

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

( X ) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND  
EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998 COMMISSION FILE NUMBER 0-8328  
( ) TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

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DYNAMIC MATERIALS CORPORATION

(Exact name of Registrant as specified in its charter)

DELAWARE

84-0608431

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

551 ASPEN RIDGE DRIVE, LAFAYETTE, COLORADO 80026  
(Address of principal executive offices, including zip code)

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

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

Securities registered pursuant to Section 12(g) of the Act:  
COMMON STOCK, \$.05 PAR VALUE

Check whether the issuer: (1) filed all reports required to be filed  
by Section 13 or 15(d) of the 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  
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Check if no disclosure of delinquent filers in response to Item 405  
of Regulation S-B is contained in this form, and no disclosure will be  
contained, to the best of the issuer's knowledge, in definitive proxy or  
information statements incorporated by reference in Part III of this Form 10-K  
or any amendment to this Form 10-K. \_\_\_\_\_

The issuer's revenues for its most recent fiscal year were:  
\$38,212,051.

The aggregate market value of the voting stock held by  
non-affiliates of the issuer was \$6,091,141 as of March 22, 1999.\*

The number of shares of Common Stock outstanding was 2,834,641 as of  
March 22, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III (Items 10, 11, 12 AND 13) is  
incorporated by reference to portions of the issuer's definitive proxy statement  
for the 1999 Annual Meeting of Shareholders which will be filed with the  
Securities and Exchange Commission within 120 days after the fiscal year ended  
December 31, 1998.

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\* Excludes 1,124,847 shares of Common Stock held by directors and officers  
and stockholders whose beneficial ownership exceeds five percent of the  
shares outstanding at March 22, 1999. Exclusion of shares held by any  
person should not be construed to indicate that such person possesses the  
power, direct or indirect, to direct or cause the direction of the  
management or policies of the issuer, or that such person is controlled by  
or under common control with the issuer.

Except for the historical information contained herein, the following  
discussion contains forward-looking statements that involve risks and  
uncertainties. The Company's actual results could differ materially from those  
discussed here. Factors that could cause or contribute to such differences  
include, but are not limited to, those discussed in this section, as well as in  
the section entitled "Management's Discussion and Analysis of Financial  
Condition and Results of Operations."

PART I

ITEM 1. BUSINESS

OVERVIEW

Dynamic Materials Corporation ("DMC" or the "Company") is a worldwide leader in the high energy metal working business. The high energy metal working business includes the use of explosives to perform 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. DMC believes that the characteristics of its high energy metal working processes will enable the development of new applications for products in a wide variety of industries.

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

Aerospace Manufacturing. Formed metal products are made from sheet metal and forgings that are subsequently formed into precise, three-dimensional shapes that are held to tight tolerances. Metal forming is accomplished through 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, machining, 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 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.

In January 1998, the Company completed its acquisition of AMK Welding (AMK) a supplier of commercial aircraft and aerospace-related automatic and manual gas tungsten and arc welding services. The Company completed its acquisition of Spin Forge, LLC (Spin Forge), one of the country's leading manufacturers of tactical missile motor cases and titanium pressure vessels for commercial aerospace and defense industries, in March 1998. In December 1998, the Company completed its acquisition of Precision Machined Products, Inc.

(PMP), a contract machining shop specializing in high precision, high quality, complex machined parts used in the aerospace, satellite, medical equipment and high technology industries.

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

INVESTMENT CONSIDERATIONS

Except for the historical information contained herein, this report on Form 10-K contains forward-looking statements that involve risks and uncertainties. The Company wishes to caution readers that the risks detailed below, among others, in some cases have affected, and in others could cause the Company's results to differ materially from those expressed in any forward-looking statements made by the Company and could otherwise affect, the Company's business, results of operations and financial condition. Certain of these factors are further discussed below and should be considered in evaluating

the Company's forward-looking statements and any investment in the Company's common stock.

Fluctuations in Operating Results. The Company has experienced and expects to continue to experience, quarterly fluctuations in operating results caused by various factors, including the timing and size of orders by major customers, customer inventory levels, shifts in product mix, the occurrence of 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. Results of operations in any period should not be considered indicative of the results to be expected for any future period. Fluctuations in operating results may also result in fluctuations in the price of the Company's Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Dependence on Clad Metal Business; Limitation on Growth in Existing Markets for Clad Metal Products. In the year ended December 31, 1998, the Company's cladding business accounted for approximately 72% of its net sales. The explosion bonded clad metal products industry in which the Company currently operates is mature with limited potential for substantial growth in existing markets. The Company estimates that it currently serves approximately 35% of the market for its explosion bonded clad metal products. Demand for clad metal products has declined in recent years. There can be no assurance that the demand for clad metal products will improve in the future, and such result could have a material adverse effect on the Company's business, financial condition and results of operations.

Increasing Importance of Aerospace Manufacturing. Although the Company's aerospace manufacturing business accounted for approximately 22% of its net sales in the fiscal year ended December 31, 1998, this percentage will likely increase in the future as the result of the full integration of recent acquisitions (discussed below) and additional acquisitions. The aerospace manufacturing industry is largely reliant on defense industry demand and positive economic conditions in general. Fluctuations or downturns in either could have a materially adverse impact on the Company. The Company currently estimates that it services a very small percentage of the aerospace industry. While the Company believes that it will be able to increase its market share through the businesses it currently owns and additional acquisitions, there can be no assurances that such a strategy or any other strategy will prove successful, and such failure could have a material adverse effect on the Company's business, financial condition and results of operations.

Integration of Recently Acquired Operations; Risks Associated with Future Acquisitions. In the third quarter of fiscal 1996, the Company completed the acquisition of the Detaclad division of DuPont located in Dunbar, Pennsylvania. In the first quarter of 1998, the Company completed the acquisitions of AMK, located in

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South Windsor, Connecticut and Spin Forge, located in El Segundo, California. In the fourth quarter of 1998, the Company completed its acquisition of PMP, located in Fort Collins, Colorado. The Company expects to pursue additional acquisitions of complementary technologies, product lines or businesses in the future, however, there can be no assurances regarding the Company's ability to locate suitable acquisition candidates and negotiate acceptable acquisition terms. In connection with the acquisitions of Detaclad, AMK, Spin Forge and PMP, the Company has maintained operations at each of the Company's existing facilities. The integration of any future acquisitions will require special attention from management that may temporarily distract its attention from the day-to-day business of the Company. Any future acquisitions will also require integration of the companies' product offerings and coordination of sales and marketing activities. Furthermore, as a result of acquisitions, the Company may enter markets in which it has little or no direct prior experience. There can be no assurance that the Company will be able to effectively manage geographically dispersed operations. There can also be no assurance that the Company will be able to retain key personnel of an acquired company or recruit new management personnel for the acquired businesses, or that the Company will, or may in the future, realize any benefits as a result of such acquisitions. Future acquisitions by the Company may also result in potentially dilutive issuances of equity securities, the incurrence of debt, one-time acquisition charges and amortization expenses related to goodwill and intangible assets, each of which could adversely affect the Company's financial condition and results of operations. In addition, in connection with the acquisitions of Detaclad, AMK, Spin Forge and PMP, the Company has expanded and enhanced its financial and management controls, reporting systems and procedures as it integrates these companies' operations and may need to do so again with respect to future

acquisitions. There can be no assurance that the Company will be able to do so effectively, and failure to do so when necessary would have a material adverse effect upon the Company's business, financial condition and results of operations. See "Acquisitions" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**Availability of Suitable Cladding Sites.** The cladding process involves the detonation of large amounts of explosives. As a result, the sites where the Company performs cladding must meet certain criteria, including lack of proximity to a dense population, the specific geological characteristics of the site, and the Company's ability to comply with local noise and vibration abatement regulations in conducting the process. The process of identifying suitable sites and obtaining permits for using the sites from local government agencies can be time-consuming or costly. In addition, the Company could experience difficulty obtaining permits because of resistance from residents in the vicinity of proposed sites. The Company recently announced plans to build a new manufacturing facility at its Dunbar, Pennsylvania location which will require certain governmental approvals and permits. While the Company believes it will be able to obtain such approvals and permits, there is no assurance that it will be able to do so. The Company currently leases its principal cladding site in Deer Trail, Colorado and its second cladding site in Dunbar, Pennsylvania. The lease for the Colorado property will expire in 1999 and the lease for the Pennsylvania facility will expire in 2005. There can be no assurances that the Company will be successful in negotiating new leases for either site on acceptable terms, or in identifying suitable additional or alternate sites should the Company fail to renew its current leases or require additional sites to support its planned growth. The failure to obtain required governmental approvals or permits, or the failure to renew current leases on acceptable terms, would have a material adverse effect on the Company's business, financial condition and results of operations.

