected to have any liability under Section 4201 or 4243 of ERISA for any withdrawal, partial withdrawal, reorganization or other event under any Multiemployer Plan, the Borrower will deliver to the Lender a statement of the Borrower's chief financial Officer setting forth details as to such liability and the action which the Borrower proposes to take with respect thereto.

(j) Disputes. Promptly upon knowledge thereof, the Borrower will deliver to the Lender notice of (i) any disputes or claims by the Borrower's customers exceeding

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\$50,000 individually or \$100,000 in the aggregate during any fiscal year and (ii) any goods returned to or recovered by the Borrower.

(k) Officers and Directors. Promptly upon knowledge thereof, the Borrower will deliver to the Lender notice any change in the persons constituting the Borrower's Officers and Directors.

(l) Collateral. Promptly upon knowledge thereof, the Borrower will

deliver to the Lender notice of any loss of or material damage to any Collateral or of any substantial adverse change in any Collateral or the prospect of payment thereof.

(m) Commercial Tort Claims. Promptly upon knowledge thereof, the Borrower will deliver to the Lender notice of any commercial tort claims it may bring against any Person, including the name and address of each defendant, a summary of the facts, an estimate of the Borrower's damages, copies of any complaint or demand letter submitted by the Borrower, and such other information as the Lender may reasonably request.

(n) Intellectual Property.

(i) The Borrower will give the Lender 30 days prior written notice of its intent to acquire or to grant material Intellectual Property Rights and upon request shall provide the Lender with copies of all proposed documents and agreements concerning such rights.

(ii) Promptly upon knowledge thereof, the Borrower will deliver to the Lender notice of (A) any Infringement of its Intellectual Property Rights by others, (B) claims that the Borrower is Infringing another Person's Intellectual Property Rights and (C) any threatened cancellation, termination or material limitation of its Intellectual Property Rights.

(iii) Promptly upon receipt, the Borrower will give the Lender copies of all registrations and filings with respect to its Intellectual Property Rights.

(o) Reports to Owners. Promptly upon their distribution, the Borrower will deliver to the Lender copies of all financial statements, reports and proxy statements which the Borrower shall have sent to its Owners.

(p) SEC Filings. Promptly after the sending or filing thereof, the Borrower will deliver to the Lender copies of all regular and periodic reports which the Borrower shall file with the Securities and Exchange Commission or any national securities exchange.

(q) Violations of Law. Promptly upon knowledge thereof, the Borrower will deliver to the Lender notice of the Borrower's violation of any law, rule or regulation, the non-compliance with which could have a Material Adverse Effect on the Borrower.

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(r) Other Reports. From time to time, with reasonable promptness, the Borrower will deliver to the Lender any and all deposit records, equipment schedules, copies of invoices to account debtors and such other material, reports, records or information as the Lender may request.

Section 6.2 Financial Covenants.

(a) Minimum Debt Service Coverage Ratio. The Borrower will maintain, during each period described below, its Debt Service Coverage Ratio for its U.S. operations, determined as at the end of each such period, at not less than the ratio set forth opposite such period (numbers appearing between "<>" are negative):

Period -----	Minimum Debt Service Coverage Ratio -----
The three months ending December 31, 2001	0.89 to 1.00
The three months ending March 31, 2002	(0.21) to 1.00
The six months ending June 30, 2002	0.14 to 1.00
The nine months ending September 30, 2002	0.79 to 1.00
The twelve months ending December 31, 2002	1.01 to 1.00

(b) Minimum Book Net Worth. The Borrower will maintain, during each period described below, its Book Net Worth for its U.S. operations, determined as at the end of each month, at an amount not less than the amount set forth opposite such period (numbers appearing between "()" are negative):

Period -----	Minimum Book Net Worth -----
The calendar month ending October 31, 2001	\$15,261,000
The calendar month ending November 30, 2001	\$15,261,000
The calendar month ending December 31, 2001	\$15,261,000
The calendar month ending January 31, 2002	\$14,952,000
The calendar month ending February 28, 2002	\$14,952,000
The calendar month ending March 31, 2002	\$14,952,000
The calendar month ending April 30, 2002	\$14,952,000

The calendar month ending May 31, 2002	\$14,952,000
The calendar month ending June 30, 2002	\$15,335,000
The calendar month ending July 31, 2002	\$15,335,000
The calendar month ending August 31, 2002	\$15,335,000
The calendar month ending September 30, 2002	\$16,136,000
The calendar month ending October 31, 2002	\$16,136,000
The calendar month ending November 30, 2002	\$16,136,000
The calendar month ending December 31, 2002 and thereafter	\$16,911,000

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(c) Minimum Net Income. The Borrower will achieve, during each period described below, Net Income for its U.S. operations, determined as at the end of each such period, of not less than the amount set forth opposite such period (numbers appearing between "()" are negative):

Period	Minimum Net Income
-----	-----
The three months ending December 31, 2001	(\$165,000)
The three months ending March 31, 2002	(\$309,000)
The six months ending June 30, 2002	\$74,000
The nine months ending September 30, 2002	\$875,000
The twelve months ending December 31, 2002	\$1,650,000

(d) Minimum Cash Balance plus Excess Availability. From and after September 30, 2002, during each calendar quarter, the sum of the Borrower's cash balance in its operating account held at Wells Fargo Bank West plus Availability, determined immediately after the Borrower has made a payment due to SNPE, Inc. under the SNPE Loan Agreement or the SNPE Note during such quarter, shall be at least \$500,000.

(e) Capital Expenditures. During the period from the date hereof to and including December 31, 2002, the Borrower will not incur or contract to incur Capital Expenditures of more than \$2,150,000 in the aggregate.

(f) New Financial Covenants. On or before December 31, 2002, the Borrower and the Lender shall agree on new covenant levels for this Section 6.2 for periods after such date. The new covenant levels will be based on the Borrower's projections for such periods and shall be no less stringent than the present levels, but if the Borrower and the Lender do not agree, the Lender may designate the required amounts in its sole discretion, based on the Borrower's projections for such periods, and such covenants shall be no less stringent than the present levels. The failure by the Borrower to maintain such designated amounts shall constitute an Event of Default.

Section 6.3 Permitted Liens; Financing Statements.

(a) The Borrower will not create, incur or suffer to exist any Lien upon or of any of its assets, now owned or hereafter acquired, to secure any indebtedness; excluding, however, from the operation of the foregoing, the following (collectively, "Permitted Liens"):

(i) in the case of any of the Borrower's property which is not Collateral, covenants, restrictions, rights, easements and minor irregularities in title which do not materially interfere with the Borrower's business or operations as presently conducted;

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(ii) Liens in existence on the date hereof and listed in Schedule 6.3 hereto, securing indebtedness for borrowed money permitted under Section 6.4;

(iii) the Security Interest and Liens created by the Security Documents;

(iv) purchase money Liens relating to the acquisition of machinery and equipment of the Borrower not exceeding the lesser of cost or fair market value thereof, not exceeding \$100,000 for any one purchase or \$500,000 in the aggregate during any fiscal year, and so long as no Default Period is then in existence and none would exist immediately after such acquisition;

(v) deposits or pledges of cash to secure obligations under worker's compensation, social security or similar laws, or under unemployment insurance;

(vi) deposits or pledges of cash to secure bids, tenders, statutory obligations, surety and appeal bonds and other obligations

of like nature arising in the ordinary course of the Borrower's business;

(vii) mechanics', workers', materialmens' or other like liens arising in the ordinary course of the Borrower's business with respect to obligations which are not due or which are being contested in good faith by the Borrower; and

(viii) present or future zoning laws and ordinances or other laws and ordinances restricting the occupancy, use or enjoyment of any real property.

