

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED: SEPTEMBER 30, 1998

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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 other jurisdiction (I.R.S. Employer Identification No.)  
of incorporation or organization)

551 ASPEN RIDGE DRIVE, LAFAYETTE 80026  
(Address of principal executive office) (Zip Code)

Issuer's telephone number, including Area Code (303) 665-5700

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, \$.05 PAR VALUE  
(TITLE OF CLASS)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 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  
- - - - -

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 2,723,666 SHARES OF COMMON STOCK AS OF OCTOBER 31, 1998.

ITEM 1. FINANCIAL STATEMENTS

DYNAMIC MATERIALS CORPORATION

CONDENSED BALANCE SHEETS

(UNAUDITED)

<TABLE>  
<CAPTION>

ASSETS	September 30, 1998	December 31, 1997
CURRENT ASSETS:	<C>	<C>
Cash and cash equivalents	\$ --	\$ 53,809
Accounts receivable, net of allowance for doubtful accounts of \$170,000 and \$150,000, respectively	6,073,261	4,936,350
Inventories	3,587,387	4,029,559
Prepaid expenses and other	336,468	368,511
Deferred tax asset	200,000	200,000
Receivable from related party	--	221,274

Total current assets	10,197,116	9,809,503
PROPERTY, PLANT AND EQUIPMENT	10,581,141	5,831,687
Less- Accumulated depreciation	(3,655,692)	(2,988,807)
Property, plant and equipment-net	6,925,449	2,842,880
INTANGIBLE ASSETS, net of accumulated amortization of \$411,785 and \$307,451, respectively	1,228,379	1,230,464
NOTE RECEIVABLE	280,000	--
RESTRICTED CASH AND SHORT TERM INVESTMENTS	6,461,015	--
OTHER ASSETS	383,905	522,962
TOTAL ASSETS	\$ 25,475,864	\$ 14,405,809

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS

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DYNAMIC MATERIALS CORPORATION

CONDENSED BALANCE SHEETS

(UNAUDITED)

<TABLE>  
<CAPTION>

	September 30, 1998	December 31, 1997
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
<S>	<C>	<C>
CURRENT LIABILITIES:		
Bank overdraft	\$ 82,536	\$ --
Accounts payable	1,838,162	2,328,867
Accrued expenses	1,450,132	1,012,908
Current maturities of long-term debt and capital lease obligations	38,330	113,925
Total current liabilities	3,409,160	3,455,700
LINE OF CREDIT	2,785,000	--
INDUSTRIAL DEVELOPMENT REVENUE BONDS	6,850,000	--
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	62,730	76,832
DEFERRED TAX LIABILITY	13,800	13,800
Total liabilities	13,120,690	3,546,332
STOCKHOLDERS' EQUITY:		
Convertible preferred stock, \$.05 par value; 4,000,000 shares authorized: no issued and outstanding shares	--	--
Common stock, \$.05 par value; 15,000,000 shares authorized; 2,723,666 and 2,718,708 shares issued and outstanding, respectively	136,184	135,936
Additional paid-in capital	6,686,940	6,587,911
Deferred compensation	(59,062)	--
Retained earnings	5,591,112	4,135,630
	12,355,174	10,859,477
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 25,475,864	\$ 14,405,809

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS

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DYNAMIC MATERIALS CORPORATION

CONDENSED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

(UNAUDITED)

<TABLE>  
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
NET SALES	\$ 9,675,750	\$ 7,803,059	\$ 30,543,872	\$ 25,462,599
COST OF PRODUCTS SOLD	7,554,313	6,059,108	24,042,453	19,809,451
Gross profit	2,121,437	1,743,951	6,501,419	5,653,148
COSTS AND EXPENSES:				
General and administrative expenses	1,070,726	558,785	2,401,618	1,654,089
Selling expenses	387,550	494,449	1,387,822	1,551,100
Start up costs related to new facility	86,036	--	114,437	--
Research and development costs	2,369	10,495	28,963	27,624
	1,546,681	1,063,729	3,932,840	3,232,813
INCOME FROM OPERATIONS	574,756	680,222	2,568,579	2,420,335
OTHER INCOME (EXPENSE):				
Other income	141	257	5,625	23,763
Interest expense	(75,166)	(15,135)	(198,811)	(105,419)
Interest income	9,006	14,720	11,089	21,807
Income before income tax provision	508,737	680,064	2,386,482	2,360,486
INCOME TAX PROVISION	(199,000)	(217,143)	(931,000)	(755,000)
NET INCOME	\$ 309,737	\$ 462,921	\$ 1,455,482	\$ 1,605,486
NET INCOME PER SHARE				
Basic	\$ 0.11	\$ 0.17	\$ 0.52	\$ 0.60
Diluted	\$ 0.11	\$ 0.16	\$ 0.50	\$ 0.56
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic	2,807,957	2,714,371	2,780,238	2,669,434
Diluted	2,881,317	2,880,891	2,889,732	2,879,216

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS

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DYNAMIC MATERIALS CORPORATION

STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998

(UNAUDITED)

<TABLE>  
<CAPTION>

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Retained Earnings
<S>	<C>	<C>	<C>	<C>	<C>
Balances, December 31, 1997	2,718,708	\$ 135,936	\$ 6,587,911	\$ --	\$ 4,135,630
Common stock issued for stock option exercises	34,365	1,718	75,629	--	--
Common stock issued in					

connection with the employee stock purchase plan	11,093	555	73,700	--	--
Shares issued in connection with the purchase of Spin Forge	50,000	2,500	447,300	--	--
Restricted stock grant related to the purchase of Spin Forge	7,500	375	67,125	(67,500)	--
Amortization of deferred compensation				8,438	
Shares repurchased from related party	(98,000)	(4,900)	(564,725)	--	--
Net income	--	--	--	--	1,455,482
Balances, September 30, 1998	2,723,666	\$ 136,184	\$ 6,686,940	\$ (59,062)	\$ 5,591,112

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS

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DYNAMIC MATERIALS CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

(UNAUDITED)

<TABLE>  
<CAPTION>

	1998	1997
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,455,482	\$ 1,605,486
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation	666,885	435,667
Amortization	102,083	78,134
Amortization of deferred compensation	8,438	--
Decrease (increase) in-		
Accounts receivable, net	(1,136,911)	438,569
Inventories	1,603,903	2,841,886
Prepaid expenses and other	113,109	(469,288)
Increase (decrease) in-		
Bank overdraft	82,536	(743,471)
Accounts payable	(1,252,642)	(723,008)
Accrued expenses	373,838	224,913
Net cash flows from operating activities	2,016,721	3,688,888
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment of bond proceeds	(6,461,015)	--
Purchase of Spin Forge assets	(2,615,691)	--
Purchase of AMK assets	(905,873)	--
Cash paid in connection with the shares repurchased from related party	(425,285)	--
Loan to related party	(280,000)	--
Acquisition of property, plant and equipment	(901,071)	(205,477)
Change in other noncurrent assets	26,628	22,846
Net cash flows used in investing activities	(11,562,307)	(182,631)

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS

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DYNAMIC MATERIALS CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

(UNAUDITED)

<TABLE>  
<CAPTION>

	1998	1997
	-----	-----
<S>	<C>	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Industrial development revenue bond proceeds	6,850,000	--
Bond issue costs paid	(171,151)	--
Borrowings/(payments) on line of credit, net	2,785,000	(3,930,000)
Finance charges paid in connection with the reducing revolver credit facility	(33,977)	--
Payments on long-term debt and capital lease obligations	(89,697)	(90,340)
Net proceeds from issuance of common stock	151,602	320,661
	-----	-----
Net cash flows from financing activities	9,491,777	(3,699,679)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(53,809)	(193,422)
	-----	-----
CASH AND CASH EQUIVALENTS, beginning of the period	53,809	209,650
	-----	-----
CASH AND CASH EQUIVALENTS, end of the period	\$ --	\$ 16,228
	=====	=====

SUPPLEMENTAL DISCLOSURE OF CASH FLOW  
INFORMATION:

	1998	1997
	-----	-----
Cash paid during the period for-		
Interest	\$ 192,893	\$ 159,419
	=====	=====
Income taxes	\$ 819,346	\$ 1,238,242
	=====	=====

</TABLE>

NONCASH INVESTING ACTIVITIES:

\$139,440 of the shares repurchased from a related party were in satisfaction of a receivable due from that party.

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS

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DYNAMIC MATERIALS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The information included in the Condensed Financial Statements is unaudited but includes all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the interim periods presented. These Condensed Financial Statements should be read in conjunction with the financial statements that are included in the Company's Annual Report filed on Form 10-KSB for the year ended December 31, 1997. Certain prior period amounts have been reclassified to conform to the current period presentation.

2. ACQUISITION OF AMK AND SPIN FORGE BUSINESSES

The Company has completed two separate business acquisitions since its December 31, 1997 fiscal year end. On January 5, 1998, the Company acquired certain assets of AMK Welding, Inc. (AMK) for a cash purchase price of approximately \$940,000. Assets acquired consisted primarily of machinery and equipment, land and the building that houses AMK's operations. AMK supplies commercial aircraft and aerospace-related automatic and manual, gas tungsten and arc welding services. On March 18, 1998, the Company completed the acquisition of certain assets of Spin Forge, LLC (Spin Forge) for a purchase price of approximately \$3,826,000 that was paid with a combination of approximately \$2,616,000 in cash, assumption of approximately \$760,000 in liabilities and 50,000 shares of DMC Common Stock valued at \$449,800. The Company's management believes Spin Forge is one of the country's leading manufacturers of tactical missile motor cases and titanium pressure vessels for the commercial aerospace and defense industries. Principal assets acquired included machinery and equipment and inventories. The Company will lease land and buildings from Spin Forge and holds an option to purchase such property for approximately \$2.9 million, subject to certain adjustments, exercisable under certain conditions through January 2002. The

option may be extended beyond this date under specified conditions provided that the option price must be adjusted upwards in the event that the fair market value of the property at the time of exercise is higher than \$2.9 million.

The following unaudited pro forma results of operations of the Company for the three months ended September 30, 1997 and the nine months ended September 30, 1997 and 1998 assumes that the acquisition of AMK and Spin Forge had occurred on January 1, 1997. These pro forma results are not necessarily indicative of the actual results of operations that would have been achieved nor are they necessarily indicative of future results of operations.

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<TABLE>  
<CAPTION>

	Three Months Ended September 30, 1997		Nine Months Ended September 30, 1998		September 30, 1997
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	
Revenues	\$ 9,881,537	\$ 31,805,157	\$ 31,126,349		
Net Income	\$ 549,435	\$ 1,499,578	\$ 1,679,484		
Net Income Per Share -Basic	\$ 0.20	\$ 0.53	\$ 0.62		
Net Income Per Share -Diluted	\$ 0.19	\$ 0.51	\$ 0.57		

</TABLE>

### 3. NEW ACCOUNTING PRINCIPLE

The Financial Accounting Standards Board recently issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which requires that companies recognize all derivatives as either assets or liabilities in the balance sheet at fair value. Under SFAS 133, accounting for changes in fair value of a derivative depends on its intended use and designation. SFAS 133 is effective for fiscal years beginning after June 15, 1999. The Company is currently assessing the effect of this new standard.