**Competition.** Competition in the explosion metal working business, including both metal cladding and metal forming, and the aerospace business is, and is expected to remain, intense. The competitors in both industries include major domestic and international companies. Companies in the explosion metal working business use alternative technologies, as well as certain of DMC's customers and suppliers who have some in-house metal working capabilities. Many of these companies have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than those of the Company. In addition, many of these companies have name recognition, established positions in the market, and long standing relationships with customers. Moreover, the aerospace industry is extremely fragmented. To remain competitive, the Company will be required to continue to develop and provide technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete favorably on the basis of price.

The Company believes that its primary competitors for clad metal products are Nobelclad and Asahi Chemical and Regal Manufacturing in explosion bonded clad metal products, and in clad metal products fabricated using alternative technologies, Lukens Steel, Japan Steel Works, the Metallurgical Materials Division of Texas Instruments and Ametek in roll bonding, and Nooter Corporation, Struthers Industries, Inc., Joseph Oat Corporation

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and Taylor Forge in weld overlay. The Company believes that its primary competitors in the aerospace industry are Aircraft, Welding and Manufacturing Company, Inc., Lynn Wedling Company, Inc., Pressure Systems, Inc., Kaiser Electroprecision, Lucas Aerospace, and Alliant Techsystems. The Company competes against clad metal product manufacturers and aerospace manufacturers on the basis of product quality, performance and cost. There can be no assurance that the Company will continue to compete successfully against these companies.

The Company believes that its primary competitors for formed metal products are McStarlight Co., Globe Engineering Co., Inc., Klune Industries, Exotic Metals Forming Company and Spincraft. These companies use a variety of aerospace forming technologies, including bulge forming, deep draw forming, drop hammer forming, hydroforming, spinforming and other forming technologies. The Company competes against formed metal product manufacturers on the basis of product quality, performance and cost. There can be no assurance that the Company will continue to compete successfully against these companies.

**Availability and Pricing of Raw Materials.** Although the Company generally uses standard metals and other materials in manufacturing its products, certain materials such as specific grades of carbon steel, titanium, zirconium and nickel are currently obtained from single sources or are subject to supply shortages due to general economic conditions. While the Company seeks to maintain a sufficient inventory of these materials and believes that these materials are available from other sources, there can be no assurance that the Company would be able to obtain alternative supplies, or a sufficient inventory of materials, or obtain supplies at acceptable prices without production delays, additional costs or a loss of product quality. If the Company were to lose a

single-source supply or fail to obtain sufficient supply on a timely basis or obtain supplies at acceptable prices, such loss or failure would have a material adverse effect on the Company's business, financial condition and results of operations. See "Supplies."

Customer Concentration. A significant portion of the Company's net sales is derived from a relatively small number of customers. For the periods indicated, each of the following customers accounted for more than 10% of the Company's revenues: in 1996, Nooter Corporation (11%); in 1997, Australian Submarine Corporation Pty. Limited (13%); and none in 1998. Large customers also accounted for a significant portion of the Company's backlog at March 22, 1999. The Company expects to continue to depend upon its principal customers for a significant portion of its sales, although there can be no assurance that the Company's principal customers will continue to purchase products and services from the Company at current levels, if at all. The loss of one or more major customers or a change in their buying pattern could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, approximately 75% of the Company's revenues historically have been derived from customers in the chemical processing, power generation and petrochemical industries. An economic downturn in any of these industries could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the Company's sales of formed metal products and industrial diamond services are derived from a relatively small number of customers. As the sales of formed metal products and industrial diamond services carry higher margins than sales of clad metal products, the loss of one or more of these customers, a change in their pricing or buying patterns could have a material effect on the Company's business, financial condition and results of operations.

Dependence on Key Personnel; Need to Attract and Retain Employees and Availability of Unskilled Labor. The Company's continued success depends to a large extent upon the efforts and abilities of key managerial and technical employees. The loss of services of certain of these key personnel could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, the availability of unskilled workers in the Denver, Colorado metropolitan area, the site of the Company's primary manufacturing facility is limited due to a relatively low unemployment rate. Historically, the Company has experienced a significant rate of attrition for its unskilled labor as a result of the high demand for unskilled labor in the Denver metropolitan area. The Company will need to continue to hire and train a substantial number of new manufacturing workers to support its current operations and proposed growth, including at its proposed new manufacturing facility in Dunbar, Pennsylvania. There can be no assurance that the Company will be able to attract and retain such individuals on acceptable terms, if at all, and the failure to do so could have a material adverse effect on the Company's business, financial condition and results of operations.

Expansion of Operations Internationally. The Company is considering expanding its operations to include facilities located outside of the United States. Any such expansion would require devotion of significant

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management time and financial resources. Foreign markets may be influenced by factors that are different from those prevailing in the United States. The Company has limited experience in business operations outside the United States, and there can be no assurance that the Company can operate effectively and compete successfully in such markets. International operations are also subject to certain political and economic risks, including political instability, currency controls, trade restrictions, regulatory requirements, exchange rate fluctuations and changes in import and export regulations, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

Government Regulation; Safety. The Company's explosion metal working business is subject to extensive government regulation in the United States and in other countries, including guidelines and regulations for the safe handling and transport of explosives provided by the U.S. Bureau of Tobacco and Fire Arms, the U.S. Department of Transportation set forth in the Federal Motor Carrier Safety Regulations and the Institute of Makers of Explosive Safety Library Publications. Licensing and regulations for the purchase, transport, manufacture and use of explosives may vary significantly among states and municipalities. In addition, depending upon the types of explosives used, the detonation by-products may be subject to environmental regulation. The Company's activities are also subject to federal, state and local environmental and safety laws and regulations, including but not limited to, local noise abatement and air emissions regulations, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") as amended, including the regulations issued and laws enforced by the Colorado Labor and Employment Department, the U.S. Department of Commerce, the U.S. Environmental Protection Agency and by state and county health and safety agencies. While the Company believes that it is currently in compliance with these regulations, any failure to comply with present and future regulations could subject the Company to

future liabilities. In addition, such regulations could restrict the Company's ability to expand its facilities, construct new facilities or could require the Company to incur other significant expenses in order to comply with government regulations. In particular, any failure by the Company to adequately control the discharge of its hazardous materials and wastes could subject it to future liabilities, which could be significant.

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

#### THE METAL WORKING BUSINESS

The metal working business includes the use of explosives to perform metal cladding, metal forming, and shock synthesis. DMC believes that the characteristics of its high energy metal working processes will enable the development of new applications for products in a wide variety of industries.