(b) The Borrower will not amend any financing statements in favor of the Lender except as permitted by law.

Section 6.4 Indebtedness. The Borrower will not incur, create, assume or permit to exist any indebtedness or liability on account of deposits or advances or any indebtedness for borrowed money or letters of credit issued on the Borrower's behalf, or any other indebtedness or liability evidenced by notes, bonds, debentures or similar obligations, except:

(a) indebtedness arising hereunder;

(b) indebtedness of the Borrower in existence on the date hereof and listed in Schedule 6.4 hereto; and

(c) indebtedness relating to Permitted Liens.

Section 6.5 Guaranties. The Borrower will not assume, guarantee, endorse or otherwise become directly or contingently liable in connection with any obligations of any other Person, except:

(a) the endorsement of negotiable instruments by the Borrower for deposit or collection or similar transactions in the ordinary course of business; and

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(b) guaranties, endorsements and other direct or contingent liabilities in connection with the obligations of other Persons, in existence on the date hereof and listed in Schedule 6.4 hereto.

Section 6.6 Investments and Subsidiaries. The Borrower will not purchase or hold beneficially any stock or other securities or evidences of indebtedness of, make or permit to exist any loans or advances to, or make any investment or acquire any interest whatsoever in, any other Person, including any partnership or joint venture, except:

(a) investments in direct obligations of the United States of America or any agency or instrumentality thereof whose obligations constitute full faith and credit obligations of the United States of America having a maturity of one year or less, commercial paper issued by U.S. corporations rated "A-1" or "A-2" by Standard & Poor's Corporation or "P-1" or "P-2" by Moody's Investors Service or certificates of deposit or bankers' acceptances having a maturity of one year or less issued by members of the Federal Reserve System having deposits in excess of \$100,000,000 (which certificates of deposit or bankers' acceptances are fully insured by the Federal Deposit Insurance Corporation);

(b) travel advances or loans to the Borrower's Officers and employees not exceeding at any one time an aggregate of \$100,000;

(c) advances in the form of progress payments, prepaid rent not exceeding one month or security deposits; and

(d) current investments in the Subsidiaries in existence on the date hereof and listed in Schedule 5.5 hereto.

Section 6.7 Dividends and Distributions. During a Default Period, the Borrower will not declare any dividends (other than dividends payable solely in stock of the Borrower) on any class of its stock or make any payment on account of the purchase, redemption or other retirement of any shares of such stock or make any distribution in respect thereof, either directly or indirectly. The Borrower will not pay any dividends (other than dividends payable solely in stock of the Borrower) on any class of its stock or make any payment on account of the purchase, redemption or other retirement of any shares of such stock or make any distribution in respect thereof, either directly or indirectly; provided, however, that, after December 31, 2002, if (i) no Default Period exists immediately prior to and immediately after, (ii) average Availability is more than \$500,000 over the three month period immediately prior to, and (iii) Availability would be more than \$500,000 immediately after, such payment, the Borrower may pay dividends on any class of its stock in an aggregate amount of

up to fifty percent (50%) of the preceding year's annual Net Income.

Section 6.8 Salaries. The Borrower will not pay excessive or unreasonable salaries, bonuses, commissions, consultant fees or other compensation. Section 6.9 Books and Records; Inspection and Examination. The Borrower will keep accurate books of record and account for itself pertaining to the Collateral and pertaining to the Borrower's business and financial condition and such other matters as the Lender may from time to time request in which true and complete

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entries will be made in accordance with GAAP and, upon the Lender's request, will permit any officer, employee, attorney or accountant for the Lender to audit, review, make extracts from or copy any and all company and financial books and records of the Borrower at all times during ordinary business hours, to send and discuss with account debtors and other obligors requests for verification of amounts owed to the Borrower, and to discuss the Borrower's affairs with any of its Directors, Officers, employees or agents. The Borrower hereby irrevocably authorizes all accountants and third parties to disclose and deliver to Lender, at the Borrower's expense, all financial information, books and records, work papers, management reports and other information in their possession regarding the Borrower. The Borrower will permit the Lender, or its employees, accountants, attorneys or agents, to examine and inspect any Collateral or any other property of the Borrower at any time during ordinary business hours.

Section 6.10 Account Verification. The Lender may at any time and from time to time send or require the Borrower to send requests for verification of accounts or notices of assignment to account debtors and other obligors. The Lender may also at any time and from time to time telephone account debtors and other obligors to verify accounts.

Section 6.11 Compliance with Laws.

(a) The Borrower will (i) comply with the requirements of applicable laws and regulations, the non-compliance with which would materially and adversely affect its business or its financial condition and (ii) use and keep the Collateral, and require that others use and keep the Collateral, only for lawful purposes, without violation of any federal, state or local law, statute or ordinance.

(b) Without limiting the foregoing undertakings, the Borrower specifically agrees that it will comply with all applicable Environmental Laws and obtain and comply with all permits, licenses and similar approvals required by any Environmental Laws, and will not generate, use, transport, treat, store or dispose of any Hazardous Substances in such a manner as to create any material liability or obligation under the common law of any jurisdiction or any Environmental Law.

Section 6.12 Payment of Taxes and Other Claims. The Borrower will pay or discharge, when due, (a) all taxes, assessments and governmental charges levied or imposed upon it or upon its income or profits, upon any properties belonging to it (including the Collateral) or upon or against the creation, perfection or continuance of the Security Interest, prior to the date on which penalties attach thereto, (b) all federal, state and local taxes required to be withheld by it, and (c) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a Lien upon any properties of the Borrower; provided, that the Borrower shall not be required to pay any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which proper reserves have been made.

Section 6.13 Maintenance of Properties.

(a) The Borrower will keep and maintain the Collateral and all of its other properties necessary or useful in its business in good condition, repair and working order

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(normal wear and tear excepted) and will from time to time replace or repair any worn, defective or broken parts; provided, however, that nothing in this Section 6.13 shall prevent the Borrower from discontinuing the operation and maintenance of any of its properties if such discontinuance is, in the Borrower's judgment, desirable in the conduct of the Borrower's business and not disadvantageous in any material respect to the Lender. The Borrower will take all commercially reasonable steps necessary to protect and maintain its Intellectual Property Rights.

(b) The Borrower will defend the Collateral against all Liens, claims or demands of all Persons (other than the Lender) claiming the Collateral or any interest therein. The Borrower will keep all Collateral free and clear of all Liens except Permitted Liens. The Borrower will take all commercially reasonable steps necessary to prosecute any Person Infringing its Intellectual Property Rights and to defend itself against any Person accusing it of Infringing any Person's Intellectual Property Rights.