### 4. INVENTORIES

This caption on the Condensed Balance Sheet includes the following:

	September 30, 1998	December 31, 1997
	-----	-----
Raw Materials	\$1,427,670	\$ 984,788
Work-in-Process	1,982,974	2,865,164
Supplies	176,743	179,607
	-----	-----
	\$3,587,387	\$4,029,559
	=====	=====

### 5. NET INCOME PER SHARE:

The Company computes earnings per share (EPS) in accordance with Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per Share". Basic EPS is computed by dividing net 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:

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<TABLE>  
<CAPTION>

	FOR THE QUARTER ENDED SEPTEMBER 30, 1997		
	Income	Shares	Per share Amount
	-----	-----	-----
<S>	<C>	<C>	<C>
Net Income	\$ 462,921		
	=====		
Basic earnings per share:			
Income available to common shareholders	\$ 462,921	2,714,371	\$ 0.17
			=====
Dilutive effect of options to purchase common			

stock	--	166,520	
	-----	-----	
Dilutive earnings per share:			
Income available to common shareholders	\$ 462,921	2,880,891	\$ 0.16
	=====	=====	=====

	FOR THE QUARTER ENDED SEPTEMBER 30, 1998		
	Income	Shares	Per share Amount
	-----	-----	-----
Net Income	\$ 309,737		
	=====		
Basic earnings per share:			
Income available to common shareholders	\$ 309,737	2,807,957	\$ 0.11
			=====
Dilutive effect of options to purchase common stock	--	73,360	
	-----	-----	
Dilutive earnings per share:			
Income available to common shareholders	\$ 309,737	2,881,317	\$ 0.11
	=====	=====	=====

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997		
	Income	Shares	Per share Amount
	-----	-----	-----
Net Income	\$1,605,486		
	=====		
Basic earnings per share:			
Income available to common shareholders	\$1,605,486	2,669,434	\$ 0.60
			=====
Dilutive effect of options to purchase common stock	--	209,782	
	-----	-----	
Dilutive earnings per share:			
Income available to common shareholders	\$1,605,486	2,879,216	\$ 0.56
	=====	=====	=====

</TABLE>

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<TABLE>  
<CAPTION>

	For the nine months ended September 30, 1997		
	Income	Shares	Per share Amount
	-----	-----	-----
<S>	<C>	<C>	<C>
Net Income	\$1,455,482		
	=====		
Basic earnings per share:			
Income available to common shareholders	\$1,455,482	2,780,238	\$ 0.52
			=====
Dilutive effect of options to purchase common stock	--	109,494	
	-----	-----	
Dilutive earnings per share:			
Income available to common shareholders	\$1,455,482	2,889,732	\$ 0.50
	=====	=====	=====

</TABLE>

In December, 1997 the Company adopted SFAS 128 and, as a result, the Company's reported earnings per share for the quarter and nine months ended September 30, 1997 were restated. The effect of this change on previously reported EPS data was as follows:

	Quarter Ended September 30, 1997	Nine Months Ended September 30, 1997
	----	----
Per share amounts		
Primary EPS as reported	\$0.16	\$0.56
Effect of FAS 128	0.01	0.04

Basic EPS as restated	----- \$0.17 =====	----- \$0.60 =====
Fully diluted EPS as reported	\$0.16	\$0.56
Effect of FAS 128	--	--
Diluted EPS as restated	----- \$0.16 =====	----- \$0.56 =====

#### 6. SIGNIFICANT CUSTOMER

During the quarter ended September 30, 1998, two customers accounted for approximately 25% of net sales. No one customer accounted for more than 10% of net sales during the nine months ended September 30, 1998. Two customers accounted for approximately 24% of net sales during the quarter ended September 30, 1997 and one customer accounted for approximately 16% of net sales during the nine months ended September 30, 1997. International sales as a percent of net sales were 7% and 11% for the quarters ended September 30, 1998 and 1997, respectively. International sales as a percent of net sales were 16% and 28% for the nine months ended September 30, 1998 and 1997, respectively. Due to the fact that a significant portion of the Company's sales is derived from a relatively small number of customers, the loss of a customer, the failure to perform existing contracts on a timely basis, 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.

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#### 7. LONG-TERM DEBT

During September 1998, the Company began construction on a new manufacturing facility in Fayette County, Pennsylvania. This project is being financed under a loan agreement in connection with industrial development revenue bonds issued by the Fayette County Industrial Development Authority. The Company closed on this financing arrangement on September 17, 1998. The principal balance outstanding at September 30, 1998 was \$6,850,000. 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 September 30, 1998 was 3.88%. The Company has established a bank letter of credit in the trustee's favor for the principal amount of \$6,850,000 plus 98 days accrued interest on the bonds. The letter of credit is secured by the Company's accounts receivable, inventory, property plant and equipment and the bond proceeds not yet expended for construction. The portion of the borrowings not yet expended for construction was \$6,461,015 as of September 30, 1998 and was classified as restricted cash and short term investments on the Company's balance sheet. The Company may redeem the bonds prior to maturity at an amount equal to the outstanding principal plus any accrued interest. The bonds mature on September 1, 2013 at which time all amounts become due and payable.

On September 17, 1998, the Company entered into an interest rate swap agreement with a bank under which the Company converted the variable interest rate on the bonds to a rate that is largely fixed. Under the swap agreement, the Company has agreed to pay the bank a fixed interest rate of 4.41% over the life of the bonds and, in return, receive interest payments from the bank in an amount equal to 76% of the 30-day commercial paper rate. Since the current weekly tax-exempt rate (3.88% at September 30, 1998) is lower than 76% of the commercial paper rate (3.98% at September 30, 1998), the Company's effective rate is lower than the fixed rate of 4.41%. If the weekly tax-exempt rate should increase above 76% of the commercial paper rate in the future, the Company's effective interest rate would increase above the 4.41% fixed rate.

#### 8. COMMITMENTS AND CONTINGENCIES

##### LITIGATION

The Company has been named as a defendant in a lawsuit filed by a French company who the Company had been in merger/acquisition discussions with during 1997, seeking damages of approximately \$1.3 million. The Company plans to vigorously defend itself against such claim and management of the Company believes the ultimate outcome of such litigation will not have a material adverse effect on its financial condition or results of operations. No provision for liability with respect to this claim has been made in the accompanying statements of financial condition.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion should be read in conjunction with the Condensed Financial Statements included elsewhere within this quarterly report. Fluctuations in annual and quarterly operating results may occur as a result of certain factors such as the size and timing of customer orders and competition.



Due to such fluctuations, historical results and percentage relationships are not necessarily indicative of the results for any future period. Statements contained in this report that are

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not historical facts 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 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; and general economic conditions, both domestically and abroad. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. The Company further directs readers to the factors discussed in the Company's Form 10-KSB for the year ended December 31, 1997.

#### GENERAL

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 both metallurgical bonding, or metal "cladding," and metal forming. The Company performs metal cladding using its proprietary Dynaclad(TM) and Detaclad(R) technologies and performs metal forming using its proprietary Dynaform(TM) technology. Historically, the Company has generated approximately 85% to 90% of its revenues from its metal cladding business and approximately 10% to 15% of its revenues from its metal forming and shock synthesis businesses. The Company expects revenues from its cladding business, as a proportion of total Company revenues, to decline as a result of the recent AMK and Spin Forge acquisitions.

**Metal Cladding.** 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.

**Metal Forming, Welding and Assembly.** Formed metal products are made from sheet metal and forgings that are subsequently formed into precise, three-dimensional shapes that are held to tight tolerances. Metal forming is accomplished through both the use of explosives and traditional forming technologies, including spinning, machining, rolling and hydraulic expansion. DMC also performs welding services utilizing a variety of manual and automatic welding techniques that include electron beam and gas tungsten arc welding processes. The Company's forming and welding operations are often performed to support the manufacture of completed assemblies and sub-assemblies required by its customers. 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, welding and assembly operations serve a variety of product applications in the commercial aircraft, aerospace, defense and power generation industries. Product applications include torque box webs for jet engine nacelles, tactical and ballistic missile motor cases and titanium pressure tanks.

The Company is continually working to generate solutions to the materials needs of customers in its target markets. Key elements of the Company's strategy include continual improvement of its

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basic processes and product offerings, the internal development of new cladding and forming products and the acquisition of businesses that broaden or complement the Company's existing product lines. In July 1996, the Company completed its first strategic acquisition when it acquired the assets of the Detaclad(R) Division ("Detaclad") of E.I. du Pont de Nemours and Company ("DuPont"), a complementary explosion cladding business with expertise in cladding thin metals and heat exchanger components primarily for the chemical processing, power generation and petrochemical industries.

The Company has completed two separate business acquisitions since its December 31, 1997 fiscal year end. On January 5, 1998, the Company acquired certain assets of AMK Welding, Inc. (AMK) for a cash purchase price of approximately \$940,000. Assets acquired consisted primarily of machinery and

equipment, land and the building that houses AMK's operations. AMK supplies commercial aircraft and aerospace-related automatic and manual, gas tungsten and arc welding services and generated sales of approximately \$1.2 million in its most recent fiscal year that ended on July 31, 1997. On March 18, 1998, the Company completed the acquisition of certain assets of Spin Forge, LLC (Spin Forge) for a purchase price of approximately \$3,826,000 that was paid with a combination of approximately \$2,616,000 in cash, assumption of approximately \$760,000 in liabilities and 50,000 shares of DMC Common Stock valued at \$449,800. The Company's management believes Spin Forge is one of the country's leading manufacturers of tactical missile motor cases and titanium pressure vessels for the commercial aerospace and defense industries. Principal assets acquired included machinery and equipment and inventories. The Company will lease land and buildings from Spin Forge, LLC and holds an option to purchase such property for approximately \$2.9 million, subject to certain adjustments, exercisable under certain conditions through January 2002. The option may be extended beyond this date under specified conditions provided that the option price must be adjusted upwards in the event that the fair market value of the property at the time of exercise is higher than \$2.9 million. Spin Forge generated sales revenues of approximately \$6.5 million for the year ended December 31, 1997.

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 from major customers, customer inventory levels, shifts in product mix, the occurrence of acquisition-related costs 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. A significant portion 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. 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.

The Year 2000 issue is the result of many computer programs being written such that they will malfunction when reading a year of "00." This problem could cause system failure or miscalculations

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causing disruptions of business processes. For the past year, the Company has pursued a two-prong approach to the Year 2000 issue.

The first prong has and continues to involve an internal evaluation of the Company's computer systems. The Company has completed a risk assessment to identify Year 2000 priorities by analyzing and determining whether the Year 2000 related risks were low, medium or high and whether the business impact would be marginal, manageable, critical or fatal for each system and device that may be affected by the Year 2000 issue. Based on this risk assessment, the Company determined that its first priority would be evaluating its MRP software. The Company found this software to be Year 2000 compliant as certified by the vendor and through internal testing. The Company continued this procedure for each of the areas identified during its risk assessment as follows. The Company's hardware was tested by advancing dates and checking for power-off date changes and power-on date changes as well as software and hardware operation at the advanced dates. Based upon those tests the Company believes its hardware to be Year 2000 compliant. The Company's network operating system will be Year 2000 compliant with the installation of a forthcoming patch from the vendor. The patch is expected to be released in the fourth quarter of 1998. The Company expects that its desktop applications will be Year 2000 compliant by mid 1999 with the announced patches that are forthcoming from various vendors. Finally, the Company has determined through testing that its various computer controlled manufacturing equipment is either Year 2000 compliant or will not have any adverse effects on manufacturing processes in the Year 2000.

The second prong of the Company's approach, which the Company emphasized in the second and third quarter of 1998, is an integrated process of working with suppliers and customers to ensure that the flow of goods, services or payments will not be interrupted because of Year 2000 issues. To achieve this, the Company has been working to implement mechanical or manual workarounds even if Year 2000 problems arise. In many cases, such workarounds are already in place. Additionally, the Company is requesting that its suppliers and customers include language in their material subcontractor and consulting agreements that

request these third parties to be "internally" Year 2000 capable.

However, there can be no assurance that the failure of the Company's suppliers and customers to be Year 2000 compliant would not have a material adverse effect on the Company's business, financial condition or results of operations. In addition, the Company may be adversely affected by disruptions in the operations of other companies with which the Company does business, from general widespread problems or an economic crisis resulting from noncompliant Year 2000 systems.

The Company has not incurred any material historical Year 2000 costs to date. Management does not have an estimate of future Year 2000 project costs that may be incurred but expects such costs to be minimal since all Year 2000 compliance work is expected to be performed by Company employees. Management expects, but makes no assurance that, future Year 2000 project costs will not have a material adverse effect on its financial condition and results of operations.

The Company has not formulated contingency plans in the event that systems are not Year 2000 compliant. While management does not believe there to be significant Year 2000 risks for the Company, manual workarounds will be developed as part of the Company's Year 2000 compliance program. There can be no assurance that the Company's systems will be Year 2000 compliant in time.

QUARTER ENDED SEPTEMBER 30, 1998 COMPARED TO SEPTEMBER 30, 1997

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

<TABLE>  
<CAPTION>

	Percentage of Net Sales			
	Three Months Ended September 30		Six Months Ended September 30,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Products Sold	78.1%	77.7%	78.7%	77.8%
Gross Margin	21.9%	22.3%	21.3%	22.2%
General & Administrative	11.1%	7.2%	7.9%	6.5%
Selling Expenses	4.0%	6.3%	4.5%	6.1%
Start up Costs	0.9%	0.0%	0.4%	0.0%
R & D	0.0%	0.1%	0.1%	0.1%
Income from Operations	5.9%	8.7%	8.4%	9.5%
Interest Expense	0.8%	0.2%	0.7%	0.4%
Income Tax Provision	2.1%	2.8%	3.0%	3.0%
Net Income	3.2%	5.9%	4.8%	6.3%

</TABLE>

NET SALES. Net sales for the quarter ended September 30, 1998 increased 24.0% to \$9,675,750 from \$7,803,059 in the third quarter of 1997. Sales for the third quarter of 1998 included approximately \$2,615,000 from the newly acquired Spin Forge and AMK businesses, with these sales accounting for the entire 1998 sales increase. For the nine months ended September 30, 1998, net sales increased 20.0% to \$30,543,872 from \$25,462,599 in the comparable period of 1997. Spin Forge and AMK sales of approximately \$5,775,000 for the nine months ended September 30, 1998 accounted for the entire sales increase.