**Metal Cladding.** The principal product of metal cladding is a metal plate composed of two or more dissimilar metals, usually a corrosion resistant alloy and carbon steel, bonded together at the molecular level. High energy metal cladding is performed by detonating an explosion on the surface of an assembly of two parallel metal plates, the cladding metal and the backing metal, separated by a "standoff space". The explosive force creates an electron-sharing metallurgical bond between the two metal components. The metals used can include metals of the same type, for example steel to steel, as well as metals with substantially different densities, melting points, and/or yield strengths, such as titanium and aluminum alloys with stainless and low carbon steels; copper and aluminum alloys with kovar or stainless steel; zirconium alloys with low carbon steel and nickel alloys. DMC manufactures clad metal for uses such as the fabrication of pressure vessels, heat exchangers and transition joints for the hydrocarbon processing, chemical processing, power generation, petrochemical, pulp and paper, mining, shipbuilding and heat, ventilation and air conditioning (HVAC) industries and other industries that require metal products that can withstand exposure to corrosive materials, high temperatures and high pressures. In addition, DMC's Dynaclad(TM) and Detaclad(R) technologies have enabled the use of metal products in new applications such as the manufacture of metal autoclaves for use in the mining industry.

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#### EXPLOSIVE METAL FORMING

The Company's clad metal products are produced on a project-by-project basis based on specifications set forth in a customer's purchase order. Upon receipt of an order for clad metal from a customer, the Company identifies sources for the specified raw materials. The Company obtains the raw materials from a variety of sources based on quality, availability, transportation costs and unit price. After the Company receives the materials they are inspected for conformity to the order specification and product quality criteria. The raw materials are then prepared for bonding. Bonding preparation includes abrasive cleaning of the mating surfaces of each plate, preparation of the assembly, metal scoring and trimming. In some cases, plates may be seam welded to create large parts from readily available standard sizes. The completed assemblies are transported to one of the Company's bonding sites where a blasting agent is loaded on top of the assembly and detonated in a carefully controlled environment using a remote system. The Company immediately transports the now-bonded metal plates to one of the Company's facilities or to a subcontractor for further processing. This processing might include heat treating, flattening, beveling, stripping, milling, cutting and/or special surface preparation to comply with customer specifications. The Company completes the bonding process by performing testing for final certification of the product to the customer's specifications.

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

Explosive metal forming is performed by using explosions to generate high-energy shockwaves that are transmitted through water to force a metal blank into the contours of a die. Explosive metal forming can eliminate or reduce metal welding operations by creating a single part in place of an assembly of multiple components. Using its Dynaform(TM) technology the Company can manufacture large and thicker metal components than other conventional forming technologies, including metal with difficult contours and virtually unlimited shapes. The primary advantages of products manufactured using the Dynaform(TM) process include the manufacture of large metal parts, lower assembly and inspection costs, improved reliability, reduced overall weight, and increased

strength.

#### AEROSPACE MANUFACTURING

The Company currently manufactures formed metal parts for the commercial aircraft, aerospace and power generation industries. Formed metal products are made from sheet metal or forgings that are subsequently formed into precise, three-dimensional shapes that are held to tight tolerances according to a customer's specifications. Metal forming is accomplished through both the use of explosives and traditional metal forming technologies.

In particular, DMC forms metals by other traditional forming technologies such as spinning, machining, rolling, and hydraulic expansion. These technologies were acquired in the recent purchase of Spin Forge and PMP. The equipment utilized in the spinning process at Spin Forge is believed to be the largest of its kind in North America, and is capable of producing thin wall, close tolerance parts. Formed metal products include tactical and ballistic missile cases, high strength, light weight pressurant tanks utilizing specialty aerospace alloys and high precision, high quality and complex part. The industries served include commercial aircraft, space launch, stationary power generation, satellite, medical and nuclear and missile defense.

The Company's formed metal products are produced on a project-by-project basis based on specifications set forth in a customer's purchase order. Upon receipt of an order for a formed metal product from a customer, the Company identifies sources for the specified raw materials, which typically include sheet metals composed of aluminum, titanium, inconels, monels, hastelloys, waspalloy, invar or stainless steel. The Company obtains the raw materials from a variety of sources based on quality, availability, transportation costs and unit price. Following the forming process, the Company treats the metal parts by using operations such as anodizing, heat-treating and painting. The Company completes the forming process by performing testing for final certification of the product to the customer's specifications.

Welding. The Company's capabilities for providing welding services and assemblies resides primarily in the recent acquisitions of AMK Welding and Spin Forge. Both AMK and Spin Forge provide welding and assembly services to the commercial aircraft, aerospace, power generation and defense industries. Welding services

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are provided on a project-by-project basis based on specifications set forth in customer's purchase orders. Upon receipt of an order for welded assemblies the Company performs welding services using customer specific welding procedures.

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

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

#### STRATEGY

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

Add New Product Lines or Businesses. The Company seeks to add new product lines through the internal development of new cladding and forming products and the acquisition of businesses that broaden or complement its existing product lines. For example, during 1996 the Company completed its first strategic acquisition when it acquired Detaclad. During 1996, the Company also completed production of a new product - titanium clad plates used in the fabrication of metal autoclaves to replace autoclaves made of brick and lead. The Company is currently focusing on expanding its metal forming business through internal sales and marketing efforts and has adopted a strategy of acquiring complementary metal forming businesses. In 1998, the Company completed the acquisition of three complementary businesses, AMK, Spin Forge and PMP. AMK

supplies commercial aircraft and aerospace-related automatic and manual, gas tungsten and arc welding services. Spin Forge is one of the countries leading manufacturers of tactical missile motor cases and titanium pressure vessels for the commercial aerospace and defense industries. PMP is a contract machining shop specializing in high precision, high quality, complex machined parts used in the aerospace, satellite, medical equipment and high technology industries. The Company's future expansion plans depend on a number of factors. See "Investment Considerations" for a discussion of certain of the risks associated with the Company's ability to achieve its planned expansion through acquisitions.

**Establish Global Presence.** The Company seeks to establish a global sales and marketing presence in the major international markets for explosion metal working, including Europe, Australia and Korea. The Company is working to establish relationships with independent sales representatives, end users, engineering contractors and metal fabricators in these markets and has developed the capacity in its sales and marketing department to address these markets. The Company is also considering expanding its operations to include facilities located outside of the United States. The Company's plans to expand internationally depend on a number of factors. See "Investment Considerations" for a discussion of certain of the risks associated with the Company's ability to establish a global presence.

**Maintain Technology and Manufacturing Leadership.** The Company seeks to maintain its technology leadership in the metal working business through the continual improvement of its basic processes and product offerings. The Company has a research and development program which is focused on identifying new raw materials which may be useful in high energy metal working, identifying new product offerings, and expanding the Company's production capabilities.

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#### ACQUISITIONS

The Company is seeking to expand its revenue base by increasing its product offerings through 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 Detaclad. Detaclad manufactures and distributes explosion-bonded clad metal plates and provides explosive shock synthesis services to DuPont in connection with DuPont's production of industrial diamonds. Through the Detaclad acquisition, the Company acquired expertise in cladding thin metals and heat exchanger components primarily for the chemical processing, power generation and petrochemical industries. In 1998, the Company completed the acquisition of three complementary businesses, AMK, Spin Forge and PMP. AMK supplies commercial aircraft and aerospace-related automatic and manual, gas tungsten and arc welding services. Spin Forge is one of the countries leading manufacturers of tactical missile motor cases and titanium pressure vessels for the commercial aerospace and defense industries. PMP is a contract machining shop specializing in high precision, high quality, complex machined parts used in the aerospace, satellite, medical equipment and high technology industries. The Company evaluates acquisition candidates on an ongoing basis and expects to pursue additional acquisitions of complementary technologies, product lines or businesses in the future, however, there can be no assurances regarding the Company's ability to locate suitable acquisition candidates and negotiate acceptable acquisition terms.

#### SUPPLIERS

The Company uses numerous suppliers of alloys, steels and other materials for its operations. The Company typically bears a short-term risk of alloy, steel and other component price increases, which could adversely affect the Company's gross profit margins. Although the Company will work with customers and suppliers to minimize the impact of any component shortages, component shortages have had, and are expected to have, from time to time, short-term adverse effects on the Company's business.