Section 6.14 Insurance. The Borrower will obtain and at all times maintain insurance with insurers believed by the Borrower to be responsible and reputable, in such amounts and against such risks as may from time to time be required by the Lender, but in all events in such amounts and against such risks as is usually carried by companies engaged in similar business and owning similar properties in the same general areas in which the Borrower operates. Without limiting the generality of the foregoing, the Borrower will at all times keep all tangible Collateral insured against risks of fire (including so-called extended coverage), theft, collision (for Collateral consisting of motor vehicles) and such other risks and in such amounts as the Lender may reasonably request, with any loss payable to the Lender to the extent of its interest, and all policies of such insurance shall contain a lender's loss payable endorsement for the Lender's benefit. All policies of liability insurance required hereunder shall name the Lender as an additional insured.

Section 6.15 Preservation of Existence. The Borrower will preserve and maintain its existence and all of its rights, privileges and franchises necessary or desirable in the normal conduct of its business and shall conduct its business in an orderly, efficient and regular manner.

Section 6.16 Delivery of Instruments, etc. Upon request by the Lender, the Borrower will promptly deliver to the Lender in pledge all instruments, documents and chattel paper constituting Collateral, duly endorsed or assigned by the Borrower.

Section 6.17 Sale or Transfer of Assets; Suspension of Business Operations. The Borrower will not sell, lease, assign, transfer or otherwise dispose of (i) the stock of any Subsidiary, (ii) all or a substantial part of its assets, or (iii) any Collateral or any interest therein (whether in one transaction or in a series of transactions) to any other Person other than (i) the sale of Inventory in the ordinary course of business and (ii) the sale of obsolete or worn out Equipment. The Borrower will not liquidate, dissolve or suspend business operations. The Borrower will not transfer any part of its ownership interest in any Intellectual Property Rights and will not permit any agreement under which it has licensed Licensed Intellectual Property to lapse, except that the Borrower may transfer such rights or permit such agreements to lapse if it shall have reasonably determined that the applicable Intellectual Property Rights are no longer

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useful in its business. If the Borrower transfers any Intellectual Property Rights for value, the Borrower will pay over the proceeds to the Lender for application to the Obligations. The Borrower will not license any other Person to use any of the Borrower's Intellectual Property Rights, except that the Borrower may grant licenses in the ordinary course of its business in connection with sales of Inventory or provision of services to its customers.

Section 6.18 Consolidation and Merger; Asset Acquisitions. The Borrower will not consolidate with or merge into any Person, or permit any other Person to merge into it, or acquire (in a transaction analogous in purpose or effect to a consolidation or merger) all or substantially all the assets of any other Person.

Section 6.19 Sale and Leaseback. The Borrower will not enter into any arrangement, directly or indirectly, with any other Person whereby the Borrower shall sell or transfer any real or personal property, whether now owned or hereafter acquired, and then or thereafter rent or lease as lessee such property or any part thereof or any other property which the Borrower intends to use for substantially the same purpose or purposes as the property being sold or transferred.

Section 6.20 Restrictions on Nature of Business. The Borrower will not engage in any line of business materially different from that presently engaged in by the Borrower and will not purchase, lease or otherwise acquire assets not related to its business.

Section 6.21 Accounting. The Borrower will not adopt any material change in accounting principles other than as required by GAAP. The Borrower will not adopt, permit or consent to any change in its fiscal year.

Section 6.22 Discounts, etc. The Borrower will not grant any discount, credit or allowance to any customer of the Borrower or accept any return of goods sold other than in the ordinary course of business; provided, however,

that the Borrower will not grant any discount, credit or allowance to any customer of the Borrower or accept any return of goods sold during a Default Period. The Borrower will not at any time modify, amend, subordinate, cancel or terminate the obligation of any account debtor or other obligor of the Borrower other than in the ordinary course of business; provided, however, that the Borrower will not modify, amend, subordinate, cancel or terminate the obligation of any account debtor or other obligor of the Borrower during a Default Period.

Section 6.23 Plans. Unless disclosed to the Lender pursuant to Section 5.12, neither the Borrower nor any ERISA Affiliate will (i) adopt, create, assume or become a party to any Pension Plan, (ii) incur any obligation to contribute to any Multiemployer Plan, (iii) incur any obligation to provide post-retirement medical or insurance benefits with respect to employees or former employees (other than benefits required by law) or (iv) amend any Plan in a manner that would materially increase its funding obligations.

Section 6.24 Place of Business; Name. The Borrower will not transfer its chief executive office or principal place of business, or move, relocate, close or sell any business location. The Borrower will not permit any tangible Collateral or any records pertaining to the Collateral to be located in any state or area in which, in the event of such location, a financing

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statement covering such Collateral would be required to be, but has not in fact been, filed in order to perfect the Security Interest. The Borrower will not change its name or jurisdiction of organization.

Section 6.25 Constituent Documents; S Corporation Status. The Borrower will not amend its Constituent Documents. The Borrower will not become an S Corporation.

Section 6.26 Performance by the Lender. If the Borrower at any time fails to perform or observe any of the foregoing covenants contained in this Article VI or elsewhere herein, and if such failure shall continue for a period of ten calendar days after the Lender gives the Borrower written notice thereof (or in the case of the agreements contained in Sections 6.12 and 6.14, immediately upon the occurrence of such failure, without notice or lapse of time), the Lender may, but need not, perform or observe such covenant on behalf and in the name, place and stead of the Borrower (or, at the Lender's option, in the Lender's name) and may, but need not, take any and all other actions which the Lender may reasonably deem necessary to cure or correct such failure (including the payment of taxes, the satisfaction of Liens, the performance of obligations owed to account debtors or other obligors, the procurement and maintenance of insurance, the execution of assignments, security agreements and financing statements, and the endorsement of instruments); and the Borrower shall thereupon pay to the Lender on demand the amount of all monies expended and all costs and expenses (including reasonable attorneys' fees and legal expenses) incurred by the Lender in connection with or as a result of the performance or observance of such agreements or the taking of such action by the Lender, together with interest thereon from the date expended or incurred at the Default Rate. To facilitate the Lender's performance or observance of such covenants of the Borrower, the Borrower hereby irrevocably appoints the Lender, or the Lender's delegate, acting alone, as the Borrower's attorney in fact (which appointment is coupled with an interest) with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file in the name and on behalf of the Borrower any and all instruments, documents, assignments, security agreements, financing statements, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by the Borrower under this Section 6.26.

Section 6.27 SNPE. The Borrower will not amend or modify or permit the amendment or modification of the SNPE Note or the SNPE Loan Agreement, each dated as of July 3, 2001.