GROSS PROFIT. As a result of the Company's increase in net sales, gross profit for the quarter ended September 30, 1998 increased by 21.6% to \$ 2,121,437 from \$1,743,951 in the third quarter of 1997. The gross profit margin for the quarter ended September 30, 1998 was 21.9%, representing a 2% decline from the gross profit margin of 22.3% for the third quarter of 1997. For the nine months ended September 30, 1998, gross profit increased 15.0% to \$6,501,419 from \$5,653,148 in the comparable period of 1997. The gross profit margin for the nine months ended September 30, 1998 was 21.3%, representing a 4% decline from the gross profit margin of 22.2% for the first nine months of 1997. The decreased gross margin rate for both the three and nine month periods is principally due to proportionately lower sales of explosively formed products. A customer that accounts for a major portion of the Company's sales of explosively-formed products has significantly reduced its 1998 order levels for explosively-formed parts and has informed the Company that it likely will no longer order such parts from the Company. For both the three and nine month periods, the resulting reduced

sales and gross profits from the Company's explosion forming business has been replaced by sales and gross profits generated by the recently acquired AMK Welding and Spin Forge operations.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses for the quarter ended September 30, 1998 increased 91.6% to \$1,070,726 from \$558,785 in the third quarter of 1997. For the nine months ended September 30, 1998, general and administrative expenses increased 45.2% to \$2,401,618 from \$1,654,089 in the comparable period of 1997. These increases are primarily attributable to \$262,524 in non-recurring expenses relating to the departure of the Company's former president and chief executive officer in the third quarter of 1998, and general and administrative expenses associated with the operations of AMK Welding and Spin Forge which were acquired on January 5, 1998 and March 18, 1998, respectively. Excluding the impact of non-recurring expenses, general and administrative expenses are expected to remain at the higher 1998 levels to support the acquired AMK and Spin Forge operations and other strategic business initiatives. After adjustment for non-recurring expenses related to the departure of the Company's former CEO, general and administrative expenses as a percentage of net sales increased from 7.2% in the third quarter of 1997 to 8.4% for the quarter ended September 30, 1998 and increased from 6.5% to 7.0% for the comparable nine month periods.

**SELLING EXPENSE.** Selling expenses decreased by 21.6% to \$387,550 for the quarter ended September 30, 1998 from \$494,449 in the second quarter of 1997. For the six months ended September 30, 1998, selling expenses decreased 10.5% to \$1,387,822 from \$1,551,100 in the comparable period of 1997. These decreases reflect lower expense levels in a number of categories, including compensation and benefits, advertising and promotion, reserves for bad debts and travel and entertainment expenses. Selling expenses as a percentage of net sales decreased from 6.3% in the third quarter of 1997 to 4.0% for the quarter ended September 30, 1998, and from 6.1% for the nine months ended September 30, 1997 to 4.5% for the comparable period of 1998. These decreases reflect decreased spending levels combined with the higher sales volume achieved in 1998.

**START-UP COSTS.** For the quarter and nine months ended September 30, 1998, the Company began to separately report the start-up costs associated with the construction of the new facility in Pennsylvania for the manufacture of clad metal plates. Start-up costs for the three and nine month periods of 1998 totaled \$86,036 and \$114,437, respectively, and include salaries, benefits and travel expenses for Company employees assigned to this project, field office expenses and other operating expenses directly associated with this project. The Company will continue to incur and separately report start-up costs in 1998 and 1999 until the new facility commences operations during the last half of 1999.

**RESEARCH AND DEVELOPMENT.** Research and development expenses decreased to \$2,369 for the quarter ended September 30, 1998 from \$10,495 in the third quarter of 1997. For the nine months ended September 30, 1998, research and development expenses increased to \$28,963 from \$27,624 in the comparable period of 1997. The Company is currently utilizing its engineering resources to support current manufacturing activities, including plant design and equipment acquisition activities associated with a new manufacturing facility that is under construction in Pennsylvania, and does not expect to significantly increase spending on research and development projects in the near future.

**INCOME FROM OPERATIONS.** Income from operations decreased by 15.5% to \$574,756 for the quarter ended September 30, 1998 from \$680,222 in the second quarter of 1997. This decrease is a direct result of non-recurring expenses in the amount of \$262,524 relating to the departure of the Company's former president and chief executive officer and \$86,036 in start-up costs discussed above. For the nine months ended September 30, 1998, income from operations increased 6.1% to \$2,568,579 from

\$2,420,335 in the comparable period of 1997. This increase is a direct result of the 20.0% increase in net sales and is less than expected due to the offsetting effect of the aforementioned non-recurring expenses and start-up costs. Income from operations as a percentage of net sales decreased to 5.9% for the three months ended September 30, 1998 from 8.7% in the comparable 1997 period and decreased to 8.4% for the nine months ended September 30, 1998 from 9.5% for the nine months ended September 30, 1997.

**INTEREST EXPENSE.** Interest expense increased to \$75,166 for the quarter ended September 30, 1998 from \$15,135 in the third quarter of 1997. For the nine months ended September 30, 1998, interest expense increased to \$198,811 from \$105,419 in the comparable period of 1997. These increases are due to borrowings under the Company's revolving line of credit with KeyBank of Colorado that were required to finance the AMK Welding and Spin Forge acquisitions.

INCOME TAX PROVISION. The Company's income tax provision decreased by 8.4% to \$199,000 for the quarter ended September 30, 1998 from \$217,143 in the third quarter of 1997. The income tax provision for the nine months ended September 30, 1998 increased 23.3% to \$931,000 from \$755,000 for the comparable period of 1997. For the quarter and nine months ended September 30, 1998, the effective tax rate was 39.1% and 39.0%, respectively, as compared to 31.9% and 32.0% for the respective comparable 1997 periods. The Company expects its effective tax rate to increase slightly in 1998 to 39.0% due to anticipated increases in state income taxes as a result of the AMK Welding and Spin Forge acquisitions.

#### LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company has secured the major portion of its operational financing from operating activities and an asset-backed revolving credit facility. In connection with the Detaclad acquisition, the Company entered into a \$7,500,000 asset-backed revolving credit facility with KeyBank National Association (KeyBank) in July of 1996. The credit facility had a seven-year term and was secured by substantially all of the Company's assets, including its accounts receivable, inventory and equipment. The maximum amount available under the line of credit was subject to borrowing base restrictions which were a function of defined balances in accounts receivable, inventory, real property and equipment.

In connection with the Company's acquisition of Spin Forge on March 18, 1998 and resulting increase in the Company's asset base, the Company amended its revolving credit facility with KeyBank. Amendments included an increase in the total facility from \$7.5 million to \$10 million and separating \$5 million of the total facility into a reducing revolving credit facility to be used principally for acquisition financing. The reducing revolving credit facility is secured by certain of the Company's assets, including those of the acquired AMK and Spin Forge businesses, and is not subject to borrowing base restrictions. Availability under this facility will be reduced at the rate of \$1 million per year over its five-year term. The remaining \$5 million of the revolving credit facility will continue under the same terms and conditions as described above for the original \$7.5 million facility. The interest rate applicable to borrowings under both the revolving credit facility and reducing revolving credit facility is, at the Company's option, either the LIBOR Rate plus 1% to 1.5%, depending on certain conditions, or the Federal Funds Rate plus 2%. The Company's total borrowings under the KeyBank reducing revolving credit facility and revolving credit facility were \$2,785,000 and zero, respectively, as of September 30, 1998 and 1997.

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In March 1998, the Company's Board of Directors approved the Company's proposal to build a new manufacturing facility in Pennsylvania at a cost of approximately \$6.8 million. The project is being financed with proceeds from \$6,850,000 in industrial development revenue bonds issued by Fayette County Industrial Development Authority (IDA). The Company closed its loan agreement with Fayette County IDA on September 17, 1998 and has established a bank letter of credit in favor of the bond trustee for the principal amount of the bonds plus 98 days of accrued interest. In connection with the letter of credit, the reducing revolving credit facility with KeyBank was reduced from \$5 million to \$4 million. The letter of credit is secured by the Company's accounts receivable, inventory, property, plant and equipment, and bond proceeds not yet expended for construction of the facility and purchase of related equipment. Construction of the new facility began during the third quarter of 1998 and should be completed during the first half of 1999. The new facility should become fully operational during the second half of 1999.

During the nine months ended September 30, 1998, the Company generated \$2,016,721 in cash flows from operating activities as compared to generating \$3,688,888 during the first nine months of 1997. The principal sources of cash flow from operations in the nine months ended September 30, 1998 were net income of \$1,455,482, depreciation and amortization charges of \$777,406, and a decrease in inventories of \$1,603,903. These sources of operating cash flow were partially offset by a \$1,136,911 increase in accounts receivable and a \$878,804 decrease in accounts payable and accrued expenses. The large increase in accounts receivable relates to the build-up of Spin Forge accounts receivable subsequent to the March 18, 1998 acquisition of Spin Forge (outstanding accounts receivable on this date were not included among the assets purchased) and strong September sales in the Company's bonding business. The current ratio was 3.0 as of September 30, 1998 as compared to 2.8 at December 31, 1997. Investing activities in the nine months ended September 30, 1998 used \$11,562,307 of cash, including \$3,521,564 to fund the purchase of the Spin Forge and AMK assets, \$901,071 to fund capital expenditures, and \$6,461,015 to temporarily invest proceeds from the industrial development revenue bond issue. Financing activities for the nine months ended September 30, 1998 provided \$9,491,777 of net cash. These cash flows included line of credit borrowings in the amount of \$2,785,000 to finance the purchase of Spin Forge and AMK and \$6,850,000 from the issuance of industrial development revenue bonds that will be used to finance construction of the Company's new manufacturing facility in Pennsylvania and the purchase of related equipment.

The Company believes that its cash flow from operations, funds expected to be available under its amended credit facility, and proceeds from the industrial development revenue bond financing for the new Pennsylvania manufacturing facility will be sufficient to fund working capital and capital expenditure requirements of its current business operations, including those of the recently acquired AMK and Spin Forge businesses, 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 line of credit could negatively affect the Company's ability to meet its future cash requirements. The Company's expenditures for the Pennsylvania manufacturing facility could exceed its estimates due to construction delays, the delay in the receipt of any required government approvals and permits, labor shortages or other factors. In addition, the Company plans to grow both internally and through the acquisition of complementary businesses. Increased expenditures for the Pennsylvania manufacturing facility and/or a

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significant acquisition may require the Company to secure additional debt or equity financing. While the Company believes it would be able to secure such additional financing at reasonable terms, there is no assurance that this would be the case.

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## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company has been named as a defendant in a lawsuit filed in France by a French company with which the Company had preliminary acquisition discussions during 1997. The Company plans to vigorously defend itself against such claim and the management of the Company believes that the ultimate outcome of such litigation will not have a material adverse effect on the Company's financial condition or results of operations. The Company is not party to any other legal proceedings, the adverse outcome of which would, in management's opinion, have a material adverse effect on the Company's business, operation results and financial condition.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

10 Material Contracts

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
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10.1	Loan Agreement dated as of September 1, 1998 by and between Fayette County Industrial Development and the Company.
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10.2	Reimbursement Agreement dated as of September 1, 1998 by and between the Company and KeyBank National Association.
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10.3	Master Agreement dated as of September 15, 1998 by and between KeyBank National Association and the Company.
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10.4	Separation Agreement dated as of September 1, 1998 by and between Paul Lange and the Company.
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27 Financial Data Schedule

(b) A report on Form 8-K was filed on April 2, 1998 reporting the completion of the acquisition of certain assets of Spin Forge, LLC, which occurred on March 18, 1998. A report on Form 8-K/A was filed on June 1, 1998. This report amended the Form 8-K filed on April 2, 1998, to include audited financial information as of December 31, 1997 for the Spin Forge business, which the Company acquired on March 18, 1998. The report also included unaudited pro forma financial information as of March 31, 1998, and for the year ended December 31, 1997.

A report on Form 8-K was filed on September 9, 1998 reporting the resignation of Paul Lange as president and chief executive officer of the Company, and the appointment of Joseph P. Allwein as the acting president and chief executive officer of the Company. Both events were effective as of September 2, 1998.

SIGNATURES

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

DYNAMIC MATERIALS CORPORATION

(Registrant)

Date: NOVEMBER 13, 1998

/s/ Richard A. Santa

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

## SEPARATION AGREEMENT

This SEPARATION AGREEMENT ("Agreement") is entered into by and between PAUL LANGE, an individual ("MR. LANGE"), and DYNAMIC MATERIALS CORPORATION, a Delaware corporation (the "COMPANY") (collectively referred to herein as the "PARTIES"), as of September 1, 1998 (the "RESIGNATION DATE").

### RECITALS

WHEREAS, Mr. Lange has agreed to resign as a member of the Board of Directors of the Company, and as the President and Chief Executive Officer of the Company effective as of the Resignation Date and as an employee of the Company effective as of October 4, 1998 (the "EMPLOYMENT SEPARATION DATE");

WHEREAS, the Company has accepted Mr. Lange's resignation and wishes to provide Mr. Lange with certain benefits, in consideration of his service to the Company and the promises and covenants of Mr. Lange contained herein;

WHEREAS, Mr. Lange and the Company desire finally to compromise, settle and discharge all claims, controversies, demands, actions or causes of action which Mr. Lange, his family or agents may have or claim to have against the Company.

### AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises, covenants and other good and valuable consideration contained herein, it is hereby agreed by and between the Parties hereto as follows:

1. ACCRUED VACATION AND PERSONAL DAYS. The Parties acknowledge and agree that the Company has paid Mr. Lange concurrently with the signing of this Agreement, all of his accrued vacation and personal days due and owed him through the Employment Separation Date, and that he has not, and will not, accrue any additional vacation or personal days after the Employment Separation Date. Mr. Lange acknowledges that he is not entitled to any payment in respect of sick days.