#### COMPETITION

**Competition.** Competition in the explosion metal working business, including both metal cladding and metal forming, and the aerospace business is, and is expected to remain, intense. The competitors in both industries include major domestic and international companies. Companies in the explosion metal working business use alternative technologies, as well as certain of DMC's customers and suppliers who have some in-house metal working capabilities. Many of these companies have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than those of the Company. In addition, many of these companies have name recognition, established positions in the market, and long standing relationships with customers. Moreover, the aerospace industry is extremely fragmented. To remain competitive, the Company will be required to continue to develop and provide technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete

favorably on the basis of price.

The Company believes that its primary competitors for clad metal products are Nobelclad and Asahi Chemical in explosion bonded clad metal products, and in clad metal products fabricated using alternative technologies, Lukens Steel, Japan Steelworks and Ametek in roll bonding, and Nooter Corp., Struthers Industries, Inc., Joseph Oat Corp., and Taylor Forge in welding overlay. The Company believes that its primary competitors in the aerospace industry are Aircraft, Welding and Manufacturing Company, Inc., Lynn Wedling Company, Inc., Pressure Systems, Inc., Kaiser Electroprecision, Lucas Aerospace, and Alliant Techsystems. The Company competes against clad metal product manufacturers and aerospace manufacturers on the basis of product quality, performance and cost. There can be no assurance that the Company will continue to compete successfully against these companies.

The Company believes that its primary competitors for formed metal products are McStarlight Co., Globe Engineering Co., Inc., Klune Industries, Exotic Metals Forming, Inc. and Spincraft. These companies use a variety of forming technologies, including bulge forming, deep draw forming, drop hammer forming, hydroforming, spinforming and other forming technologies. The Company competes against formed metal product manufacturers on the basis of product quality, performance and cost. There can be no assurance that the Company will continue to compete successfully against these companies.

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#### CUSTOMER PROFILE AND MARKETING

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

At any given time, certain customers may account for significant portions of the Company's business. A significant portion of the Company's net sales is derived from a relatively small number of customers. For the periods indicated, each of the following customers accounted for more than 10% of the Company's revenues: in 1996, Nooter Corporation (11%); in 1997, Australian Submarine Corporation Pty. Limited (13%); and none in 1998. Large customers also accounted for a significant portion of the Company's backlog at March 22, 1999. The Company expects to continue to depend upon its principal customers for a significant portion of its sales, although there can be no assurance that the Company's principal customers will continue to purchase products and services from the Company at current levels, if at all. The loss of one or more major customers or a change in their buying pattern could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company 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. Results of operations in any period should not be considered indicative of the results to be expected for any future period. Fluctuations in operating results may also result in fluctuations in the price of the Company's Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company extends its internal selling efforts by marketing its services to potential customers through senior management, direct sales personnel, program managers and independent sales representatives. Prospective accounts in specific industries are identified through networking in the industry, cooperative relationships with suppliers, public relations, customer references, inquiries from technical articles and seminars and trade shows. The Company markets its products to three tiers of customers; the product end-users (e.g., operators of chemical processing plants), the engineering contractors in charge of specifying the metal parts to be used by the end-users, and the metal fabricators who manufacture the products or equipment that utilize the Company's metal products. By maintaining relationships with these parties and educating them as to the technical benefits of DMC's high energy metal worked products, the Company endeavors to have its products specified as early as possible in the design process.

#### BACKLOG

The Company's backlog was approximately \$15.8 million at December 31, 1998 compared with approximately \$12.7 million and \$12.2 million at December 31,

1997 and 1996, respectively. Backlog consists of firm purchase orders and commitments which are expected to be filled within the next 12 months. The Company expects most of the backlog at December 31, 1998 to be filled during 1998, however, since orders may be rescheduled or canceled and a significant portion of the Company's net sales is derived from a small number of customers, backlog is not necessarily indicative of future sales levels.

#### EMPLOYEES

The Company employs approximately 240 employees as of March 22, 1999, the majority of whom are engaged in manufacturing operations. The Company believes that its relations with its employees are good.

9.

#### PROTECTION OF PROPRIETARY INFORMATION

The Company holds 11 United States patents and has filed one patent application related to the business of explosion metal working and metallic processes and also owns certain registered trademarks, including Detaclad(R), Detacouple(R), Dynalock(R) and EFTEK(R). The Company's current patents expire between 1999 and 2012; however, the Company does not believe that such patents are material to its business and the expiration of any single patent is not expected to have a material adverse effect on the Company or its operations.

#### ITEM 2. PROPERTIES

The Company's principal manufacturing site, which is owned by the Company, is located in Louisville, Colorado. The Company leases additional manufacturing facilities in Louisville, Colorado and Dunbar, Pennsylvania. The lease for the Colorado property will expire in 1999 and the lease for the Pennsylvania facility will expire in 2005. The Company also leases office space in Lafayette, Colorado and property located in Deer Trail, Colorado that is used as an explosion site. The Company acquired the land and buildings housing the operations of AMK, in South Windsor, Connecticut. The Company leases the land and building occupied by its Spin Forge operations in El Segundo, California. The lease expires in January 2002, and the Company holds an option to purchase the land and building housing the Spin Forge operations through January 2002, extendable under certain conditions. The Company also leases the land and building occupied by its newly acquired PMP operations in Fort Collins, Colorado. The Company holds an option to purchase the land and building housing the PMP operations through December 2000, after which time the Company holds a first right of offer to purchase the land and building through December 2008. The Company believes that its current facilities are adequate for its existing operations and they are in good condition. See "Investment Considerations" for a discussion of certain of the risks associated with the Company's ability to renew the leases for its current manufacturing sites and to identify and establish new manufacturing sites.

#### ITEM 3. LEGAL PROCEEDINGS

The Company had 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. Subsequent to December 31, 1998, the Company reached a settlement with the plaintiff that effectively dropped all claims by each party and provided no damages to either party related to the lawsuit. Each party was deemed to be responsible for only its own legal costs. The Company is not a 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

10.

#### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock of the Company has been publicly traded on The Nasdaq Stock Market (National Market) under the symbol "BOOM" since January 3, 1997. Prior thereto, the Common Stock was publicly traded on Nasdaq's SmallCap Market. The following table sets forth quarterly high and low bid quotations for the Common Stock during the Company's last two fiscal years, as reported by Nasdaq. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

1996

HIGH

LOW

First Quarter	\$ 4 1/4	\$ 2 5/8
Second Quarter	\$ 5 7/8	\$ 3 3/4
Third Quarter	\$ 7 1/8	\$ 4 3/4
Fourth Quarter	\$10 1/2	\$ 6 3/4

1997

First Quarter	\$19 1/4	\$ 9 1/8
Second Quarter	\$12 1/8	\$ 7 5/8
Third Quarter	\$12 3/4	\$ 9 7/16
Fourth Quarter	\$12 3/8	\$ 7 1/2

1998

First Quarter	\$10 1/2	\$ 7 7/8
Second Quarter	\$ 9 5/8	\$ 7 7/8
Third Quarter	\$ 9	\$ 5 1/4
Fourth Quarter	\$ 6	\$ 3 9/16

As of March 22, 1999 there were approximately 314 holders of record of the Common Stock.