ARTICLE VII

EVENTS OF DEFAULT, RIGHTS AND REMEDIES

Section 7.1 Events of Default. "Event of Default", wherever used herein, means any one of the following events:

- (a) Default in the payment of any Obligations when they become due and payable;
- (b) Default in the performance, or breach, of any covenant or agreement of the Borrower contained in this Agreement;

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(c) A Change of Control shall occur;

(d) The Borrower or any Guarantor shall be or become insolvent, or admit in writing its or his inability to pay its or his debts as they mature, or make an assignment for the benefit of creditors; or the Borrower or any Guarantor shall apply for or consent to the appointment of any receiver, trustee, or similar officer for it or him or for all or any substantial part of its or his property; or such receiver, trustee or similar officer shall be appointed without the application or consent of the Borrower or such Guarantor, as the case may be; or the Borrower or any Guarantor shall institute (by petition, application, answer, consent or otherwise) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it or him under the laws of any jurisdiction; or any such proceeding shall be instituted (by petition, application or otherwise) against the Borrower or any such Guarantor; or any judgment, writ, warrant of attachment or execution or similar process shall be issued or levied against a substantial part of the property of the Borrower or any Guarantor;

(e) A petition shall be filed by or against the Borrower or any Guarantor under the United States Bankruptcy Code naming the Borrower or such Guarantor as debtor;

(f) Any representation or warranty made by the Borrower in this Agreement, by any Guarantor in any guaranty delivered to the Lender, or by the Borrower (or any of its Officers) or any Guarantor in any agreement, certificate, instrument or financial statement or other statement contemplated by or made or delivered pursuant to or in connection with this Agreement or any such guaranty shall prove to have been incorrect in any material respect when deemed to be effective;

(g) The rendering against the Borrower of an arbitration award, final judgment, decree or order for the payment of money in excess of \$200,000 and the continuance of such arbitration award, judgment, decree or order unsatisfied and in effect for any period of 30 consecutive days without a stay of execution;

(h) A default under any bond, debenture, note or other evidence of material indebtedness of the Borrower owed to any Person other than the Lender, including without limitation SNPE, Inc., or under any indenture or other instrument under which any such evidence of indebtedness has been issued or by which it is governed, or under any material lease or other contract, and the expiration of the applicable period of grace, if any, specified in such evidence of indebtedness, indenture, other instrument, lease or contract;

(i) Any demand, receipt or acceptance of any payment (whether of principal, interest or otherwise) by SNPE, Inc. from the Borrower in respect of the SNPE Indebtedness, or the exercise of any right of setoff in respect of the SNPE Indebtedness, other than scheduled payments (but not prepayments) of principal and interest required to be paid under the SNPE Note; or a default under the Convertible Subordinated Note,

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dated June 14, 2000 by the Borrower in favor of SNPE, Inc., by either the Borrower or SNPE, Inc.

(j) Any Reportable Event, which the Lender determines in good faith might constitute grounds for the termination of any Pension Plan or for the appointment by the appropriate United States District Court of a trustee to administer any Pension Plan, shall have occurred and be continuing 30 days after written notice to such effect shall have been given to the Borrower by the Lender; or a trustee shall have been appointed by an appropriate United States District Court to administer any Pension Plan; or the Pension Benefit Guaranty Corporation shall have instituted proceedings to terminate any Pension Plan or to appoint a trustee to administer any Pension Plan; or the Borrower or any ERISA Affiliate shall have failed to make any quarterly contribution required with respect to any Pension Plan under Section 412(m) of the IRC, which the Lender determines in good faith may by itself, or in combination with any such failures that the Lender may determine are likely to occur in the future, result in the imposition of a Lien on the Borrower's assets in favor of the Pension Plan; or any withdrawal, partial withdrawal, reorganization or other event occurs with respect to a Multiemployer Plan which results or could reasonably be expected to result in a material liability of the Borrower to the Multiemployer Plan under Title IV of ERISA;

(k) An event of default shall occur under any Security Document;

(l) The Borrower shall liquidate, dissolve, terminate or suspend its business operations or otherwise fail to operate its business in the ordinary course, or sell or attempt to sell all or substantially all of its assets, without the Lender's prior written consent;

(m) Default in the payment of any amount owed by the Borrower to the Lender other than any indebtedness arising hereunder;

(n) Any Guarantor or person signing a support agreement in favor of the Lender shall repudiate, purport to revoke or fail to perform his or its obligations under such guaranty or support agreement in favor of the Lender, any individual Guarantor shall die or any other Guarantor shall cease to exist;

(o) Any person who has executed a support agreement in connection with the Credit Facility shall die, become mentally or physically incapacitated, or cease to be employed by the Borrower; provided, however, that such occurrence shall not constitute an Event of Default if within 60 days of such occurrence (i) the Borrower employs a replacement acceptable to the Lender in its sole discretion and (ii) such replacement executes a support agreement substantially in the form of the agreement executed by the person so replaced; or

(p) Any breach, default or event of default by or attributable to any Affiliate under any agreement between such Affiliate and the Lender shall occur.

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Section 7.2 Rights and Remedies. During any Default Period, the Lender may exercise any or all of the following rights and remedies:

(a) the Lender may, by notice to the Borrower, declare the Commitment to be terminated, whereupon the same shall forthwith terminate;

(b) the Lender may, by notice to the Borrower, declare the Obligations to be forthwith due and payable, whereupon all Obligations shall become and be forthwith due and payable, without presentment, notice of dishonor, protest or further notice of any kind, all of which the Borrower hereby expressly waives;

(c) the Lender may, without notice to the Borrower and without further action, apply any and all money owing by the Lender to the Borrower to the payment of the Obligations;

(d) the Lender may exercise and enforce any and all rights and remedies available upon default to a secured party under the UCC, including the right to take possession of Collateral, or any evidence thereof, proceeding without judicial process or by judicial process (without a prior hearing or notice thereof, which the Borrower hereby expressly waives) and the right to sell, lease or otherwise dispose of any or all of the Collateral (with or without giving any warranties as to the Collateral, title to the Collateral or similar warranties), and, in connection therewith, the Borrower will on demand assemble the Collateral and make it available to the Lender at a place to be designated by the Lender which is reasonably convenient to both parties;

(e) the Lender may make demand upon the Borrower and, forthwith upon such demand, the Borrower will pay to the Lender in immediately available funds for deposit in the Special Account pursuant to Section 2.13 an amount equal to the aggregate maximum amount available to be drawn under all Letters of Credit then outstanding, assuming compliance with all conditions for drawing thereunder;

(f) the Lender may exercise and enforce its rights and remedies under the Loan Documents; and

(g) the Lender may exercise any other rights and remedies available to it by law or agreement.

Notwithstanding the foregoing, upon the occurrence of an Event of Default described in subsections (d) or (e) of Section 7.1, the Obligations shall be immediately due and payable automatically without presentment, demand, protest or notice of any kind. If the Lender sells any of the Collateral on credit, the Obligations will be reduced only to the extent of payments actually received. If the purchaser fails to pay for the Collateral, the Lender may resell the Collateral and shall apply any proceeds actually received to the Obligations.

Section 7.3 Certain Notices. If notice to the Borrower of any intended disposition of Collateral or any other intended action is required by law in a

shall be deemed commercially reasonable if given (in the manner specified in Section 8.3) at least ten calendar days before the date of intended disposition or other action.

ARTICLE VIII

MISCELLANEOUS

Section 8.1 No Waiver; Cumulative Remedies; Compliance with Laws. No failure or delay by the Lender in exercising any right, power or remedy under the Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy under the Loan Documents. The remedies provided in the Loan Documents are cumulative and not exclusive of any remedies provided by law. The Lender may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and such compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.