2. PAYMENTS AND BENEFITS. The Company agrees to provide Mr. Lange with the following as part of this Agreement:

(a) PAYMENTS. In lieu of any and all other benefits or payments that might be due or payable to Mr. Lange in connection with the termination of his employment with the Company, on the Effective Date (as defined in Section 6 hereof), the Company will pay to Mr. Lange a lump sum payment equivalent to seven (7) weeks of Mr. Lange's current salary.

(b) HEALTH INSURANCE. To the extent permitted by the federal COBRA law and by the Company's current group health insurance policies, Mr. Lange will be eligible to continue health insurance benefits for himself and his family for which the Company will pay until December 31, 1998 at which time the policy shall convert to an individual policy. The Parties

acknowledge that Mr. Lange has already been provided with a separate timely notice of his COBRA rights.

(c) VEHICLE LEASE. With respect to the vehicle leased by the Company for use by Mr. Lange, Mr. Lange will have this option: (1) Mr. Lange may purchase the vehicle pursuant to the terms and conditions contained in the lease; or (2) Mr. Lange may agree, subject to the approval of the bank holding the lease, to assume lease payments from the Company. Mr. Lange must choose one option within thirty (30) days of the Resignation Date. During such period Mr. Lange will be the sole driver of the vehicle, except in cases of emergency. A violation of the foregoing will result in the vehicle immediately being returned to the Company.

(d) OTHER COMPENSATION OR BENEFITS. Mr. Lange acknowledges that, except as expressly provided in this Agreement, he will not receive any additional compensation, bonus, severance or benefits after the Resignation Date.

(e) STOCK OPTIONS. All stock options vested as of the Resignation Date will continue to be exercisable under the standard terms and conditions of the Company's applicable option plan

3. WITHHOLDING ISSUES. The Parties agree that the Company will withhold all required federal, state and local income taxes and any other required withholdings as necessary from all payments under this Agreement. Mr. Lange acknowledges that he will be entirely responsible for payment of any taxes which may be due on the payments to be made to him under this Agreement. He



acknowledges and understands that the Company makes no representation or warranty with respect to the tax treatment by any local, state or federal tax authority of such payments. Mr. Lange agrees to indemnify the Company and hold it harmless with regard to any payment of tax, penalty or interest which the Company may be required to pay by any tax authority with respect to payments to be made to him under this Agreement.

4. EXPENSE REIMBURSEMENT. Mr. Lange will be entitled to receive any expense reimbursement, as of yet unpaid, for reasonable and approved business expenses incurred through the Resignation Date. Signed expense vouchers for all claimed reimbursement of expenses have been duly submitted to the Company or will have been received by the Company within thirty (30) days of the Resignation Date.

5. MUTUAL RELEASES

(a) RELEASE BY MR. LANGE. Mr. Lange, both in his individual capacity and as a shareholder and prior officer and director of the Company, and on behalf of his family, relatives, heirs, devisees, estate, agents and assigns, hereby (i) releases, acquits, and forever discharges the Company, its officers, directors, agents, servants, employees, attorneys, shareholders, successors, assigns and affiliates, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the Effective Date (as defined below) of this Agreement, including, but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected

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with the Company's employment of Mr. Lange or the termination of that employment; claims or demands related to salary, bonuses, commissions, stock, stock options, vacation pay, fringe benefits, severance pay, expense reimbursements, or any other form of compensation; claims pursuant to any federal, state or local law or cause of action including, but not limited to, the federal Civil Rights Act of 1964, as amended; the federal Americans with Disabilities Act of 1990; the federal Age Discrimination in Employment Act of 1967, as amended ("ADEA"); Colorado's Labor and Employment Code; the Colorado Anti-Discrimination Act of 1957, as amended; tort law; contract law; wrongful discharge; discrimination; fraud; defamation; emotional distress; breach of the implied covenant of good faith and fair dealing; interference with prospective economic advantage, and interference with contract, and (ii) agrees to refrain and forebear from asserting or otherwise bringing against the Company any such claims. This release shall not apply with respect to the indemnification provided by the Company to Mr. Lange to the full extent permitted by Delaware law for acts committed by Mr. Lange within the scope of his employment with the Company.

(b) CONDITIONAL RELEASE BY THE COMPANY. Except as to specific obligations incurred by Mr. Lange in this Agreement and subject to subsection (c) of this Section, the Company hereby (i) releases, acquits, and forever discharges Mr. Lange, both in his individual capacity and as a shareholder and prior officer of the Company, and his heirs, successors and assigns, of and from any and all known claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the Effective Date (as defined below) of this Agreement (the "KNOWN CLAIMS"), including, but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with the Company's employment of Mr. Lange or the termination of that employment, or Mr. Lange's serving on the Company's Board of Directors or resignation therefrom; claims pursuant to any federal, state or local law or cause of action; tort law; contract law; fraud; defamation; breach of the implied covenant of good faith and fair dealing; interference with prospective economic advantage, and interference with contract, and (ii) agrees to refrain and forebear from asserting or otherwise bringing against Mr. Lange any such Known Claims.

(c) CONDITIONAL RELEASE TRIGGER EVENTS. From and after (90) days following the Effective Date, during which the Company will conduct an investigation relating to Mr. Lange (the "INVESTIGATION"), the Company hereby (i) releases, acquits, and forever discharges Mr. Lange, both in his individual capacity and as a shareholder and prior officer of the Company, and his heirs, successors and assigns, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known or unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the Effective Date (as defined below) of this Agreement (the "UNKNOWN CLAIMS"), including, but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with the Company's employment of Mr. Lange or the termination of that employment, or Mr. Lange's serving on the Company's Board of Directors or resignation therefrom; claims pursuant to

any federal, state or local law or cause of action; tort law; contract law; fraud; defamation; breach of the implied covenant of good faith and fair dealing; interference with prospective economic advantage, and interference with contract, and (ii) agrees

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to refrain and forebear from asserting or otherwise bringing against Mr. Lange any such Unknown Claims (the "TOTAL RELEASE"); provided, however, that the Total Release shall not apply to activities and incidents revealed, uncovered or otherwise determined by the Investigation ("DISCOVERED ITEMS").

(d) INDEMNIFICATION. Mr. Lange agrees to cooperate with the Company in connection with the Investigation in all reasonable respects. The Company will notify Mr. Lange of any Discovered Items promptly after the ninety (90) day period. The Total Release will apply at the end of the ninety (90) day period except to the extent of any such Discovered Items, and any such Discovered Items will be subject to indemnification as follows. Mr. Lange agrees to promptly indemnify and otherwise reimburse the Company for all claims based on any Discovered Items, if and to the extent any such claim is judicially determined in favor of the Company, together with associated legal and professional fees and costs, including those related to the portion of the Investigation that gave rise to the particular Discovered Item.

6. ADEA WAIVER. Mr. Lange specifically acknowledges that he is knowingly and voluntarily waiving and releasing any rights he may have under the ADEA. He also acknowledges that the consideration given for the waiver and release in the preceding paragraph is in addition to anything of value to which he was already entitled. He further acknowledges that he has been advised by this writing that: (a) his waiver and release do not apply to any claims that may arise after the Effective Date of this Agreement; (b) he should consult an attorney prior to executing this Agreement; (c) he has twenty-one (21) days within which to consider this Agreement (although he may choose to voluntarily execute this Agreement earlier); (d) he has seven (7) days following the execution of this Agreement to revoke the Agreement; (e) this Agreement shall not be effective until the date upon which the revocation period has expired, which shall be the eighth day after this Agreement is executed by Mr. Lange, provided that the Company has also signed the Agreement by that date (the "EFFECTIVE DATE").

7. FORM OF RESIGNATION. Mr. Lange agrees to resign as a member of the Board of Directors of the Company and as President and Chief Executive Officer of the Company by signing the form of resignation attached hereto as Exhibit A.

8. PUBLIC STATEMENTS.

(a) Mr. Lange will not make any public statement or private statement likely to be publicly disseminated that defames or otherwise disparages the Company, any of its directors, officers, employees or its business, including past and present actions and decisions of the Company.

(b) Neither the Company nor any of its representatives or affiliates will make any public statement or private statement likely to be publicly disseminated that defames or otherwise disparages Mr. Lange or his performance as the President and Chief Executive Officer of the Company or as a member of the Board of Directors.

9. OTHER STATEMENTS. Mr. Lange will not communicate in any way with any stockholders, customers, suppliers or other interested parties of the Company, including investment analysts, regarding the Company or its business. If any such parties contact Mr.

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Lange regarding the Company or its business, Mr. Lange will state that he has "no comment" and immediately refer such parties to Mr. Mark Jarman ("MR. JARMAN").

10. SURRENDER OF PROPERTY. Mr. Lange will return all files, records, lists, administrative procedure guidelines, literature, products, equipment, marketing material and all other materials owned by the Company which are used by Mr. Lange or in the custody of Mr. Lange, including, but not limited to, all personal computers, facsimile machines, other office equipment and rugs used or stored in Mr. Lange's residence and all sporting event tickets, including without limitation, the return of each specific item listed on Exhibit B attached hereto or the equivalent cash payment listed on such Exhibit B. All such items must be returned within two (2) days of the Resignation Date. Any tickets held in Mr. Lange's name shall be transferred to the Company, along with all possible priority rights in such tickets.

11. COMPANY PREMISES. Mr. Lange agrees not to enter the Company's premises for any reason after the Resignation Date. If Mr. Lange requires access to satisfy Paragraph 10 of this Agreement or to retrieve personal property, such visits must occur after the Company's normal business hours and Mr. Lange must

obtain permission from Mr. Jarman, at least one (1) day in advance of such proposed visit and be accompanied by two members of the Board of Directors and Mr. Jarman onto the Company's premises.

12. REIMBURSEMENT OBLIGATIONS. Mr. Lange agrees to fully reimburse the Company in the amount of Ninety Three Thousand Eighty-Five Dollars (\$93,085) for which he hereby acknowledges and agrees that he owes to the Company in respect of certain advances and benefits received. Mr. Lange will repay this amount to the Company pursuant to the terms of the Promissory Note in the form attached hereto as Exhibit C. As of November 1, 1998, if Mr. Lange has not satisfied the obligations of the Promissory Note, he may transfer Company stock currently owned by him in an amount sufficient to satisfy the principal and interest of the Promissory Note. The price of such stock shall be the average price of the Company's stock for the ten (10) days prior to the transfer.

13. SECURITIES LAWS. Mr. Lange acknowledges that he must comply with all federal and state securities laws upon selling his stock into the open market.

14. STANDSTILL. Except for capital stock owned and options vested as of the Resignation Date, Mr. Lange shall not purchase, acquire or own, or offer or agree to purchase, acquire or own, directly or indirectly, any capital stock of the Company (or enter into any arrangements or understandings with any third party to do any of the foregoing or engage on behalf of any third party to do any of the foregoing). The provision of this Section 13 shall cease to have any further force or effect two (2) years from the Resignation Date. Mr. Lange shall immediately notify the Secretary of the Company in the event he is contacted by any third party regarding any activities enumerated in this section or the like.

15. SUCCESSORS AND ASSIGNS. This Agreement shall bind and inure to the benefit of the heirs, family, personal representatives, successors and assigns of Mr. Lange, and shall bind and inure to the benefit of Company, and its successors and assigns.

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16. AUTHORITY. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company, and all who may claim through it, to the terms and conditions of this Agreement. Mr. Lange represents and warrants that he has the capacity to act on his own behalf, on his family's behalf and on behalf of all others who might claim through him, to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

17. CONFIDENTIALITY. The provisions of this Agreement shall be held in strictest confidence by Mr. Lange and by the Company and shall not be publicized or disclosed in any manner whatsoever. Notwithstanding the prohibition in the preceding sentence: (a) Mr. Lange may disclose this Agreement, in confidence, to his immediate family and to third parties in connection with his transition arrangements, but only to the extent necessary; (b) the Parties may disclose this Agreement in confidence to their respective attorneys, accountants, auditors, tax preparers, and financial advisors; (c) the Company may disclose this Agreement as necessary to fulfill standard or legally required corporate reporting or disclosure requirements, and in connection with third party due diligence related to the Company's financing, licensing, strategic partnering and/or business combination activities, and within the Company on a "need to know" basis (e.g. to its Board of Directors); and (d) the Parties may disclose this Agreement insofar as such disclosure may be necessary to enforce its terms or as otherwise required by law or legal process.

18. CONFIDENTIALITY AND ASSIGNMENT OF INVENTIONS. Mr. Lange agrees that as a key employee of the Company he is required to have executed a Key Employee Proprietary Information and Inventions Agreement (the "PROPRIETARY INFORMATION AGREEMENT") in the form attached hereto as Exhibit D. Mr. Lange further agrees that if he can not produce an executed Proprietary Information Agreement within two (2) days of the Resignation Date, he will sign the form attached as Exhibit D.

19. MUTUALITY OF DRAFTING. For purposes of construction, this Agreement shall be deemed to have been jointly drafted by the Parties and their counsel and any ambiguity shall not be construed against either Party.