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

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ITEM 6. SELECTED FINANCIAL DATA

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

<TABLE>

	Year Ended December 31,				
	1998	1997	1996	1995	
1994					
STATEMENT OF INCOME					
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	\$38,212,051	\$32,119,585	\$29,165,289	\$19,521,133	
\$15,327,488					
Cost of products sold	30,343,637	24,459,168	23,187,155	15,281,973	
11,167,327					
	-----	-----	-----	-----	---
Gross profit	7,868,414	7,660,417	5,978,134	4,239,160	
4,160,161					
Costs and expenses	5,332,458	4,370,091	3,302,602	3,133,640	
3,089,313					
	-----	-----	-----	-----	---
Income from operations	2,535,956	3,290,326	2,675,532	1,105,520	
1,070,848					
Other income (expense)	(263,200)	(61,413)	(92,878)	(43,181)	
4,875					
	-----	-----	-----	-----	---
Income before income tax provision	2,272,756	3,228,913	2,582,654	1,062,339	
1,075,723					
Income tax provision	(887,000)	(1,221,000)	(959,000)	(391,145)	
(293,785)					
	-----	-----	-----	-----	---
Net income	\$ 1,385,756	\$ 2,007,913	\$ 1,623,654	\$ 671,194	\$
781,938	=====	=====	=====	=====	
Net income per share:					
Basic	\$0.50	\$0.75	\$0.64	\$0.27	
\$0.31					
Diluted	\$0.49	\$0.70	\$0.59	\$0.26	
\$0.31					
Weighted average number of shares outstanding:					
Basic	2,770,139	2,681,943	2,522,305	2,496,487	
2,491,626					

Diluted	2,852,547	2,875,703	2,741,868	2,547,797
2,554,125				

FINANCIAL POSITION

Current assets	\$11,145,995	\$ 9,809,503	\$11,653,968	\$ 7,813,704	\$
6,082,472					
Total assets	33,201,578	14,405,809	16,485,240	10,040,668	
8,373,579					
Current liabilities	6,069,050	3,455,700	4,111,784	3,350,039	
2,084,029					
Non-current liabilities	14,503,617	90,632	4,147,696	184,460	
464,950					
Stockholders' equity	12,628,911	10,859,477	8,225,760	6,506,169	
5,824,600					

</TABLE>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Dynamic Materials Corporation ("DMC" or the "Company") is a worldwide leader in explosive metalworking and, through its new aerospace group, is involved in a variety of metal forming, machining, welding and assembly activities. The explosive metalworking business includes the use of explosives to perform metallurgical bonding, or "metal cladding", metal forming and shock synthesis of synthetic diamonds. 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 explosive metalworking businesses, as a proportion of total Company revenues, to decline as a result of the recent AMK Welding, Spin Forge and Precision Machined Products acquisitions. The Company's new aerospace group was formed from these three acquisitions and accounted for 22% of the Company's 1998 revenues, a percentage that should increase significantly in 1999.

Explosive Metalworking. Clad metal products are used in manufacturing processes or environments that involve highly corrosive chemicals, high temperatures and/or high pressure conditions. For example, the Company fabricates clad metal tube sheets for heat exchangers. Heat exchangers are used in a variety of high temperature,

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high pressure, highly corrosive chemical processes, such as processing crude oil in the petrochemical industry and processing chemicals used in the manufacture of synthetic fibers. In addition, the Company has produced titanium clad plates used in the fabrication of metal autoclaves to replace autoclaves made of brick and lead for two customers in the mining industry. The Company believes that its clad metal products are an economical, high-performance alternative to the use of solid corrosion-resistant alloys. In addition to clad metal products, the explosive metalworking business includes metal forming and shock synthesis of synthetic diamonds.

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

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 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 completed three separate business acquisitions during 1998. 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 leases 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.

On December 1, 1998, the Company acquired substantially all of the assets of Precision Machined Products, Inc. ("PMP") for a purchase price of approximately \$7,073,000 that was paid with a combination of \$6,800,000 in cash payments to the seller and the delivery of 40,000 shares of the Company's stock valued at approximately \$216,000. PMP is a contract machining shop specializing in high precision, high quality, complex machined parts used in the aerospace, satellite, medical equipment and high technology industries. The Company is leasing the land and building used in the operation of PMP and holds an exclusive option to purchase such land and building at fair market value exercisable through December 2000. Subsequent to the expiration of the option term, the Company has an exclusive right of first offer to purchase the land and building at fair market value. This right of first offer is exercisable through December 2008.

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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.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

NET SALES. Net sales for 1998 increased 19.0% to \$38,212,051 from \$32,119,585 in 1997. The Company's new aerospace group, which was formed in 1998 as a result of the acquisitions of AMK, Spin Forge and PMP, contributed \$8,484,778 to 1998 sales and thus accounted for the entire sales increase. Sales by the Company's explosion metalworking group, which includes explosion bonding of clad metal, explosively formed metal products and shock synthesis of synthetic diamonds, decreased 7.5% from \$32,119,585 in 1997 to \$29,727,273 in 1998. This decrease reflects a decrease in sales of explosively formed products to \$2,097,425 in 1998 from \$3,832,209 in 1997 due to a significant reduction in orders from a customer that accounts for a majority of such sales. As a result of this customer no longer ordering explosively formed parts from the Company, the Company expects sales of explosively formed products to be less than \$300,000 in 1999.

GROSS PROFIT. As a result of the Company's increase in net sales, gross profit for 1998 increased by 2.7% to \$7,868,414 from \$7,660,417 in 1997. The Company's gross profit margin for 1998 was 20.6%, a 13.4% decline from the gross profit margin of 23.8% in 1997. Gross profit margin for the Company's explosion metalworking group decreased from 23.8% in 1997 to 18.1% in 1998, while the 1998 gross profit margin for the new aerospace group was 29.2%. The large decrease in the gross profit margin for the explosion metalworking group is principally due to proportionately lower sales of explosively formed products that carry significantly higher margins than sales of clad metal plates. As discussed above, a large explosion forming customer no longer orders product from the Company and 1999 sales of explosively formed products are expected to be less than \$300,000.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased by \$924,638, or 39.5%, to \$3,262,993 in 1998 from \$2,338,355 in 1997. The largest portion of this increase relates to \$553,618 of new general and administrative expenses associated with the operations of AMK, Spin Forge and PMP which were acquired on January 5, 1998, March 18, 1998 and December 1, 1998, respectively. Expenses in 1998 also include \$262,524 of non-recurring expenses relating to the departure of the Company's former president and chief executive officer in the third quarter of 1998. General and administrative expenses are expected to increase in 1999 to support a full year of operations for the three aerospace group acquisitions 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 7.3% in 1997 to 7.9% in 1998.

SELLING EXPENSE. Selling expenses decreased by 5.7% to \$1,850,973 in 1998 from \$1,963,707 in 1997. This decrease reflects lower expense levels in a number of categories, including compensation and benefits, advertising and promotion, and consulting. Decreases in these categories were partially offset by an increase in the provision for bad debts. Selling expenses as a percentage of net sales decreased from 6.1% in 1997 to 4.8% in 1998.

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START-UP COSTS. In the third quarter of 1998, the Company began to separately report the start-up costs associated with the construction of a new facility in Pennsylvania for the manufacture of clad metal plates. Start-up costs for 1998 totaled \$189,529 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 1999 until the new facility commences operations during the last half of 1999.

RESEARCH AND DEVELOPMENT. Research and development expenses decreased to \$28,963 in 1998 from \$68,029 in 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 22.9% to \$2,535,956 in 1998 from \$3,290,326 in 1997. This decrease is a direct result of decreased sales and gross profits from the Company's explosion metalworking group, non-recurring expenses in the amount of \$262,524 relating to the departure of the Company's former president and chief executive officer, and \$189,529 in start-up costs discussed above. Income from operations in 1998 for the Company's explosion metalworking group and aerospace group was \$1,252,618 and \$1,283,338, respectively, versus 1997 income from operations of \$3,290,326 that was generated entirely by the explosion metalworking group.

INTEREST EXPENSE. Net interest expense increased more than threefold to \$272,121 in 1998 from \$78,590 in 1997. This increase is due to borrowings under the Company's revolving line of credit with KeyBank of Colorado that were required to finance the AMK, Spin Forge and PMP acquisitions. Interest expense is expected to increase in 1999 as a result of revolving credit loans used to finance the PMP acquisition being outstanding for the full year and the initial recording of interest expense on the industrial development revenue bond financing for the new Pennsylvania manufacturing facility. Interest on the industrial development revenue bonds is being capitalized during the construction period and will not be expensed until the new facility becomes operational during the second half of 1999.