Section 8.2 Amendments, Etc. No amendment, modification, termination or waiver of any provision of any Loan Document or consent to any departure by the Borrower therefrom or any release of a Security Interest shall be effective unless the same shall be in writing and signed by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

Section 8.3 Addresses for Notices; Requests for Accounting. Except as otherwise expressly provided herein, all notices, requests, demands and other communications provided for under the Loan Documents shall be in writing and shall be (a) personally delivered, (b) sent by first class United States mail, (c) sent by overnight courier of national reputation, or (d) transmitted by telecopy, in each case addressed or telecopied to the party to whom notice is being given at its address or telecopier number as set forth below next to its signature or, as to each party, at such other address or telecopier number as may hereafter be designated by such party in a written notice to the other party complying as to delivery with the terms of this Section. All such notices, requests, demands and other communications shall be deemed to have been given on (a) the date received if personally delivered, (b) when deposited in the mail if delivered by mail, (c) the date sent if delivered by overnight courier, or (d) the date of transmission if delivered by telecopy, except that notices or requests delivered to the Lender pursuant to any of the provisions of Article II shall not be effective until received by the Lender. All requests under Section 9-210 of the UCC (i) shall be made in a writing signed by a Person authorized under Section 2.2(a), (ii) shall be personally delivered, sent by registered or certified mail, return receipt requested, or by overnight courier of national reputation, (iii) shall be deemed to be sent when received by the Lender and (iv) shall otherwise comply with the requirements of Section 9-210. The Borrower requests that the Lender respond to all such requests which on their face appear to come from an authorized individual and releases the Lender from any liability for so responding. The Borrower shall pay the Lender the maximum amount allowed by law for responding to such requests.

Section 8.4 Further Documents. The Borrower will from time to time execute, deliver, endorse and authorize the filing of any and all instruments, documents, conveyances, assignments, security agreements, financing statements, control agreements and other agreements and writings that the Lender may reasonably request in order to secure, protect, perfect or enforce the Security Interest or the Lender's rights under the Loan Documents (but any failure to request or assure that the Borrower executes, delivers, endorses or authorizes the filing of any such item shall not affect or impair the validity, sufficiency or enforceability of the Loan Documents and the Security Interest, regardless of whether any such item was or was not executed, delivered or endorsed in a similar context or on a prior occasion).

Section 8.5 Costs and Expenses. The Borrower shall pay on demand all costs and expenses, including reasonable attorneys' fees, incurred by the Lender in connection with the Obligations, this Agreement, the Loan Documents, any Letter of Credit and any other document or agreement related hereto or thereto, and the transactions contemplated hereby, including all such costs, expenses and fees incurred in connection with the negotiation, preparation, execution, amendment, administration, performance, collection and enforcement of the Obligations and

all such documents and agreements and the creation, perfection, protection, satisfaction, foreclosure or enforcement of the Security Interest.

Section 8.6 Indemnity. In addition to the payment of expenses pursuant to Section 8.5, the Borrower shall indemnify, defend and hold harmless the Lender, and any of its participants, parent corporations, subsidiary corporations, affiliated corporations, successor corporations, and all present and future officers, directors, employees, attorneys and agents of the foregoing (the "Indemnitees") from and against any of the following (collectively, "Indemnified Liabilities"):

(i) any and all transfer taxes, documentary taxes, assessments or charges made by any governmental authority by reason of the execution and delivery of the Loan Documents or the making of the Revolving Advances;

(ii) any claims, loss or damage to which any Indemnitee may be subjected if any representation or warranty contained in Section 5.14 proves to be incorrect in any respect or as a result of any violation of the covenant contained in Section 6.11(b); and

(iii) any and all other liabilities, losses, damages, penalties, judgments, suits, claims, costs and expenses of any kind or nature whatsoever (including the reasonable fees and disbursements of counsel) in connection with the foregoing and any other investigative, administrative or judicial proceedings, whether or not such Indemnitee shall be designated a party thereto, which may be imposed on, incurred by or asserted against any such Indemnitee, in any manner related to or arising out of or in connection with the making of the Revolving Advances and the Loan Documents or the use or intended use of the proceeds of the Revolving Advances.

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If any investigative, judicial or administrative proceeding arising from any of the foregoing is brought against any Indemnitee, upon such Indemnitee's request, the Borrower, or counsel designated by the Borrower and satisfactory to the Indemnitee, will resist and defend such action, suit or proceeding to the extent and in the manner directed by the Indemnitee, at the Borrower's sole costs and expense. Each Indemnitee will use its best efforts to cooperate in the defense of any such action, suit or proceeding. If the foregoing undertaking to indemnify, defend and hold harmless may be held to be unenforceable because it violates any law or public policy, the Borrower shall nevertheless make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law. The Borrower's obligation under this Section 8.6 shall survive the termination of this Agreement and the discharge of the Borrower's other obligations hereunder.

Section 8.7 Participants. The Lender and its participants, if any, are not partners or joint venturers, and the Lender shall not have any liability or responsibility for any obligation, act or omission of any of its participants. All rights and powers specifically conferred upon the Lender may be transferred or delegated to any of the Lender's participants, successors or assigns.

Section 8.8 Execution in Counterparts; Telefacsimile Execution. This Agreement and other Loan Documents may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same instrument. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement.

Section 8.9 Retention of Borrower's Records. The Lender shall have no obligation to maintain any electronic records or any documents, schedules, invoices, agings, or other papers delivered to the Lender by the Borrower or in connection with the Loan Documents for more than four months after receipt by the Lender.

Section 8.10 Binding Effect; Assignment; Complete Agreement; Exchanging Information. The Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights thereunder or any interest therein without the Lender's prior written consent. To the extent permitted by law, the Borrower waives and will not assert against any assignee any claims, defenses or set-offs which the Borrower could assert against the Lender. This Agreement shall also bind all Persons who become a party to this Agreement as a borrower. This Agreement, together with the Loan Documents, comprises the complete and integrated agreement of the parties on the

subject matter hereof and supersedes all prior agreements, written or oral, on the subject matter hereof. Without limiting the Lender's right to share information regarding the Borrower and its Affiliates with the Lender's participants, accountants, lawyers and other advisors, the Lender, Wells Fargo & Company, and all direct and indirect subsidiaries of Wells Fargo & Company, may exchange any and all information they may have in their possession regarding the Borrower and its Affiliates, and the Borrower waives

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any right of confidentiality it may have with respect to such exchange of such information except with respect to any such exchange in violation of the Lender's internal confidentiality policy.

Section 8.11 Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.

Section 8.12 Headings. Article, Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

Section 8.13 Governing Law; Jurisdiction, Venue; Waiver of Jury Trial. The Loan Documents shall be governed by and construed in accordance with the substantive laws (other than conflict laws) of the State of Colorado. The parties hereto hereby (i) consent to the personal jurisdiction of the state and federal courts located in the State of Colorado in connection with any controversy related to this Agreement; (ii) waive any argument that venue in any such forum is not convenient, (iii) agree that any litigation initiated by the Lender or the Borrower in connection with this Agreement or the other Loan Documents may be venued in either the state or federal courts located in the City and County of Denver, Colorado and (iv) agree that a final judgment in any such suit, action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. THE PARTIES WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED ON OR PERTAINING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first above written.

Dynamic Materials Corporation
5405 Spine Road
Boulder, CO 80301
Telecopier: (303) 604-1897
Attention: Richard Santa
e-mail: rsanta@dynamicmaterials.com

Wells Fargo Business Credit, Inc.
MAC-C7300-300
1740 Broadway
Denver, Colorado 80274
Telecopier: (303) 863-4904
Attention: Martin E. Tracy
e-mail: martin.e.tracy@wellsfargo.com

Dynamic Materials Corporation

By: _____
Richard Santa
Its Vice President,
Chief Financial Officer
and Secretary

WELLS FARGO BUSINESS CREDIT, INC.