20. ENTIRE AGREEMENT. This Agreement constitutes the complete, final, and exclusive embodiment of the entire agreement between the Parties with respect to the subject matter hereof and completely supersedes any and all prior agreements between the Parties, including, but not limited to, all employment agreements between the Parties, and shall be specifically enforceable. This Agreement is executed without reliance upon any prior negotiation, promise, agreement, warranty or representation, written or oral, by any Party or any representative of any Party other than those expressly contained herein. Each Party has carefully read this Agreement, has been afforded the opportunity to be advised of its meaning and consequences by his or its respective attorney, and signs the same of his or its own free will. This Agreement may not be amended or

modified except in a writing signed by both Mr. Lange and a duly authorized officer of the Company.

21. SEVERABILITY. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this

6

Agreement and the provision in question shall be modified by the court so as to be rendered enforceable.

22. PARAGRAPH HEADINGS. The paragraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement

23. NO ADMISSIONS. It is understood and agreed by Mr. Lange and the Company that this Agreement represents a compromise settlement of various matters, and that the promises and payments in consideration of this Agreement shall not be construed to be an admission of any liability or obligation by either Party to the other Party or to any other person.

24. APPLICABLE LAW. The Agreement shall be deemed to have been entered into and shall be construed and enforced in accordance with the laws of the state of Colorado as applied to contracts made and to be performed entirely within Colorado.

25. COSTS AND FEES. Except as specifically set forth herein, the Parties will bear their own costs, expenses, and attorneys' fees, whether taxable or otherwise, incurred in or arising out of or in any way related to the negotiation, preparation or review of this Agreement. If any Party brings an action to enforce this Agreement, the prevailing party in such action shall be entitled to recover his or its attorneys fees or costs, in addition to any other relief to which that Party may be entitled.

26. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

27. NOTICES. Notices to Mr. Lange will be sent to him at 4588 Sunshine Canyon Drive, Boulder, Colorado 80302. Notices to the Company shall be sent to Dynamic Materials Corporation, 551 Aspen Ridge Drive, Lafayette, Colorado 80026, Attn: Richard A. Santa, Chief Financial Officer.

28. EFFECT OF BREACH OF RELEASE. In the event Mr. Lange breaches any provisions of this Agreement, he will be in breach of the entire Agreement and the release in Section 5(b) hereof will be automatically revoked and terminated.

7

IN WITNESS WHEREOF, the Parties have duly authorized and caused this Agreement to be executed.

PAUL LANGE

Dated: \_\_\_\_\_, 1998

By: \_\_\_\_\_

DYNAMIC MATERIAL CORPORATION

ON BEHALF OF THE

BOARD OF DIRECTORS

Dated: \_\_\_\_\_, 1998

By: \_\_\_\_\_

George W. Morgenthaler

By: \_\_\_\_\_

David E. Bartlett

## SEPARATION AGREEMENT

This SEPARATION AGREEMENT ("Agreement") is entered into by and between PAUL LANGE, an individual ("MR. LANGE"), and DYNAMIC MATERIALS CORPORATION, a Delaware corporation (the "COMPANY") (collectively referred to herein as the "PARTIES"), as of September 1, 1998 (the "RESIGNATION DATE").

### RECITALS

WHEREAS, Mr. Lange has agreed to resign as a member of the Board of Directors of the Company, and as the President and Chief Executive Officer of the Company effective as of the Resignation Date and as an employee of the Company effective as of October 4, 1998 (the "EMPLOYMENT SEPARATION DATE");

WHEREAS, the Company has accepted Mr. Lange's resignation and wishes to provide Mr. Lange with certain benefits, in consideration of his service to the Company and the promises and covenants of Mr. Lange contained herein;

WHEREAS, Mr. Lange and the Company desire finally to compromise, settle and discharge all claims, controversies, demands, actions or causes of action which Mr. Lange, his family or agents may have or claim to have against the Company.

### AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises, covenants and other good and valuable consideration contained herein, it is hereby agreed by and between the Parties hereto as follows:

1. ACCRUED VACATION AND PERSONAL DAYS. The Parties acknowledge and agree that the Company has paid Mr. Lange concurrently with the signing of this Agreement, all of his accrued vacation and personal days due and owed him through the Employment Separation Date, and that he has not, and will not, accrue any additional vacation or personal days after the Employment Separation Date. Mr. Lange acknowledges that he is not entitled to any payment in respect of sick days.

2. PAYMENTS AND BENEFITS. The Company agrees to provide Mr. Lange with the following as part of this Agreement:

(a) PAYMENTS. In lieu of any and all other benefits or payments that might be due or payable to Mr. Lange in connection with the termination of his employment with the Company, on the Effective Date (as defined in Section 6 hereof), the Company will pay to Mr. Lange a lump sum payment equivalent to seven (7) weeks of Mr. Lange's current salary.

(b) HEALTH INSURANCE. To the extent permitted by the federal COBRA law and by the Company's current group health insurance policies, Mr. Lange will be eligible to continue health insurance benefits for himself and his family for which the Company will pay until December 31, 1998 at which time the policy shall convert to an individual policy. The Parties

acknowledge that Mr. Lange has already been provided with a separate timely notice of his COBRA rights.

(c) VEHICLE LEASE. With respect to the vehicle leased by the Company for use by Mr. Lange, Mr. Lange will have this option: (1) Mr. Lange may purchase the vehicle pursuant to the terms and conditions contained in the lease; or (2) Mr. Lange may agree, subject to the approval of the bank holding the lease, to assume lease payments from the Company. Mr. Lange must choose one option within thirty (30) days of the Resignation Date. During such period Mr. Lange will be the sole driver of the vehicle, except in cases of emergency. A violation of the foregoing will result in the vehicle immediately being returned to the Company.

(d) OTHER COMPENSATION OR BENEFITS. Mr. Lange acknowledges that, except as expressly provided in this Agreement, he will not receive any additional compensation, bonus, severance or benefits after the Resignation Date.

(e) STOCK OPTIONS. All stock options vested as of the Resignation Date will continue to be exercisable under the standard terms and conditions of the Company's applicable option plan

3. WITHHOLDING ISSUES. The Parties agree that the Company will withhold all required federal, state and local income taxes and any other required withholdings as necessary from all payments under this Agreement. Mr. Lange acknowledges that he will be entirely responsible for payment of any taxes which may be due on the payments to be made to him under this Agreement. He

acknowledges and understands that the Company makes no representation or warranty with respect to the tax treatment by any local, state or federal tax authority of such payments. Mr. Lange agrees to indemnify the Company and hold it harmless with regard to any payment of tax, penalty or interest which the Company may be required to pay by any tax authority with respect to payments to be made to him under this Agreement.

4. EXPENSE REIMBURSEMENT. Mr. Lange will be entitled to receive any expense reimbursement, as of yet unpaid, for reasonable and approved business expenses incurred through the Resignation Date. Signed expense vouchers for all claimed reimbursement of expenses have been duly submitted to the Company or will have been received by the Company within thirty (30) days of the Resignation Date.

5. MUTUAL RELEASES

(a) RELEASE BY MR. LANGE. Mr. Lange, both in his individual capacity and as a shareholder and prior officer and director of the Company, and on behalf of his family, relatives, heirs, devisees, estate, agents and assigns, hereby (i) releases, acquits, and forever discharges the Company, its officers, directors, agents, servants, employees, attorneys, shareholders, successors, assigns and affiliates, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the Effective Date (as defined below) of this Agreement, including, but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected

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with the Company's employment of Mr. Lange or the termination of that employment; claims or demands related to salary, bonuses, commissions, stock, stock options, vacation pay, fringe benefits, severance pay, expense reimbursements, or any other form of compensation; claims pursuant to any federal, state or local law or cause of action including, but not limited to, the federal Civil Rights Act of 1964, as amended; the federal Americans with Disabilities Act of 1990; the federal Age Discrimination in Employment Act of 1967, as amended ("ADEA"); Colorado's Labor and Employment Code; the Colorado Anti-Discrimination Act of 1957, as amended; tort law; contract law; wrongful discharge; discrimination; fraud; defamation; emotional distress; breach of the implied covenant of good faith and fair dealing; interference with prospective economic advantage, and interference with contract, and (ii) agrees to refrain and forebear from asserting or otherwise bringing against the Company any such claims. This release shall not apply with respect to the indemnification provided by the Company to Mr. Lange to the full extent permitted by Delaware law for acts committed by Mr. Lange within the scope of his employment with the Company.

(b) CONDITIONAL RELEASE BY THE COMPANY. Except as to specific obligations incurred by Mr. Lange in this Agreement and subject to subsection (c) of this Section, the Company hereby (i) releases, acquits, and forever discharges Mr. Lange, both in his individual capacity and as a shareholder and prior officer of the Company, and his heirs, successors and assigns, of and from any and all known claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the Effective Date (as defined below) of this Agreement (the "KNOWN CLAIMS"), including, but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with the Company's employment of Mr. Lange or the termination of that employment, or Mr. Lange's serving on the Company's Board of Directors or resignation therefrom; claims pursuant to any federal, state or local law or cause of action; tort law; contract law; fraud; defamation; breach of the implied covenant of good faith and fair dealing; interference with prospective economic advantage, and interference with contract, and (ii) agrees to refrain and forebear from asserting or otherwise bringing against Mr. Lange any such Known Claims.

(c) CONDITIONAL RELEASE TRIGGER EVENTS. From and after (90) days following the Effective Date, during which the Company will conduct an investigation relating to Mr. Lange (the "INVESTIGATION"), the Company hereby (i) releases, acquits, and forever discharges Mr. Lange, both in his individual capacity and as a shareholder and prior officer of the Company, and his heirs, successors and assigns, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known or unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the Effective Date (as defined below) of this Agreement (the "UNKNOWN CLAIMS"), including, but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with the Company's employment of Mr. Lange or the termination of that employment, or Mr. Lange's serving on the Company's Board of Directors or resignation therefrom; claims pursuant to

any federal, state or local law or cause of action; tort law; contract law; fraud; defamation; breach of the implied covenant of good faith and fair dealing; interference with prospective economic advantage, and interference with contract, and (ii) agrees

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to refrain and forebear from asserting or otherwise bringing against Mr. Lange any such Unknown Claims (the "TOTAL RELEASE"); provided, however, that the Total Release shall not apply to activities and incidents revealed, uncovered or otherwise determined by the Investigation ("DISCOVERED ITEMS").

(d) INDEMNIFICATION. Mr. Lange agrees to cooperate with the Company in connection with the Investigation in all reasonable respects. The Company will notify Mr. Lange of any Discovered Items promptly after the ninety (90) day period. The Total Release will apply at the end of the ninety (90) day period except to the extent of any such Discovered Items, and any such Discovered Items will be subject to indemnification as follows. Mr. Lange agrees to promptly indemnify and otherwise reimburse the Company for all claims based on any Discovered Items, if and to the extent any such claim is judicially determined in favor of the Company, together with associated legal and professional fees and costs, including those related to the portion of the Investigation that gave rise to the particular Discovered Item.

6. ADEA WAIVER. Mr. Lange specifically acknowledges that he is knowingly and voluntarily waiving and releasing any rights he may have under the ADEA. He also acknowledges that the consideration given for the waiver and release in the preceding paragraph is in addition to anything of value to which he was already entitled. He further acknowledges that he has been advised by this writing that: (a) his waiver and release do not apply to any claims that may arise after the Effective Date of this Agreement; (b) he should consult an attorney prior to executing this Agreement; (c) he has twenty-one (21) days within which to consider this Agreement (although he may choose to voluntarily execute this Agreement earlier); (d) he has seven (7) days following the execution of this Agreement to revoke the Agreement; (e) this Agreement shall not be effective until the date upon which the revocation period has expired, which shall be the eighth day after this Agreement is executed by Mr. Lange, provided that the Company has also signed the Agreement by that date (the "EFFECTIVE DATE").

7. FORM OF RESIGNATION. Mr. Lange agrees to resign as a member of the Board of Directors of the Company and as President and Chief Executive Officer of the Company by signing the form of resignation attached hereto as Exhibit A.

8. PUBLIC STATEMENTS.

(a) Mr. Lange will not make any public statement or private statement likely to be publicly disseminated that defames or otherwise disparages the Company, any of its directors, officers, employees or its business, including past and present actions and decisions of the Company.

(b) Neither the Company nor any of its representatives or affiliates will make any public statement or private statement likely to be publicly disseminated that defames or otherwise disparages Mr. Lange or his performance as the President and Chief Executive Officer of the Company or as a member of the Board of Directors.

9. OTHER STATEMENTS. Mr. Lange will not communicate in any way with any stockholders, customers, suppliers or other interested parties of the Company, including investment analysts, regarding the Company or its business. If any such parties contact Mr.

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Lange regarding the Company or its business, Mr. Lange will state that he has "no comment" and immediately refer such parties to Mr. Mark Jarman ("MR. JARMAN").

10. SURRENDER OF PROPERTY. Mr. Lange will return all files, records, lists, administrative procedure guidelines, literature, products, equipment, marketing material and all other materials owned by the Company which are used by Mr. Lange or in the custody of Mr. Lange, including, but not limited to, all personal computers, facsimile machines, other office equipment and rugs used or stored in Mr. Lange's residence and all sporting event tickets, including without limitation, the return of each specific item listed on Exhibit B attached hereto or the equivalent cash payment listed on such Exhibit B. All such items must be returned within two (2) days of the Resignation Date. Any tickets held in Mr. Lange's name shall be transferred to the Company, along with all possible priority rights in such tickets.