INCOME TAX PROVISION. The Company's income tax provision decreased by 27.4% to \$887,000 in 1998 from \$1,221,000 in 1997, and follows the decrease in income from operations and income before income taxes. The effective tax rate was 39.0% in 1998 and 37.8% in 1997.

NET INCOME. Net income decreased by 31.0% to \$1,385,756 in 1998 from \$2,007,913 in 1997 and, as a percentage of net sales, was 3.6% in 1998 compared to 6.3% in 1997. This decrease was primarily attributable to decreased gross profit from

the Company's explosion metalworking group and increased general and administrative expenses.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

**NET SALES.** Net sales for 1997 increased by 10.1% to \$32,119,585 from \$29,165,289 in 1996. This increase was attributable to a \$2.1 million increase in sales of the Company's formed metal products and a \$979,000 increase in sales of industrial diamond services (a direct result of the Company's July 1996 acquisition of Detaclad). Sales of clad metal products remained flat from 1996 to 1997.

**GROSS PROFIT.** As a result of the Company's increase in net sales and an improvement in the gross margin rate, gross profit for 1997 increased by 28.1% to \$7,660,417 from \$5,978,134 in 1996. The 1997 gross profit margin rate of 23.8% represented a 16.1% increase from the 1996 gross profit margin rate of 20.5%. This increase in the gross margin rate is attributable to proportionately higher 1997 sales of formed metal products and industrial diamond services, both of which carry significantly higher margins than sales of clad metal plates.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses for 1997 increased 28.5% to \$2,338,355 from \$1,818,366 in 1996. This increase reflects higher spending levels in a number of categories, including compensation and benefits, legal fees including certain litigation matters and fees associated with the Company's re-

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incorporation in Delaware, and amortization of goodwill and intangibles. General and administrative expenses are expected to remain at these higher 1997 levels to support current operations, business acquisition activities and other strategic business initiatives. As a percentage of net sales, general and administrative expenses increased from 6.2% in 1996 to 7.3% in 1997.

**SELLING EXPENSE.** Selling expense increased by 35.3% to \$1,963,707 in 1997 from \$1,451,036 in 1996. This increase reflects higher spending levels in a number of categories, including compensation and benefits, advertising and promotion, and travel and entertainment expenses. These increased spending levels are primarily attributable to staffing increases associated with the July 1996 Detaclad acquisition, general business growth, and expansion of the Company's domestic and international marketing activities. Selling expense, as a percentage of net sales, increased from 5.0% in 1996 to 6.1% in 1997.

**RESEARCH AND DEVELOPMENT.** Research and development expenses increased to \$68,029 in 1997 from \$33,200 in 1996. This increase reflects increased contract labor and travel expenses associated with current year new product and process development programs.

**INCOME FROM OPERATIONS.** Income from operations increased by 23.0% to \$3,290,326 in 1997 from \$2,675,532 in 1996. This increase was primarily due to increased net sales and a significant improvement in the Company's gross margin rate, and was partially offset by increased operating expenses as discussed above. Income from operations, as a percentage of net sales, increased to 10.2% in 1997 from 9.2% in 1996.

**INTEREST EXPENSE.** Net interest expense decreased 23.1% to \$78,590 in 1997 from \$102,185 in 1996. This decrease reflects the pay-down during the first half of 1997 of borrowings under the Company's revolving line of credit facility with KeyBank of Colorado that were required during the last half of 1996 and first few months of 1997. These borrowings were required to finance a portion of the Detaclad acquisition and working capital requirements associated with two large orders that accounted for a significant portion of accounts receivable and inventory balances during the fourth quarter of 1996 and first quarter of 1997.

**INCOME TAX PROVISION.** The Company's income tax provision increased by 27.3% to \$1,221,000 in 1997 from \$959,000 in 1996, and follows the increase in sales, operating income and income before income taxes. The effective tax rate was 37.8% in 1997 and 37.1% in 1996.

**NET INCOME.** Net income for 1997 increased by 23.7% to \$2,007,913 from \$1,623,654 in 1996 and, as a percentage of net sales, was 6.3% in 1997 compared to 5.6% in 1996. This increase was primarily attributable to increased net sales and improved gross profit margins.

**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 ("Original

Line") with KeyBank National Association ("KeyBank") in July of 1996. The Original Line was to expire on July 19, 1999, at which time all or part of the outstanding balance could have been converted to a term loan which would mature on July 19, 2003. The maximum amount available under the line of credit was subject to borrowing base restrictions that were a function of defined balances in accounts receivable, inventory, real property and equipment.

On November 30, 1998, the Company and its bank entered into an amended and restated credit facility and security agreement which was further amended on December 31, 1998. The amended credit facility allows for maximum borrowings of \$14,000,000 under the following three separate lines of credit: an "acquisition line" of \$5,700,000, an "accommodation line" of \$2,300,000 and a "working capital line" of \$6,000,000 (subject to borrowing base restrictions). Beginning on September 30, 1999, and on the last day of each calendar quarter

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thereafter, the maximum borrowings available under the acquisition line become permanently reduced by \$259,091, with ultimate maturity on December 31, 2004. Beginning on September 30, 1999, and on the last day of each calendar quarter thereafter, the maximum borrowings available under the accommodation line become permanently reduced by \$230,000, with ultimate maturity on December 31, 2001. The working capital line expires on November 30, 2000. At the Company's option, the borrowings under the acquisition line and working capital line may be in the form of loans bearing an interest rate of 1 to 2% above the LIBOR rate, depending on certain financial ratios, or loans bearing an interest rate of 2% above the Federal Funds rate. Loans under the accommodation line bear interest of 1/4% above the bank's Prime rate. The lines of credit are secured by the Company's accounts receivable, inventory and property, plant and equipment. Outstanding borrowings at December 31, 1998 on the acquisition line, accommodation line and working capital line totaled \$5,700,000, \$2,300,000 and \$600,000, respectively.

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. 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 the new facility should become fully operational during the second half of 1999.

During 1998, the Company generated \$3,591,851 in cash flows from operating activities as compared to \$3,972,310 in the prior year. The principal sources of cash flow from operations in 1998 were net income of \$1,385,756, depreciation and amortization charges of \$1,107,651, a decrease in accounts receivable of \$578,209, and increases in accrued expenses and bank overdraft of \$602,883 and \$805,304, respectively. These sources of operating cash flow were partially offset by a \$204,938 increase in income tax receivable and a \$786,769 decrease in accounts payable. The current ratio was 1.8 at December 31, 1998 as compared to 2.8 at December 31, 1997. Investing activities in 1998 used \$18,960,624 of cash, including \$10,425,579 to fund the purchase of the PMP, Spin Forge and AMK assets, \$2,814,815 to fund capital expenditures, and \$5,048,981 to temporarily invest proceeds from the industrial development revenue bond issue. Capital expenditures included \$1,853,723 on the new Pennsylvania manufacturing facility. Financing activities provided \$15,314,964 of net cash in 1998. These financing cash flows included line of credit borrowings in the amount of \$8,600,000 to finance the purchase of Spin Forge, AMK and PMP, and \$6,850,000 from the issuance of industrial development revenue bonds that are being 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, Spin Forge and PMP 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 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.

17.

#### YEAR 2000 COMPLIANCE

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 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 became Year 2000 compliant with the installation of a from the vendor in January 1999. 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 began to emphasize in the second and third quarter of 1998 and expects to complete by mid 1999, 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 non-compliant 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.

18.

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.