By: _____
Martin E. Tracy
Its Commercial Banking Officer

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Table of Exhibits and Schedules

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Exhibit B Compliance Certificate

Exhibit C	Premises
Schedule 5.1	Trade Names, Chief Executive Office, Principal Place of Business, and Locations of Collateral
Schedule 5.2	Capitalization and Organizational Chart
Schedule 5.5	Subsidiaries
Schedule 5.11	Intellectual Property Disclosures
Schedule 5.14	Environmental Matters
Schedule 6.3	Permitted Liens
Schedule 6.4	Permitted Indebtedness and Guaranties

Exhibit A to Credit and Security Agreement

REVOLVING NOTE

\$6,000,000

Denver, Colorado
December 4, 2001

For value received, the undersigned, DYNAMIC MATERIALS CORPORATION, a Delaware corporation (the "Borrower"), hereby promises to pay on the Termination Date under the Credit Agreement (defined below), to the order of WELLS FARGO BUSINESS CREDIT, INC., a Minnesota corporation (the "Lender"), at its main office in Denver, Colorado, or at any other place designated at any time by the holder hereof, in lawful money of the United States of America and in immediately available funds, the principal sum of Six Million Dollars (\$6,000,000) or, if less, the aggregate unpaid principal amount of all Revolving Advances made by the Lender to the Borrower under the Credit Agreement (defined below) together with interest on the principal amount hereunder remaining unpaid from time to time, computed on the basis of the actual number of days elapsed and a 360-day year, from the date hereof until this Note is fully paid at the rate from time to time in effect under the Credit and Security Agreement of even date herewith (the "Credit Agreement") by and between the Lender and the Borrower. The principal hereof and interest accruing thereon shall be due and payable as provided in the Credit Agreement. This Note may be prepaid only in accordance with the Credit Agreement.

This Note is issued pursuant, and is subject, to the Credit Agreement, which provides, among other things, for acceleration hereof. This Note is the Note referred to in the Credit Agreement. This Note is secured, among other things, pursuant to the Credit Agreement and the Security Documents as therein defined, and may now or hereafter be secured by one or more other security agreements, mortgages, deeds of trust, assignments or other instruments or agreements.

The Borrower shall pay all costs of collection, including attorneys' fees and legal expenses if this Note is not paid when due, whether or not legal proceedings are commenced.

Presentment or other demand for payment, notice of dishonor and protest are expressly waived.

DYNAMIC MATERIALS CORPORATION

By: _____

Name: Richard Santa
Its: Vice President, Chief Financial Officer
and Secretary

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Exhibit B to Credit and Security Agreement

Compliance Certificate

To: Martin E. Tracy
Wells Fargo Business Credit, Inc.

Date: _____, 200__

Subject: Dynamic Materials Corporation
Financial Statements

In accordance with our Credit and Security Agreement dated as of December 4, 2001 (the "Credit Agreement"), attached are the financial statements of Dynamic Materials Corporation (the "Borrower") as of and for _____, 200__ (the "Reporting Date") and the year-to-date period then ended (the "Current Financials"). All terms used in this certificate have the meanings given in the Credit Agreement.

I certify that the Current Financials have been prepared in accordance with GAAP, subject to year-end audit adjustments, and fairly present the Borrower's financial condition as of the date thereof.

Events of Default. (Check one):

The undersigned does not have knowledge of the occurrence of a Default or Event of Default under the Credit Agreement except as previously reported in writing to the Lender.

The undersigned has knowledge of the occurrence of a Default or Event of Default under the Credit Agreement not previously reported in writing to the Lender and attached hereto is a statement of the facts with respect to thereto. The Borrower acknowledges that pursuant to Section 2.8(c) of the Credit Agreement, the Lender may impose the Default Rate at any time during the resulting Default Period.

Financial Covenants. I further hereby certify as follows:

1. Minimum Debt Service Coverage Ratio. Pursuant to Section 6.2(a) of the Credit Agreement, as of the Reporting Date, the Borrower's Debt Service Coverage Ratio was _____ to 1.00 which satisfies does not satisfy the requirement that such ratio be no less than _____ to 1.00 on the Reporting Date as set forth in table below (numbers appearing between "< >" are negative):

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Period -----	Minimum Debt Service Coverage Ratio -----
The three months ending December 31, 2001	0.89 to 1.00
The three months ending March 31, 2002	(0.21) to 1.00
The six months ending June 30, 2002	0.14 to 1.00
The nine months ending September 30, 2002	0.79 to 1.00
The twelve months ending December 31, 2002	1.01 to 1.00

2. Minimum Book Net Worth. Pursuant to Section 6.2(b) of the Credit Agreement, as of the Reporting Date, the Borrower's Book Net Worth was \$_____ which satisfies does not satisfy the requirement that such amount be not less than \$_____ on the Reporting Date as set forth in table below (numbers appearing between "()" are negative):

Period -----	Minimum Book Net Worth -----
The calendar month ending October 31, 2001	\$15,261,000
The calendar month ending November 30, 2001	\$15,261,000
The calendar month ending December 31, 2001	\$15,261,000
The calendar month ending January 31, 2002	\$14,952,000
The calendar month ending February 28, 2002	\$14,952,000
The calendar month ending March 31, 2002	\$14,952,000
The calendar month ending April 30, 2002	\$14,952,000
The calendar month ending May 31, 2002	\$14,952,000
The calendar month ending June 30, 2002	\$15,335,000
The calendar month ending July 31, 2002	\$15,335,000
The calendar month ending August 31, 2002	\$15,335,000
The calendar month ending September 30, 2002	\$16,136,000
The calendar month ending October 31, 2002	\$16,136,000
The calendar month ending November 30, 2002	\$16,136,000
The calendar month ending December 31, 2002 and thereafter	\$16,911,000

3. Minimum Net Income. Pursuant to Section 6.2(c) of the Credit Agreement, the Borrower's Net Income for the _____ period ending on the Reporting Date, was \$_____, which satisfies does not satisfy the requirement that such amount be not less than \$_____ during such period as set forth in table below period (numbers appearing between "()" are negative):

Period	Minimum Net Income
The three months ending December 31, 2001	(\$165,000)
The three months ending March 31, 2002	(\$309,000)
The six months ending June 30, 2002	\$74,000
The nine months ending September 30, 2002	\$875,000
The twelve months ending December 31, 2002	\$1,650,000

4. Minimum Cash Balance plus Excess Availability. Pursuant to Section 6.2(d) of the Credit Agreement, for the _____ period ending on the Reporting Date, the sum of the Borrower's cash balance in its operating account held at Wells Fargo Bank West plus Availability, determined immediately after the Borrower made the debt payment due to SNPE, Inc. during such quarter, was \$_____, which |_| satisfies |_| does not satisfy the requirement that such amount be not less than \$500,000.

5. Capital Expenditures. Pursuant to Section 6.2(e) of the Credit Agreement, during the period from December 4, 2001, to and ending on the Reporting Date, the Borrower has expended or contracted to expend during the period ended _____, 200__, for Capital Expenditures, \$_____ in the aggregate which |_| satisfies |_| does not satisfy the requirement that such expenditures not exceed \$2,150,000 in the aggregate.

Attached hereto are all relevant facts in reasonable detail to evidence, and the computations of the financial covenants referred to above. These computations were made in accordance with GAAP.