11. COMPANY PREMISES. Mr. Lange agrees not to enter the Company's premises for any reason after the Resignation Date. If Mr. Lange requires access to satisfy Paragraph 10 of this Agreement or to retrieve personal property, such visits must occur after the Company's normal business hours and Mr. Lange must

obtain permission from Mr. Jarman, at least one (1) day in advance of such proposed visit and be accompanied by two members of the Board of Directors and Mr. Jarman onto the Company's premises.

12. REIMBURSEMENT OBLIGATIONS. Mr. Lange agrees to fully reimburse the Company in the amount of Ninety Three Thousand Eighty-Five Dollars (\$93,085) for which he hereby acknowledges and agrees that he owes to the Company in respect of certain advances and benefits received. Mr. Lange will repay this amount to the Company pursuant to the terms of the Promissory Note in the form attached hereto as Exhibit C. As of November 1, 1998, if Mr. Lange has not satisfied the obligations of the Promissory Note, he may transfer Company stock currently owned by him in an amount sufficient to satisfy the principal and interest of the Promissory Note. The price of such stock shall be the average price of the Company's stock for the ten (10) days prior to the transfer.

13. SECURITIES LAWS. Mr. Lange acknowledges that he must comply with all federal and state securities laws upon selling his stock into the open market.

14. STANDSTILL. Except for capital stock owned and options vested as of the Resignation Date, Mr. Lange shall not purchase, acquire or own, or offer or agree to purchase, acquire or own, directly or indirectly, any capital stock of the Company (or enter into any arrangements or understandings with any third party to do any of the foregoing or engage on behalf of any third party to do any of the foregoing). The provision of this Section 13 shall cease to have any further force or effect two (2) years from the Resignation Date. Mr. Lange shall immediately notify the Secretary of the Company in the event he is contacted by any third party regarding any activities enumerated in this section or the like.

15. SUCCESSORS AND ASSIGNS. This Agreement shall bind and inure to the benefit of the heirs, family, personal representatives, successors and assigns of Mr. Lange, and shall bind and inure to the benefit of Company, and its successors and assigns.

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16. AUTHORITY. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company, and all who may claim through it, to the terms and conditions of this Agreement. Mr. Lange represents and warrants that he has the capacity to act on his own behalf, on his family's behalf and on behalf of all others who might claim through him, to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

17. CONFIDENTIALITY. The provisions of this Agreement shall be held in strictest confidence by Mr. Lange and by the Company and shall not be publicized or disclosed in any manner whatsoever. Notwithstanding the prohibition in the preceding sentence: (a) Mr. Lange may disclose this Agreement, in confidence, to his immediate family and to third parties in connection with his transition arrangements, but only to the extent necessary; (b) the Parties may disclose this Agreement in confidence to their respective attorneys, accountants, auditors, tax preparers, and financial advisors; (c) the Company may disclose this Agreement as necessary to fulfill standard or legally required corporate reporting or disclosure requirements, and in connection with third party due diligence related to the Company's financing, licensing, strategic partnering and/or business combination activities, and within the Company on a "need to know" basis (e.g. to its Board of Directors); and (d) the Parties may disclose this Agreement insofar as such disclosure may be necessary to enforce its terms or as otherwise required by law or legal process.

18. CONFIDENTIALITY AND ASSIGNMENT OF INVENTIONS. Mr. Lange agrees that as a key employee of the Company he is required to have executed a Key Employee Proprietary Information and Inventions Agreement (the "PROPRIETARY INFORMATION AGREEMENT") in the form attached hereto as Exhibit D. Mr. Lange further agrees that if he can not produce an executed Proprietary Information Agreement within two (2) days of the Resignation Date, he will sign the form attached as Exhibit D.

19. MUTUALITY OF DRAFTING. For purposes of construction, this Agreement shall be deemed to have been jointly drafted by the Parties and their counsel and any ambiguity shall not be construed against either Party.

20. ENTIRE AGREEMENT. This Agreement constitutes the complete, final, and exclusive embodiment of the entire agreement between the Parties with respect to the subject matter hereof and completely supersedes any and all prior agreements between the Parties, including, but not limited to, all employment agreements between the Parties, and shall be specifically enforceable. This Agreement is executed without reliance upon any prior negotiation, promise, agreement, warranty or representation, written or oral, by any Party or any representative of any Party other than those expressly contained herein. Each Party has carefully read this Agreement, has been afforded the opportunity to be advised of its meaning and consequences by his or its respective attorney, and signs the same of his or its own free will. This Agreement may not be amended or



modified except in a writing signed by both Mr. Lange and a duly authorized officer of the Company.

21. SEVERABILITY. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this

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Agreement and the provision in question shall be modified by the court so as to be rendered enforceable.

22. PARAGRAPH HEADINGS. The paragraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement

23. NO ADMISSIONS. It is understood and agreed by Mr. Lange and the Company that this Agreement represents a compromise settlement of various matters, and that the promises and payments in consideration of this Agreement shall not be construed to be an admission of any liability or obligation by either Party to the other Party or to any other person.

24. APPLICABLE LAW. The Agreement shall be deemed to have been entered into and shall be construed and enforced in accordance with the laws of the state of Colorado as applied to contracts made and to be performed entirely within Colorado.

25. COSTS AND FEES. Except as specifically set forth herein, the Parties will bear their own costs, expenses, and attorneys' fees, whether taxable or otherwise, incurred in or arising out of or in any way related to the negotiation, preparation or review of this Agreement. If any Party brings an action to enforce this Agreement, the prevailing party in such action shall be entitled to recover his or its attorneys fees or costs, in addition to any other relief to which that Party may be entitled.

26. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

27. NOTICES. Notices to Mr. Lange will be sent to him at 4588 Sunshine Canyon Drive, Boulder, Colorado 80302. Notices to the Company shall be sent to Dynamic Materials Corporation, 551 Aspen Ridge Drive, Lafayette, Colorado 80026, Attn: Richard A. Santa, Chief Financial Officer.

28. EFFECT OF BREACH OF RELEASE. In the event Mr. Lange breaches any provisions of this Agreement, he will be in breach of the entire Agreement and the release in Section 5(b) hereof will be automatically revoked and terminated.

7

IN WITNESS WHEREOF, the Parties have duly authorized and caused this Agreement to be executed.

PAUL LANGE

Dated: \_\_\_\_\_, 1998

By: \_\_\_\_\_

DYNAMIC MATERIAL CORPORATION

ON BEHALF OF THE

BOARD OF DIRECTORS

Dated: \_\_\_\_\_, 1998

By: \_\_\_\_\_

George W. Morgenthaler

By: \_\_\_\_\_

David E. Bartlett

## SEPARATION AGREEMENT

This SEPARATION AGREEMENT ("Agreement") is entered into by and between PAUL LANGE, an individual ("MR. LANGE"), and DYNAMIC MATERIALS CORPORATION, a Delaware corporation (the "COMPANY") (collectively referred to herein as the "PARTIES"), as of September 1, 1998 (the "RESIGNATION DATE").

### RECITALS

WHEREAS, Mr. Lange has agreed to resign as a member of the Board of Directors of the Company, and as the President and Chief Executive Officer of the Company effective as of the Resignation Date and as an employee of the Company effective as of October 4, 1998 (the "EMPLOYMENT SEPARATION DATE");

WHEREAS, the Company has accepted Mr. Lange's resignation and wishes to provide Mr. Lange with certain benefits, in consideration of his service to the Company and the promises and covenants of Mr. Lange contained herein;

WHEREAS, Mr. Lange and the Company desire finally to compromise, settle and discharge all claims, controversies, demands, actions or causes of action which Mr. Lange, his family or agents may have or claim to have against the Company.

### AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises, covenants and other good and valuable consideration contained herein, it is hereby agreed by and between the Parties hereto as follows:

1. ACCRUED VACATION AND PERSONAL DAYS. The Parties acknowledge and agree that the Company has paid Mr. Lange concurrently with the signing of this Agreement, all of his accrued vacation and personal days due and owed him through the Employment Separation Date, and that he has not, and will not, accrue any additional vacation or personal days after the Employment Separation Date. Mr. Lange acknowledges that he is not entitled to any payment in respect of sick days.

2. PAYMENTS AND BENEFITS. The Company agrees to provide Mr. Lange with the following as part of this Agreement:

(a) PAYMENTS. In lieu of any and all other benefits or payments that might be due or payable to Mr. Lange in connection with the termination of his employment with the Company, on the Effective Date (as defined in Section 6 hereof), the Company will pay to Mr. Lange a lump sum payment equivalent to seven (7) weeks of Mr. Lange's current salary.

(b) HEALTH INSURANCE. To the extent permitted by the federal COBRA law and by the Company's current group health insurance policies, Mr. Lange will be eligible to continue health insurance benefits for himself and his family for which the Company will pay until December 31, 1998 at which time the policy shall convert to an individual policy. The Parties

acknowledge that Mr. Lange has already been provided with a separate timely notice of his COBRA rights.

(c) VEHICLE LEASE. With respect to the vehicle leased by the Company for use by Mr. Lange, Mr. Lange will have this option: (1) Mr. Lange may purchase the vehicle pursuant to the terms and conditions contained in the lease; or (2) Mr. Lange may agree, subject to the approval of the bank holding the lease, to assume lease payments from the Company. Mr. Lange must choose one option within thirty (30) days of the Resignation Date. During such period Mr. Lange will be the sole driver of the vehicle, except in cases of emergency. A violation of the foregoing will result in the vehicle immediately being returned to the Company.

(d) OTHER COMPENSATION OR BENEFITS. Mr. Lange acknowledges that, except as expressly provided in this Agreement, he will not receive any additional compensation, bonus, severance or benefits after the Resignation Date.

(e) STOCK OPTIONS. All stock options vested as of the Resignation Date will continue to be exercisable under the standard terms and conditions of the Company's applicable option plan

3. WITHHOLDING ISSUES. The Parties agree that the Company will withhold all required federal, state and local income taxes and any other required withholdings as necessary from all payments under this Agreement. Mr. Lange acknowledges that he will be entirely responsible for payment of any taxes which may be due on the payments to be made to him under this Agreement. He

acknowledges and understands that the Company makes no representation or warranty with respect to the tax treatment by any local, state or federal tax authority of such payments. Mr. Lange agrees to indemnify the Company and hold it harmless with regard to any payment of tax, penalty or interest which the Company may be required to pay by any tax authority with respect to payments to be made to him under this Agreement.

4. EXPENSE REIMBURSEMENT. Mr. Lange will be entitled to receive any expense reimbursement, as of yet unpaid, for reasonable and approved business expenses incurred through the Resignation Date. Signed expense vouchers for all claimed reimbursement of expenses have been duly submitted to the Company or will have been received by the Company within thirty (30) days of the Resignation Date.

5. MUTUAL RELEASES

(a) RELEASE BY MR. LANGE. Mr. Lange, both in his individual capacity and as a shareholder and prior officer and director of the Company, and on behalf of his family, relatives, heirs, devisees, estate, agents and assigns, hereby (i) releases, acquits, and forever discharges the Company, its officers, directors, agents, servants, employees, attorneys, shareholders, successors, assigns and affiliates, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the Effective Date (as defined below) of this Agreement, including, but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected

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with the Company's employment of Mr. Lange or the termination of that employment; claims or demands related to salary, bonuses, commissions, stock, stock options, vacation pay, fringe benefits, severance pay, expense reimbursements, or any other form of compensation; claims pursuant to any federal, state or local law or cause of action including, but not limited to, the federal Civil Rights Act of 1964, as amended; the federal Americans with Disabilities Act of 1990; the federal Age Discrimination in Employment Act of 1967, as amended ("ADEA"); Colorado's Labor and Employment Code; the Colorado Anti-Discrimination Act of 1957, as amended; tort law; contract law; wrongful discharge; discrimination; fraud; defamation; emotional distress; breach of the implied covenant of good faith and fair dealing; interference with prospective economic advantage, and interference with contract, and (ii) agrees to refrain and forebear from asserting or otherwise bringing against the Company any such claims. This release shall not apply with respect to the indemnification provided by the Company to Mr. Lange to the full extent permitted by Delaware law for acts committed by Mr. Lange within the scope of his employment with the Company.

(b) CONDITIONAL RELEASE BY THE COMPANY. Except as to specific obligations incurred by Mr. Lange in this Agreement and subject to subsection (c) of this Section, the Company hereby (i) releases, acquits, and forever discharges Mr. Lange, both in his individual capacity and as a shareholder and prior officer of the Company, and his heirs, successors and assigns, of and from any and all known claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the Effective Date (as defined below) of this Agreement (the "KNOWN CLAIMS"), including, but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with the Company's employment of Mr. Lange or the termination of that employment, or Mr. Lange's serving on the Company's Board of Directors or resignation therefrom; claims pursuant to any federal, state or local law or cause of action; tort law; contract law; fraud; defamation; breach of the implied covenant of good faith and fair dealing; interference with prospective economic advantage, and interference with contract, and (ii) agrees to refrain and forebear from asserting or otherwise bringing against Mr. Lange any such Known Claims.