#### FORWARD-LOOKING STATEMENTS

Statements which are not historical facts contained in this report are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Factors that could cause actual results to differ materially include, but are not limited to

the following: the ability to obtain new contracts at attractive prices; the size and timing of customer orders; fluctuations in customer demand; competitive factors; the timely completion of contracts; construction-related delays and associated costs; the timing and size of expenditures; the timely receipt of government approvals and permits; the adequacy of local labor supplies at the Company's facilities; the availability and cost of funds; and general economic conditions, both domestically and abroad. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly release the results of any revision to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

ITEM 7.A QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

	As of December 31, 1998
-----	
Fixed rate	\$ 5,742
Interest rate	8.37%
Line of credit - variable rate	\$ 8,600,000
Weighted average interest rate	7.36%
Industrial development revenue	
Bonds - variable rate	\$ 6,850,000
Interest rate	3.10%

19.

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

<TABLE>

	As of December 31, 1998				
	-----				
	1999	2000	2001	2002	2003 and thereafter
-----					
Total					
<S>	<C>	<C>	<C>	<C>	<C>
<C>					
Fixed Rate	\$ 5,742	\$ -	\$ -	\$ -	\$ -
\$ 5,742					
Interest rate	8.37%	-	-	-	-
8.37%					
Line of credit	\$ 978,182	\$2,556,364	\$1,956,364	\$1,036,364	\$2,072,726
\$8,600,000					
Weighted average interest rate	7.36%	7.36%	7.36%	7.36%	7.36%
7.36%					
Industrial development					
revenue bonds -	\$ 165,000	\$ 680,000	\$ 725,000	\$ 795,000	\$4,485,000
\$6,850,000					
Interest rate	3.10%	3.10%	3.10%	3.10%	3.10%
3.10%					

</TABLE>

During the year ended December 31, 1998, the Company entered into two interest rate swap agreements to manage interest rate risk on its variable rate debt. The swap agreements, which convert a portion of the Company's variable rate acquisition line of credit borrowings and all of its industrial development revenue bond borrowings to interest rates that are largely fixed, were entered into based on Management's assessment of the interest rate market. Interest differentials paid or received under these swap agreements are recognized over the life of the contracts as adjustments to the effective yield of the associated debt, and related amounts payable to, or received from, the counterparties are included in the Company's balance sheet.

The swap agreement associated with the Company's acquisition line of credit converts \$4,000,000 of the \$5,700,000 outstanding at December 31, 1998 to

a rate that is largely fixed. The agreement expires on December 31, 2004. As of December 31, 1998, the effective rate under this swap agreement was 7.27%. As this swap agreement was entered into on December 1, 1998, the resultant additional interest expense which was incurred during the year ended December 31, 1998 was insignificant.

The swap agreement associated with the Company's industrial development revenue bonds, which expires on September 1, 2013, converts the \$6,850,000 obligation to an interest rate that is largely fixed. As of December 31, 1998, the effective rate under this swap agreement was 3.73% and the additional interest incurred during the year ended December 31, 1998 as a result of the swap agreement was approximately \$9,600.

20.

ITEM 8. FINANCIAL STATEMENTS

DYNAMIC MATERIALS CORPORATION  
INDEX TO FINANCIAL STATEMENTS

AS OF DECEMBER 31, 1998 AND 1997

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21.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Dynamic Materials Corporation:

We have audited the accompanying balance sheets of DYNAMIC MATERIALS CORPORATION (a Delaware corporation) as of December 31, 1998 and 1997, and the related statements of operations, stockholders' equity and cash flows for the years ended December 31, 1998, 1997 and 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dynamic Materials Corporation as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years ended December 31, 1998, 1997 and 1996, in conformity with generally accepted accounting principles.

Arthur Andersen, LLP

Denver, Colorado,  
February 5, 1999.

22.

## BALANCE SHEETS

AS OF DECEMBER 31, 1998 AND 1997

<TABLE>	ASSETS -----	1998 -----	1997 -----
CURRENT ASSETS:			
<S>		<C>	<C>
Cash and cash equivalents		\$ -	\$ 53,809
Accounts receivable, net of allowance for doubtful accounts of \$225,000 and \$150,000, respectively		4,832,658	4,936,350
Inventories (Note 3)		5,373,829	4,029,559
Prepaid expenses and other		214,776	73,517
Income tax receivable (Note 6)		499,932	294,994
Deferred tax assets (Note 6)		224,800	200,000
Receivable from related party (Note 8)		-	221,274
Total current assets		11,145,995	9,809,503
PROPERTY, PLANT AND EQUIPMENT (Note 3)		12,729,209	5,831,687
Less- Accumulated depreciation		(3,931,495)	(2,988,807)
Property, plant and equipment-net		8,797,714	2,842,880
CONSTRUCTION IN PROCESS (Note 3)		1,853,723	-
RESTRICTED CASH AND INVESTMENTS (Note 4)		5,048,981	-
RECEIVABLE FROM RELATED PARTY (Note 8)		280,000	-
INTANGIBLE ASSETS, net of accumulated amortization of \$459,759 and \$307,451 respectively (Note 3)		5,607,861	1,230,464
OTHER ASSETS, net (Note 3)		467,304	522,962
		\$33,201,578	\$14,405,809
		=====	=====

&lt;/TABLE&gt;

The accompanying notes to financial statements are an integral part of these balance sheets.

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## DYNAMIC MATERIALS CORPORATION

## BALANCE SHEETS

AS OF DECEMBER 31, 1998 AND 1997

<TABLE>	LIABILITIES AND STOCKHOLDERS' EQUITY -----	1998 -----	1997 -----
<S>		<C>	<C>
CURRENT LIABILITIES:			
Bank overdraft		\$ 805,304	-
Accounts payable		2,348,090	2,328,867
Accrued expenses		1,734,282	1,012,908
Current maturities on long-term debt (Note 4)		1,148,924	84,037
Current portion of capital lease obligation (Note 7)		32,450	29,888
Total current liabilities		6,069,050	3,455,700
LONG-TERM DEBT (Note 4)		14,306,818	6,083
CAPITAL LEASE OBLIGATION (Note 7)		38,299	70,749
DEFERRED TAX LIABILITIES (Note 6)		158,500	13,800
Total liabilities		20,572,667	3,546,332
COMMITMENTS AND CONTINGENCIES (Note 10)			

## STOCKHOLDERS' EQUITY (Note 5):

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; 2,798,391 and 2,718,708 shares issued and outstanding, respectively	139,920	135,936
Additional paid-in capital	7,022,450	6,587,911
Deferred compensation	(54,845)	-
Retained earnings	5,521,386	4,135,630
	-----	-----
	12,628,911	10,859,477
	-----	-----
	\$33,201,578	\$14,405,809
	=====	=====

&lt;/TABLE&gt;

The accompanying notes to financial statements are  
an integral part of these balance sheets.

24.

## DYNAMIC MATERIALS CORPORATION

## STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

&lt;TABLE&gt;

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
NET SALES (Note 9)	\$38,212,051	\$32,119,585	\$29,165,289
COST OF PRODUCTS SOLD	30,343,637	24,459,168	23,187,155
	-----	-----	-----
Gross profit	7,868,414	7,660,417	5,978,134
	-----	-----	-----
COSTS AND EXPENSES:			
General and administrative expenses	3,262,993	2,338,355	1,818,366
Selling expenses	1,850,973	1,963,707	1,451,036
New facility start up costs	189,529	-	-
Research and development costs	28,963	68,029	33,200
	-----	-----	-----
Total costs and expenses	5,332,458	4,370,091	3,302,602
	-----	-----	-----
INCOME FROM OPERATIONS	2,535,956	3,290,326	2,675,532
OTHER INCOME (EXPENSE):			
Other income	8,921	17,177	9,307
Interest expense	(283,706)	(117,372)	(173,715)
Interest income	11,585	38,782	71,530
	-----	-----	-----
Income before income tax provision	2,272,756	3,228,913	2,582,654
INCOME TAX PROVISION (Note 6)	(887,000)	(1,221,000)	(959,000)
	-----	-----	-----
NET INCOME	\$ 1,385,756	\$ 2,007,913	\$ 1,623,654
	-----	-----	-----
NET INCOME PER SHARE (Note 3)			
Basic	\$ 0.50	\$ 0.75	\$ 0.64
	=====	=====	=====
Diluted	\$ 0.49	\$ 0.70	\$ 0.59
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (Note 3)			
Basic	2,770,139	2,681,943	2,522,305
	=====	=====	=====
Diluted	2,852,547	2,875,703	2,741,868
	=====	=====	=====

&lt;/TABLE&gt;

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

25.