DYNAMIC MATERIALS CORPORATION

By: _____
Its Chief Financial Officer

Exhibit C Credit and Security Agreement

Premises

The Premises referred to in the Credit and Security Agreement are legally described as follows:

Owned Real Property

Description	Address	Original Deed Date
Mt. Braddock, PA Plant	1138 Industrial Park Drive Mount Braddock, PA 15465	September 22, 1998

Legal Description:

All that certain piece, parcel or tract of land situate in North Union Township, Fayette County, Pennsylvania known as Lot No. 13 in a Resubdivision of Industrial Park No. 1, Mount Braddock, the same appearing of record in the Office of the Recorder of Deeds for Fayette County, Pennsylvania, in Plan Book No. 31, page 76.

AMK Welding	283 Sullivan Ave South Windsor, CT 06074	January 5, 1998
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Legal Description:

Known as No. 283 Sullivan Avenue; Northerly by Sullivan Avenue 190.24 feet; Easterly by land now or formerly of Sperry Wood Corporation, 310 feet; Southerly by land now or formerly of Alva Rossi et al., (the second piece hereafter described) 215.93 feet; Westerly by Patria Road, 284.31 feet; and Northwesterly by the arc of a curve connecting the southerly street line of Sullivan Avenue with the easterly street line of Patria Road, 39.95 feet.

Lot 8 Patria Lane (connected to above parcel)	January 5, 1998
---	-----------------

Legal Description:

Lot No. 8 as shown on a map or plan entitled "Patria Industrial Park Sullivan Avenue South Windsor Scale 1' x 40' May 1970 William J. Carrington Reg L.S. Revisions: Lots 2 and 3 now known as Parcel "A" on file in the Town Clerk's Office in said Town of South Windsor.

Said premises are more particularly bounded and described as follow: Northerly by land now or formerly of Alva Rossi, et al (the first piece above described), 215.93 feet; Easterly by land now or formerly of Sperry wood Corporation, 110 feet; Southerly by land now or formerly of Abrahara Patria (Lot No. 7 on the aforesaid map), 215.93 feet; and Westerly by Patria Road, 110 feet.

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Leased Real Property

Description	Address	Original Commencement	Lease Expiration
Dunbar, PA Mine Site	Dunbar-Ohiopyle Rd. RR2 Dunbar, PA 15431	July 22, 1996	Dec. 15, 2000 with renewal through Dec. 15, 2005

Legal Description:

ALL THAT CERTAIN TRACT OR PARCEL OF LAND situate in the Township of Dunbar, County of Fayette and Commonwealth of Pennsylvania, containing approximately 378 acres, more or less; said tract is as shown on the Mine Survey of the former New Castle Lime & Stone Company Mine, prepared by Sucevic Engineering, Hopwood, PA, in September 1979.

Spin Forge	1700 East Grand Avenue El Segundo, CA 90245	March 18, 1998	Jan. 1, 2002, with renewal through Jan. 1, 2012
------------	--	----------------	---

Legal Description:

Those portions of Lots 364, 365, 366, 367, and 368, in Block 123 per map recorded in Map Book 22. Pages 106 and 107, in the office of the County Recorder of said County, lying southwesterly of the following described line:

Beginning at the intersection of found punch marks on the rim of a manhole, no reference, accepted as the Northwest corner of Lot 340 per said Map Book, also accepted as a point on the centerline of Grand

Avenue, said intersection of found punch marks being South 89(degree)53'52" West, 328.41 feet measured, 328.50 feet record, from the intersection of found punch marks on the rim of a manhole, no reference, accepted as the Northeast corner of said Lot 368, also accepted as a point on the centerline of Grand Avenue;

thence North 89(degree)53' 52" East, along the Northerly line of said Lot 340, 109.58 feet to the True Point of Beginning of this description; thence South 30(degree)28'58" East, 432.77 feet to a point in the Easterly line of Lot 364 per said Map Book.

Precision Machined Products	1017 Smithfield Drive Ft. Collins, CO 80524	December 1, 1998	Dec. 1, 2003, with renewal through Dec. 1, 2008
-----------------------------	--	------------------	---

Legal Description:

Lot 17, Smithfield Addition, Larimer County, Colorado

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Corporate Offices	5405 Spine Road Boulder, CO 80301	April 1, 2001	Feb. 28, 2003, Sublease with Flextronics Int'l
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Legal Description:

Lot 13, the Greens Industrial Park, a Subdivision in the City of Boulder, County of Boulder, State of Colorado; also known by street and number as 5405 Spine Road, Boulder, Colorado 80301

Corporate Offices	5405 Spine Road	March 1, 2003	Feb. 28, 2006, with
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Legal Description:

Lot 13, the Greens Industrial Park, a Subdivision in the City of Boulder, County of Boulder, State of Colorado; also known by street and number as 5405 Spine Road, Boulder, Colorado 80301

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Schedule 5.1 to Credit and Security Agreement

Trade Names, Chief Executive Office, Principal Place of Business,
and Locations of Collateral

Trade Names

Dynamic Materials Corporation

Dynamic Materials

DMC

Boom, Inc.

Clad Metal division of Dynamic Materials Corporation

Explosive Fabricators, Inc.

Explosive Fabricators

Precision Machined Products

Precision Machined Products, a division of Dynamic Materials Corporation

PMP

Spin Forge

Spin Forge, a division of Dynamic Materials Corporation

Detaclad

Detaclad, a division of Dynamic Materials Corporation

AMK Welding

AMK Welding, a division of Dynamic Materials Corporation

AMK

Chief Executive Office/Principal Place of Business

Dynamic Materials Corporation

5405 Spine Road

Boulder, CO 80301

Other Inventory and Equipment Locations

Clad Metal Division

Mt. Braddock Facility
1138 Industrial Park Drive
Mount Braddock, PA 15465

Dunbar Mine
Dunbar-Ohioopyle Road
RR 2, Box 141
Dunbar, PA 15431

Spin Forge Division

1700 East Grand Ave
El Segundo, CA 90245

Precision Machined Products
Division

1017 Smithfield Drive
Ft. Collins, CO 80524

AMK Welding Division

283 Sullivan Ave.
South Windsor, CT 06074

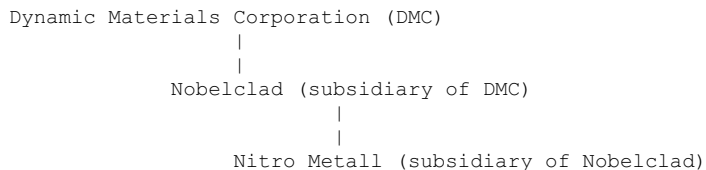
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Schedule 5.2 to Credit and Security Agreement

Capitalization and Organizational Chart

Holder	Type of Rights/Stock	No. of shares (after exercise of all rights to acquire shares)	Percent interest on a fully diluted basis
SNPE, Inc.	Common Stock	2,763,491	55.09%

Organizational Chart



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Schedule 5.5 to Credit and Security Agreement

Subsidiaries

Nobelclad S.A., a French Societe Anonyme (subsidiary of Dynamic Materials Corporation)

Nitro Metall A.B., a Swedish Aktiebolag (subsidiary of Nobelclad)

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Schedule 5.11 to Credit and Security Agreement