(c) CONDITIONAL RELEASE TRIGGER EVENTS. From and after (90) days following the Effective Date, during which the Company will conduct an investigation relating to Mr. Lange (the "INVESTIGATION"), the Company hereby (i) releases, acquits, and forever discharges Mr. Lange, both in his individual capacity and as a shareholder and prior officer of the Company, and his heirs, successors and assigns, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known or unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the Effective Date (as defined below) of this Agreement (the "UNKNOWN CLAIMS"), including, but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with the Company's employment of Mr. Lange or the termination of that employment, or Mr. Lange's serving on the Company's Board of Directors or resignation therefrom; claims pursuant to

any federal, state or local law or cause of action; tort law; contract law; fraud; defamation; breach of the implied covenant of good faith and fair dealing; interference with prospective economic advantage, and interference with contract, and (ii) agrees

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to refrain and forebear from asserting or otherwise bringing against Mr. Lange any such Unknown Claims (the "TOTAL RELEASE"); provided, however, that the Total Release shall not apply to activities and incidents revealed, uncovered or otherwise determined by the Investigation ("DISCOVERED ITEMS").

(d) INDEMNIFICATION. Mr. Lange agrees to cooperate with the Company in connection with the Investigation in all reasonable respects. The Company will notify Mr. Lange of any Discovered Items promptly after the ninety (90) day period. The Total Release will apply at the end of the ninety (90) day period except to the extent of any such Discovered Items, and any such Discovered Items will be subject to indemnification as follows. Mr. Lange agrees to promptly indemnify and otherwise reimburse the Company for all claims based on any Discovered Items, if and to the extent any such claim is judicially determined in favor of the Company, together with associated legal and professional fees and costs, including those related to the portion of the Investigation that gave rise to the particular Discovered Item.

6. ADEA WAIVER. Mr. Lange specifically acknowledges that he is knowingly and voluntarily waiving and releasing any rights he may have under the ADEA. He also acknowledges that the consideration given for the waiver and release in the preceding paragraph is in addition to anything of value to which he was already entitled. He further acknowledges that he has been advised by this writing that: (a) his waiver and release do not apply to any claims that may arise after the Effective Date of this Agreement; (b) he should consult an attorney prior to executing this Agreement; (c) he has twenty-one (21) days within which to consider this Agreement (although he may choose to voluntarily execute this Agreement earlier); (d) he has seven (7) days following the execution of this Agreement to revoke the Agreement; (e) this Agreement shall not be effective until the date upon which the revocation period has expired, which shall be the eighth day after this Agreement is executed by Mr. Lange, provided that the Company has also signed the Agreement by that date (the "EFFECTIVE DATE").

7. FORM OF RESIGNATION. Mr. Lange agrees to resign as a member of the Board of Directors of the Company and as President and Chief Executive Officer of the Company by signing the form of resignation attached hereto as Exhibit A.

8. PUBLIC STATEMENTS.

(a) Mr. Lange will not make any public statement or private statement likely to be publicly disseminated that defames or otherwise disparages the Company, any of its directors, officers, employees or its business, including past and present actions and decisions of the Company.

(b) Neither the Company nor any of its representatives or affiliates will make any public statement or private statement likely to be publicly disseminated that defames or otherwise disparages Mr. Lange or his performance as the President and Chief Executive Officer of the Company or as a member of the Board of Directors.

9. OTHER STATEMENTS. Mr. Lange will not communicate in any way with any stockholders, customers, suppliers or other interested parties of the Company, including investment analysts, regarding the Company or its business. If any such parties contact Mr.

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Lange regarding the Company or its business, Mr. Lange will state that he has "no comment" and immediately refer such parties to Mr. Mark Jarman ("MR. JARMAN").

10. SURRENDER OF PROPERTY. Mr. Lange will return all files, records, lists, administrative procedure guidelines, literature, products, equipment, marketing material and all other materials owned by the Company which are used by Mr. Lange or in the custody of Mr. Lange, including, but not limited to, all personal computers, facsimile machines, other office equipment and rugs used or stored in Mr. Lange's residence and all sporting event tickets, including without limitation, the return of each specific item listed on Exhibit B attached hereto or the equivalent cash payment listed on such Exhibit B. All such items must be returned within two (2) days of the Resignation Date. Any tickets held in Mr. Lange's name shall be transferred to the Company, along with all possible priority rights in such tickets.

11. COMPANY PREMISES. Mr. Lange agrees not to enter the Company's premises for any reason after the Resignation Date. If Mr. Lange requires access to satisfy Paragraph 10 of this Agreement or to retrieve personal property, such visits must occur after the Company's normal business hours and Mr. Lange must

obtain permission from Mr. Jarman, at least one (1) day in advance of such proposed visit and be accompanied by two members of the Board of Directors and Mr. Jarman onto the Company's premises.

12. REIMBURSEMENT OBLIGATIONS. Mr. Lange agrees to fully reimburse the Company in the amount of Ninety Three Thousand Eighty-Five Dollars (\$93,085) for which he hereby acknowledges and agrees that he owes to the Company in respect of certain advances and benefits received. Mr. Lange will repay this amount to the Company pursuant to the terms of the Promissory Note in the form attached hereto as Exhibit C. As of November 1, 1998, if Mr. Lange has not satisfied the obligations of the Promissory Note, he may transfer Company stock currently owned by him in an amount sufficient to satisfy the principal and interest of the Promissory Note. The price of such stock shall be the average price of the Company's stock for the ten (10) days prior to the transfer.

13. SECURITIES LAWS. Mr. Lange acknowledges that he must comply with all federal and state securities laws upon selling his stock into the open market.

14. STANDSTILL. Except for capital stock owned and options vested as of the Resignation Date, Mr. Lange shall not purchase, acquire or own, or offer or agree to purchase, acquire or own, directly or indirectly, any capital stock of the Company (or enter into any arrangements or understandings with any third party to do any of the foregoing or engage on behalf of any third party to do any of the foregoing). The provision of this Section 13 shall cease to have any further force or effect two (2) years from the Resignation Date. Mr. Lange shall immediately notify the Secretary of the Company in the event he is contacted by any third party regarding any activities enumerated in this section or the like.

15. SUCCESSORS AND ASSIGNS. This Agreement shall bind and inure to the benefit of the heirs, family, personal representatives, successors and assigns of Mr. Lange, and shall bind and inure to the benefit of Company, and its successors and assigns.

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16. AUTHORITY. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company, and all who may claim through it, to the terms and conditions of this Agreement. Mr. Lange represents and warrants that he has the capacity to act on his own behalf, on his family's behalf and on behalf of all others who might claim through him, to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

17. CONFIDENTIALITY. The provisions of this Agreement shall be held in strictest confidence by Mr. Lange and by the Company and shall not be publicized or disclosed in any manner whatsoever. Notwithstanding the prohibition in the preceding sentence: (a) Mr. Lange may disclose this Agreement, in confidence, to his immediate family and to third parties in connection with his transition arrangements, but only to the extent necessary; (b) the Parties may disclose this Agreement in confidence to their respective attorneys, accountants, auditors, tax preparers, and financial advisors; (c) the Company may disclose this Agreement as necessary to fulfill standard or legally required corporate reporting or disclosure requirements, and in connection with third party due diligence related to the Company's financing, licensing, strategic partnering and/or business combination activities, and within the Company on a "need to know" basis (e.g. to its Board of Directors); and (d) the Parties may disclose this Agreement insofar as such disclosure may be necessary to enforce its terms or as otherwise required by law or legal process.

18. CONFIDENTIALITY AND ASSIGNMENT OF INVENTIONS. Mr. Lange agrees that as a key employee of the Company he is required to have executed a Key Employee Proprietary Information and Inventions Agreement (the "PROPRIETARY INFORMATION AGREEMENT") in the form attached hereto as Exhibit D. Mr. Lange further agrees that if he can not produce an executed Proprietary Information Agreement within two (2) days of the Resignation Date, he will sign the form attached as Exhibit D.

19. MUTUALITY OF DRAFTING. For purposes of construction, this Agreement shall be deemed to have been jointly drafted by the Parties and their counsel and any ambiguity shall not be construed against either Party.

20. ENTIRE AGREEMENT. This Agreement constitutes the complete, final, and exclusive embodiment of the entire agreement between the Parties with respect to the subject matter hereof and completely supersedes any and all prior agreements between the Parties, including, but not limited to, all employment agreements between the Parties, and shall be specifically enforceable. This Agreement is executed without reliance upon any prior negotiation, promise, agreement, warranty or representation, written or oral, by any Party or any representative of any Party other than those expressly contained herein. Each Party has carefully read this Agreement, has been afforded the opportunity to be advised of its meaning and consequences by his or its respective attorney, and signs the same of his or its own free will. This Agreement may not be amended or

modified except in a writing signed by both Mr. Lange and a duly authorized officer of the Company.

21. SEVERABILITY. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this

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Agreement and the provision in question shall be modified by the court so as to be rendered enforceable.

22. PARAGRAPH HEADINGS. The paragraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement

23. NO ADMISSIONS. It is understood and agreed by Mr. Lange and the Company that this Agreement represents a compromise settlement of various matters, and that the promises and payments in consideration of this Agreement shall not be construed to be an admission of any liability or obligation by either Party to the other Party or to any other person.

24. APPLICABLE LAW. The Agreement shall be deemed to have been entered into and shall be construed and enforced in accordance with the laws of the state of Colorado as applied to contracts made and to be performed entirely within Colorado.

25. COSTS AND FEES. Except as specifically set forth herein, the Parties will bear their own costs, expenses, and attorneys' fees, whether taxable or otherwise, incurred in or arising out of or in any way related to the negotiation, preparation or review of this Agreement. If any Party brings an action to enforce this Agreement, the prevailing party in such action shall be entitled to recover his or its attorneys fees or costs, in addition to any other relief to which that Party may be entitled.

26. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

27. NOTICES. Notices to Mr. Lange will be sent to him at 4588 Sunshine Canyon Drive, Boulder, Colorado 80302. Notices to the Company shall be sent to Dynamic Materials Corporation, 551 Aspen Ridge Drive, Lafayette, Colorado 80026, Attn: Richard A. Santa, Chief Financial Officer.

28. EFFECT OF BREACH OF RELEASE. In the event Mr. Lange breaches any provisions of this Agreement, he will be in breach of the entire Agreement and the release in Section 5(b) hereof will be automatically revoked and terminated.

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IN WITNESS WHEREOF, the Parties have duly authorized and caused this Agreement to be executed.

PAUL LANGE

Dated: \_\_\_\_\_, 1998

By: \_\_\_\_\_

DYNAMIC MATERIAL CORPORATION

ON BEHALF OF THE

BOARD OF DIRECTORS

Dated: \_\_\_\_\_, 1998

By: \_\_\_\_\_

George W. Morgenthaler

By: \_\_\_\_\_

David E. Bartlett

## SEPARATION AGREEMENT

This SEPARATION AGREEMENT ("Agreement") is entered into by and between PAUL LANGE, an individual ("MR. LANGE"), and DYNAMIC MATERIALS CORPORATION, a Delaware corporation (the "COMPANY") (collectively referred to herein as the "PARTIES"), as of September 1, 1998 (the "RESIGNATION DATE").

### RECITALS

WHEREAS, Mr. Lange has agreed to resign as a member of the Board of Directors of the Company, and as the President and Chief Executive Officer of the Company effective as of the Resignation Date and as an employee of the Company effective as of October 4, 1998 (the "EMPLOYMENT SEPARATION DATE");

WHEREAS, the Company has accepted Mr. Lange's resignation and wishes to provide Mr. Lange with certain benefits, in consideration of his service to the Company and the promises and covenants of Mr. Lange contained herein;

WHEREAS, Mr. Lange and the Company desire finally to compromise, settle and discharge all claims, controversies, demands, actions or causes of action which Mr. Lange, his family or agents may have or claim to have against the Company.

### AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises, covenants and other good and valuable consideration contained herein, it is hereby agreed by and between the Parties hereto as follows:

1. ACCRUED VACATION AND PERSONAL DAYS. The Parties acknowledge and agree that the Company has paid Mr. Lange concurrently with the signing of this Agreement, all of his accrued vacation and personal days due and owed him through the Employment Separation Date, and that he has not, and will not, accrue any additional vacation or personal days after the Employment Separation Date. Mr. Lange acknowledges that he is not entitled to any payment in respect of sick days.

2. PAYMENTS AND BENEFITS. The Company agrees to provide Mr. Lange with the following as part of this Agreement:

(a) PAYMENTS. In lieu of any and all other benefits or payments that might be due or payable to Mr. Lange in connection with the termination of his employment with the Company, on the Effective Date (as defined in Section 6 hereof), the Company will pay to Mr. Lange a lump sum payment equivalent to seven (7) weeks of Mr. Lange's current salary.