Intellectual Property Disclosures

Patent Information

Patent Number	Description	Date Filed	Date Granted
4,333,597	Method of explosively forming Bi-Metal Tube Plate Joints	5/27/80	6/8/82
4,518,111	Method of Fabricating a Bi-Metal Tube	10/17/83	5/21/85
4,600,332	Aluminum Titanium Transition Joint Between Aluminum and Steel Bodies	1/11/85	7/15/86
4,934,952	Corrosion Resistant Bonding Strap	3/28/89	6/19/90
5,001,299	Explosively Formed Electronic Packages	6/1/89	3/19/91
5,022,144	Method of Manufacture Power Hybrid Microcircuit	3/2/89	6/11/91
5,190,831	Bonded Titanium/Steel Components	11/5/91	3/2/93
5,213,904	Aluminum/Steel Transition Joint	11/5/91	5/25/93
4,220,027	Method for Explosive Forming of Tubular Molds for Continuous Steel Casting	7/10/75	9/2/80
5,109,594	Method of Making a Sealed Transition Joint	3/18/91	5/5/92
5,041,019	Transition Joint for Microwave Package	11/1/90	8/20/91
5,296,647	Assembly for Connecting an Electrical Box to a Plate With a Bimetallic Flange	10/25/91	3/22/94

Patent Number	Description	Date Filed	Date Granted
5,323,955	Explosively Bonding Metal Composite	2/26/93	6/28/94
5,400,945	Process for Explosively Bonding Metals	6/18/93	3/28/95

* US Patents Expiration Dates are subject to a variety of factors and cannot be guaranteed.

Patent Assignments

Docket Number	Description	Date	Inventor(s)/Comments
127 600	Selectively Bonded Metal Plate	2/10/92	William F. Sharp
127 700	Electronic Component Housing Module	7/13/92	Albert V. Suppinger & Prem R. Hingorany
	Method of Fabricating a Bi-Metal Tube	10/17/83	Roy Hardwick (Serial No. 542,532)

Patent Applications

Serial Number	Description	Date	Inventor(s)/Comments
341.832	Method of Line Initiation for Explosively Welding Large Area Plates	1/22/82	Roy Hardwick (Docket No. F81009)
360.068	Explosively Formed Electronic Packages and Method of Manufacture	6/1/89	Prem Hingorany (Docket No. F8813CIP)
08/829.530	Hot Rolled Explosion Bonded Titanium Steel Metal Composite	3/28/97	Bergmann et al.
338.849	Controlled Expansion Microwave Packages and Method of Manufacture	4/17/89	

Foreign Patents

Number	Foreign Patents	Recorded	Serial Number
1,361.303	French Patent to Du Pont	3/20/69	54.081
1,075.938	Explosive Welding - Philipchuk & Bois Patent - Canada		

Trademarks

Number	Description	Registration Date
1.861.612	Dynalock	11/8/94
1.598.407	EFTEK	5/29/90
729.821	DETA CLAD	7/20/65
883.356	DETA COUPLE	12/30/69

Foreign Trademark Registration of DETACLAD:	
Jurisdiction	Registration Number
United Kingdom	892074
Spain	499 809
Italy	474 275
China	256 374
Canada	157029
Australia	A-200,889
Switzerland	345467

Invention Disclosure

Date	Description	Inventor(s)/Comments
10/4/91	Superior Quality, Low Cost Ferritic Steel Clad	John Banker
10/4/91	Sacrificial Surface Tri Clad for Severe Corrosion Application	John Banker/Carl E. Stevens

Date	Description	Inventor(s)/Comments
9/13/88	Explosively Clad Copper Body Power Hybrid Package and Method of Manufacture	John Banker/Jerry Comer

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12/1/82	Method of Fabrication a Zirconium Lined Bi-Metal Tube	Roy Hardwick
11/17/93	Cryo-TTJ (Cryogenic Transitional Joint)	Edward G. Reineke

List of Key Technical Employees - All Have Signed Borrower's Employee Proprietary Information and Inventions Agreements

John Banker Curtis Prothe
 John Knoll Chad Toth
 Jose Olivas

The Borrower is currently in discussions with Sigmabond (a Canadian company) regarding the ownership of intellectual property used in connection with the European cladding operations of Nobelclad (used only in research at this time). Sigmabond is claiming that the Borrower is infringing on its intellectual property.

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Schedule 5.14 to Credit and Security Agreement

Environmental Matters

Notices of Violation - Industrial Waste Effluent Limits, dated November 15, 1999 and February 24, 2000, received from the City of El Segundo, Ca.

Dynamic Materials Corporation received a letter from the City of El Segundo, Ca. on June 7, 2000 indicating the facility was in compliance with respect to the Notices of Violations above.

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Schedule 6.3 to Credit and Security Agreement

Permitted Liens

Creditor -----	Collateral -----	Jurisdiction -----	Filing Date -----	Filing No. -----
<S> CIT Group, Inc.	<C> Hankook Protturn CNC Turning Ctr.	<C> Colorado	<C> 10/20/99	<C> 19992058333
CIT Group, Inc.	Hankook Protturn CNC Turning Ctr.	California	10/20/99	9929960362
Wells Fargo Equipment Finance, Inc.	Mori Seiki Vertical Machining Ctr.	Colorado	8/22/00	20002076006
Wells Fargo Equipment Finance, Inc.	Mori Seiki CNC Turning Ctr.	Colorado	1/2/01	20012000220
McDonnell Douglas Corp.	Remaining forgings On MCD P.O. #'s 921438, 913537 & 920770	California	2/4/00	3960397

</TABLE>

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Schedule 6.4 to Credit and Security Agreement

Permitted Indebtedness and Guaranties

<TABLE>
<CAPTION>

Indebtedness

Creditor -----	Amount Outstanding	Maturity Date	Periodic Payment	Collateral
<S> Industrial Development Revenue Bonds	<C> \$5,465,000	<C> Sept. 2013	<C> Varies from \$45,000 to \$255,000	<C> PA Facility Property, Plan & Equipment
SNPE, Inc. Convertible Subordinated Note	\$1,200,000	06/14/05	---	Subordinated to all senior indebtedness. No collateral.
SNPE, Inc. Term Loan	\$4,000,000	7/3/05	\$333,333 Quarterly Beginning 9/30/02	Stock of Nobelclad

</TABLE>

Guaranties

NONE

Depository Accounts

Savings Bank of Manchester
923 Main Street, PO Box 231
Manchester, CT 06045-0231
Acct: 9500192751

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March 26, 2002

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Ladies and Gentlemen:

We are filing our Form 10-K today with financial statements audited by Arthur Andersen LLP ("Andersen"). Andersen's audit opinion on our December 31, 2001 financial statements is dated February 25, 2002. In accordance with Temporary Note 3T to Article 3 of Regulation S-X we have received certain required representations from Andersen in a letter signed by them and dated March 25, 2002.

Andersen has represented to us that the audit was subject to Andersen's quality control system for the U.S. accounting and auditing practice to provide reasonable assurance that the engagement was conducted in compliance with professional standards. They further represented that there was appropriate continuity of Andersen personnel working on the audit and availability of national office consultation. Andersen represented that there was availability of national office consultation and personnel at foreign affiliates of Andersen to conduct the relevant portions of this audit.

Sincerely,

/s/ Yvon Pierre Cariou
Yvon Pierre Cariou,
President and Chief Executive Officer