(b) HEALTH INSURANCE. To the extent permitted by the federal COBRA law and by the Company's current group health insurance policies, Mr. Lange will be eligible to continue health insurance benefits for himself and his family for which the Company will pay until December 31, 1998 at which time the policy shall convert to an individual policy. The Parties

acknowledge that Mr. Lange has already been provided with a separate timely notice of his COBRA rights.

(c) VEHICLE LEASE. With respect to the vehicle leased by the Company for use by Mr. Lange, Mr. Lange will have this option: (1) Mr. Lange may purchase the vehicle pursuant to the terms and conditions contained in the lease; or (2) Mr. Lange may agree, subject to the approval of the bank holding the lease, to assume lease payments from the Company. Mr. Lange must choose one option within thirty (30) days of the Resignation Date. During such period Mr. Lange will be the sole driver of the vehicle, except in cases of emergency. A violation of the foregoing will result in the vehicle immediately being returned to the Company.

(d) OTHER COMPENSATION OR BENEFITS. Mr. Lange acknowledges that, except as expressly provided in this Agreement, he will not receive any additional compensation, bonus, severance or benefits after the Resignation Date.

(e) STOCK OPTIONS. All stock options vested as of the Resignation Date will continue to be exercisable under the standard terms and conditions of the Company's applicable option plan

3. WITHHOLDING ISSUES. The Parties agree that the Company will withhold all required federal, state and local income taxes and any other required withholdings as necessary from all payments under this Agreement. Mr. Lange acknowledges that he will be entirely responsible for payment of any taxes which may be due on the payments to be made to him under this Agreement. He

acknowledges and understands that the Company makes no representation or warranty with respect to the tax treatment by any local, state or federal tax authority of such payments. Mr. Lange agrees to indemnify the Company and hold it harmless with regard to any payment of tax, penalty or interest which the Company may be required to pay by any tax authority with respect to payments to be made to him under this Agreement.

4. EXPENSE REIMBURSEMENT. Mr. Lange will be entitled to receive any expense reimbursement, as of yet unpaid, for reasonable and approved business expenses incurred through the Resignation Date. Signed expense vouchers for all claimed reimbursement of expenses have been duly submitted to the Company or will have been received by the Company within thirty (30) days of the Resignation Date.

5. MUTUAL RELEASES

(a) RELEASE BY MR. LANGE. Mr. Lange, both in his individual capacity and as a shareholder and prior officer and director of the Company, and on behalf of his family, relatives, heirs, devisees, estate, agents and assigns, hereby (i) releases, acquits, and forever discharges the Company, its officers, directors, agents, servants, employees, attorneys, shareholders, successors, assigns and affiliates, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the Effective Date (as defined below) of this Agreement, including, but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected

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with the Company's employment of Mr. Lange or the termination of that employment; claims or demands related to salary, bonuses, commissions, stock, stock options, vacation pay, fringe benefits, severance pay, expense reimbursements, or any other form of compensation; claims pursuant to any federal, state or local law or cause of action including, but not limited to, the federal Civil Rights Act of 1964, as amended; the federal Americans with Disabilities Act of 1990; the federal Age Discrimination in Employment Act of 1967, as amended ("ADEA"); Colorado's Labor and Employment Code; the Colorado Anti-Discrimination Act of 1957, as amended; tort law; contract law; wrongful discharge; discrimination; fraud; defamation; emotional distress; breach of the implied covenant of good faith and fair dealing; interference with prospective economic advantage, and interference with contract, and (ii) agrees to refrain and forebear from asserting or otherwise bringing against the Company any such claims. This release shall not apply with respect to the indemnification provided by the Company to Mr. Lange to the full extent permitted by Delaware law for acts committed by Mr. Lange within the scope of his employment with the Company.

(b) CONDITIONAL RELEASE BY THE COMPANY. Except as to specific obligations incurred by Mr. Lange in this Agreement and subject to subsection (c) of this Section, the Company hereby (i) releases, acquits, and forever discharges Mr. Lange, both in his individual capacity and as a shareholder and prior officer of the Company, and his heirs, successors and assigns, of and from any and all known claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the Effective Date (as defined below) of this Agreement (the "KNOWN CLAIMS"), including, but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with the Company's employment of Mr. Lange or the termination of that employment, or Mr. Lange's serving on the Company's Board of Directors or resignation therefrom; claims pursuant to any federal, state or local law or cause of action; tort law; contract law; fraud; defamation; breach of the implied covenant of good faith and fair dealing; interference with prospective economic advantage, and interference with contract, and (ii) agrees to refrain and forebear from asserting or otherwise bringing against Mr. Lange any such Known Claims.

(c) CONDITIONAL RELEASE TRIGGER EVENTS. From and after (90) days following the Effective Date, during which the Company will conduct an investigation relating to Mr. Lange (the "INVESTIGATION"), the Company hereby (i) releases, acquits, and forever discharges Mr. Lange, both in his individual capacity and as a shareholder and prior officer of the Company, and his heirs, successors and assigns, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known or unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the Effective Date (as defined below) of this Agreement (the "UNKNOWN CLAIMS"), including, but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with the Company's employment of Mr. Lange or the termination of that employment, or Mr. Lange's serving on the Company's Board of Directors or resignation therefrom; claims pursuant to



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to refrain and forebear from asserting or otherwise bringing against Mr. Lange any such Unknown Claims (the "TOTAL RELEASE"); provided, however, that the Total Release shall not apply to activities and incidents revealed, uncovered or otherwise determined by the Investigation ("DISCOVERED ITEMS").

(d) INDEMNIFICATION. Mr. Lange agrees to cooperate with the Company in connection with the Investigation in all reasonable respects. The Company will notify Mr. Lange of any Discovered Items promptly after the ninety (90) day period. The Total Release will apply at the end of the ninety (90) day period except to the extent of any such Discovered Items, and any such Discovered Items will be subject to indemnification as follows. Mr. Lange agrees to promptly indemnify and otherwise reimburse the Company for all claims based on any Discovered Items, if and to the extent any such claim is judicially determined in favor of the Company, together with associated legal and professional fees and costs, including those related to the portion of the Investigation that gave rise to the particular Discovered Item.

6. ADEA WAIVER. Mr. Lange specifically acknowledges that he is knowingly and voluntarily waiving and releasing any rights he may have under the ADEA. He also acknowledges that the consideration given for the waiver and release in the preceding paragraph is in addition to anything of value to which he was already entitled. He further acknowledges that he has been advised by this writing that: (a) his waiver and release do not apply to any claims that may arise after the Effective Date of this Agreement; (b) he should consult an attorney prior to executing this Agreement; (c) he has twenty-one (21) days within which to consider this Agreement (although he may choose to voluntarily execute this Agreement earlier); (d) he has seven (7) days following the execution of this Agreement to revoke the Agreement; (e) this Agreement shall not be effective until the date upon which the revocation period has expired, which shall be the eighth day after this Agreement is executed by Mr. Lange, provided that the Company has also signed the Agreement by that date (the "EFFECTIVE DATE").

7. FORM OF RESIGNATION. Mr. Lange agrees to resign as a member of the Board of Directors of the Company and as President and Chief Executive Officer of the Company by signing the form of resignation attached hereto as Exhibit A.

8. PUBLIC STATEMENTS.

(a) Mr. Lange will not make any public statement or private statement likely to be publicly disseminated that defames or otherwise disparages the Company, any of its directors, officers, employees or its business, including past and present actions and decisions of the Company.

(b) Neither the Company nor any of its representatives or affiliates will make any public statement or private statement likely to be publicly disseminated that defames or otherwise disparages Mr. Lange or his performance as the President and Chief Executive Officer of the Company or as a member of the Board of Directors.

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Lange regarding the Company or its business, Mr. Lange will state that he has "no comment" and immediately refer such parties to Mr. Mark Jarman ("MR. JARMAN").

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obtain permission from Mr. Jarman, at least one (1) day in advance of such proposed visit and be accompanied by two members of the Board of Directors and Mr. Jarman onto the Company's premises.

12. REIMBURSEMENT OBLIGATIONS. Mr. Lange agrees to fully reimburse the Company in the amount of Ninety Three Thousand Eighty-Five Dollars (\$93,085) for which he hereby acknowledges and agrees that he owes to the Company in respect of certain advances and benefits received. Mr. Lange will repay this amount to the Company pursuant to the terms of the Promissory Note in the form attached hereto as Exhibit C. As of November 1, 1998, if Mr. Lange has not satisfied the obligations of the Promissory Note, he may transfer Company stock currently owned by him in an amount sufficient to satisfy the principal and interest of the Promissory Note. The price of such stock shall be the average price of the Company's stock for the ten (10) days prior to the transfer.

13. SECURITIES LAWS. Mr. Lange acknowledges that he must comply with all federal and state securities laws upon selling his stock into the open market.

14. STANDSTILL. Except for capital stock owned and options vested as of the Resignation Date, Mr. Lange shall not purchase, acquire or own, or offer or agree to purchase, acquire or own, directly or indirectly, any capital stock of the Company (or enter into any arrangements or understandings with any third party to do any of the foregoing or engage on behalf of any third party to do any of the foregoing). The provision of this Section 13 shall cease to have any further force or effect two (2) years from the Resignation Date. Mr. Lange shall immediately notify the Secretary of the Company in the event he is contacted by any third party regarding any activities enumerated in this section or the like.

15. SUCCESSORS AND ASSIGNS. This Agreement shall bind and inure to the benefit of the heirs, family, personal representatives, successors and assigns of Mr. Lange, and shall bind and inure to the benefit of Company, and its successors and assigns.

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16. AUTHORITY. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company, and all who may claim through it, to the terms and conditions of this Agreement. Mr. Lange represents and warrants that he has the capacity to act on his own behalf, on his family's behalf and on behalf of all others who might claim through him, to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

17. CONFIDENTIALITY. The provisions of this Agreement shall be held in strictest confidence by Mr. Lange and by the Company and shall not be publicized or disclosed in any manner whatsoever. Notwithstanding the prohibition in the preceding sentence: (a) Mr. Lange may disclose this Agreement, in confidence, to his immediate family and to third parties in connection with his transition arrangements, but only to the extent necessary; (b) the Parties may disclose this Agreement in confidence to their respective attorneys, accountants, auditors, tax preparers, and financial advisors; (c) the Company may disclose this Agreement as necessary to fulfill standard or legally required corporate reporting or disclosure requirements, and in connection with third party due diligence related to the Company's financing, licensing, strategic partnering and/or business combination activities, and within the Company on a "need to know" basis (e.g. to its Board of Directors); and (d) the Parties may disclose this Agreement insofar as such disclosure may be necessary to enforce its terms or as otherwise required by law or legal process.

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20. ENTIRE AGREEMENT. This Agreement constitutes the complete, final, and exclusive embodiment of the entire agreement between the Parties with respect to the subject matter hereof and completely supersedes any and all prior agreements between the Parties, including, but not limited to, all employment agreements between the Parties, and shall be specifically enforceable. This Agreement is executed without reliance upon any prior negotiation, promise, agreement, warranty or representation, written or oral, by any Party or any representative of any Party other than those expressly contained herein. Each Party has carefully read this Agreement, has been afforded the opportunity to be advised of its meaning and consequences by his or its respective attorney, and signs the same of his or its own free will. This Agreement may not be amended or

modified except in a writing signed by both Mr. Lange and a duly authorized officer of the Company.

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Agreement and the provision in question shall be modified by the court so as to be rendered enforceable.

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23. NO ADMISSIONS. It is understood and agreed by Mr. Lange and the Company that this Agreement represents a compromise settlement of various matters, and that the promises and payments in consideration of this Agreement shall not be construed to be an admission of any liability or obligation by either Party to the other Party or to any other person.

24. APPLICABLE LAW. The Agreement shall be deemed to have been entered into and shall be construed and enforced in accordance with the laws of the state of Colorado as applied to contracts made and to be performed entirely within Colorado.

25. COSTS AND FEES. Except as specifically set forth herein, the Parties will bear their own costs, expenses, and attorneys' fees, whether taxable or otherwise, incurred in or arising out of or in any way related to the negotiation, preparation or review of this Agreement. If any Party brings an action to enforce this Agreement, the prevailing party in such action shall be entitled to recover his or its attorneys fees or costs, in addition to any other relief to which that Party may be entitled.

26. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

27. NOTICES. Notices to Mr. Lange will be sent to him at 4588 Sunshine Canyon Drive, Boulder, Colorado 80302. Notices to the Company shall be sent to Dynamic Materials Corporation, 551 Aspen Ridge Drive, Lafayette, Colorado 80026, Attn: Richard A. Santa, Chief Financial Officer.

28. EFFECT OF BREACH OF RELEASE. In the event Mr. Lange breaches any provisions of this Agreement, he will be in breach of the entire Agreement and the release in Section 5(b) hereof will be automatically revoked and terminated.

7

IN WITNESS WHEREOF, the Parties have duly authorized and caused this Agreement to be executed.

PAUL LANGE

Dated: \_\_\_\_\_, 1998

By: \_\_\_\_\_

DYNAMIC MATERIAL CORPORATION

ON BEHALF OF THE

BOARD OF DIRECTORS

Dated: \_\_\_\_\_, 1998

By: \_\_\_\_\_

George W. Morgenthaler

By: \_\_\_\_\_

David E. Bartlett

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