## DYNAMIC MATERIALS CORPORATION

## STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Retained Earnings
	Shares	Amount			
<S>	<C>	<C>	<C>	<C>	<C>
BALANCES, December 31, 1995	2,500,923	\$ 125,047	\$ 5,877,059	\$ -	\$ 504,063
Common stock issued for stock option exercises	38,400	1,920	94,017	-	-
Net income -	-	-	-	-	1,623,654
-					
BALANCES, December 31, 1996	2,539,323	126,967	5,971,076	-	2,127,717
Common stock issued for stock option exercises	179,385	8,969	313,754	-	-
Tax benefit related to non- statutory options	-	-	268,381	-	-
Compensation expense related to the accelerated vesting of certain options	-	-	34,700	-	-
Net income -	-	-	-	-	2,007,913
-					
BALANCES, December 31, 1997	2,718,708	\$ 135,936	\$ 6,587,911	\$ -	\$ 4,135,630

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

26.

## DYNAMIC MATERIALS CORPORATION

## STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Retained Earnings
	Shares	Amount			
<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	57,115	2,856	139,865	-	-
Common stock issued in connection with the Employee Stock Purchase Plan (Note 5)	23,068	1,153	111,271	-	-
Tax benefit related to non- statutory options (Note 2)	-	-	20,021	-	-
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)	-
Shares issued in connection					

with the purchase of PMP (Note 2)	40,000	2,000	213,680	-	-
Amortization of deferred compensation	-	-	-	12,655	-
Shares repurchased from related party	(73,168)	(3,658)	(421,627)	-	-
Shares received from related party in partial satisfaction of related party receivable (Note 8)	(24,832)	(1,242)	(143,096)	-	-
Net income -	-	-	-	-	1,385,756
	-----	-----	-----	-----	-----
BALANCES, December 31, 1998	2,798,391	\$ 139,920	\$ 7,022,450	\$ (54,845)	\$ 5,521,386
	=====	=====	=====	=====	=====

</TABLE>

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

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Page 1 of 2

DYNAMIC MATERIALS CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>

	1998	1997	1996
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Net income	\$ 1,385,756	\$2,007,913	\$ 1,623,654
Adjustments to reconcile net income to net cash from operating activities-			
Depreciation	942,688	561,937	442,517
Amortization	152,308	119,107	70,399
Amortization of deferred compensation	12,655	-	-
Provision (benefit) for deferred income taxes	119,900	74,550	(58,950)
Compensation expense related to the accelerated vesting of certain options	-	34,700	-
Change in (excluding acquisitions)-			
Accounts receivable, net	578,209	1,240,239	(478,708)
Inventories	18,090	799,269	(499,408)
Prepaid expenses and other	(34,235)	77,434	(48,545)
Income tax receivable	(204,938)	(294,994)	-
Bank overdraft	805,304	(743,471)	743,471
Accounts payable	(786,769)	73,677	38,268
Accrued expenses	602,883	21,949	497,714
	-----	-----	-----
Net cash flows from operating activities	3,591,851	3,972,310	2,330,412
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment and earnings on bond proceeds	(6,550,707)	-	-
Reimbursement of bond proceeds from trustee	1,501,726	-	-
Cash paid in connection with the construction of the new facility	(1,853,723)	-	-
Purchase of Detaclad assets (Note 2)	-	-	(5,274,809)
Purchase of AMK assets (Note 2)	(939,968)	-	-
Purchase of Spin Forge assets (Note 2)	(2,615,691)	-	-
Purchase of PMP assets (Note 2)	(6,869,920)	-	-
Acquisition of property, plant and equipment	(961,092)	(410,007)	(221,759)
Loan to related party	(280,000)	(221,274)	-
Investment in patent	-	(12,091)	-
Change in other noncurrent assets	34,036	(23,980)	(227,108)
	-----	-----	-----
Net cash flows from investing activities	(18,535,339)	(667,352)	(5,723,676)
	-----	-----	-----

</TABLE>

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

## DYNAMIC MATERIALS CORPORATION

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

&lt;TABLE&gt;

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Industrial development revenue bond proceeds	\$ 6,850,000	\$ -	\$ -
Bond issue costs paid	(195,720)	-	-
Borrowings/(payments) on line of credit, net	8,600,000	(3,930,000)	3,330,000
Payments on long-term debt	(84,378)	(94,373)	(86,880)
Payments on capital lease obligation	(29,888)	(27,530)	(23,322)
Payment of deferred financing costs	(100,216)	-	(200,394)
Cash paid in connection with the shares repurchased from related party	(425,285)	-	-
Net proceeds from issuance of common stock	255,145	322,723	95,937
Tax benefit related to non-statutory options	20,021	268,381	-
	-----	-----	-----
Net cash flows from financing activities	14,889,679	(3,460,799)	3,115,341
	-----	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(53,809)	(155,841)	(277,923)
	-----	-----	-----
CASH AND CASH EQUIVALENTS, beginning of the period	53,809	209,650	487,573
	-----	-----	-----
CASH AND CASH EQUIVALENTS, end of the period	\$ -	\$ 53,809	\$ 209,650
	=====	=====	=====

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for-			
Interest, net of amounts capitalized	\$ 138,677	\$ 140,240	\$ 121,175
	=====	=====	=====
Income taxes	\$ 952,017	\$ 1,407,700	\$ 826,000
	=====	=====	=====

&lt;/TABLE&gt;

## NONCASH INVESTING ACTIVITIES:

During 1996, the Company entered into a capital lease agreement acquiring equipment in the amount of \$151,489. During 1998, \$144,338 of the shares acquired from a related party were in satisfaction of a receivable from that party (Note 8).

Acquisitions (Note 2):

&lt;TABLE&gt;

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Accounts receivable	\$ 474,517	\$ -	\$1,218,682
Inventories	1,362,360	-	1,746,294
Prepays and other	31,500	-	-
Property, plant and equipment	5,617,460	-	975,500
Intangible assets	4,529,705	-	1,381,374
Liabilities assumed	(924,483)	-	(47,041)
Common stock issued	(665,480)	-	-
	-----	-----	-----
Net cash paid	\$ 10,425,579	\$ -	\$5,274,809
	=====	=====	=====

&lt;/TABLE&gt;

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

DYNAMIC MATERIALS CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1998, 1997 AND 1996

(1) ORGANIZATION AND BUSINESS

Dynamic Materials Corporation (the "Company") was incorporated in the state of Colorado in 1971, and reincorporated in the state of Delaware during 1997, to provide products and services requiring explosive metalworking. The Company is based in the United States and has customers throughout North America, Western Europe, Australia and the Far East. The Company currently operates under two business groups - explosion metalworking, in which metals are metallurgically joined, shaped or altered by using explosives, and aerospace, in which parts are machined, formed or welded primarily for the commercial aircraft and aerospace industries.

(2) ACQUISITIONS

DETAACLAD BUSINESS OF E.I. DUPONT DE NEMOURS AND COMPANY

On July 22, 1996, the Company acquired certain assets of the Detaclad Business ("Detaclad") of E.I. DuPont de Nemours and Company ("DuPont"). Detaclad designs, manufactures and distributes explosion bonded clad metal plates and also provides explosive shock syntheses services to DuPont in connection with DuPont's production of industrial diamonds. The total purchase price of approximately \$5,322,000 included approximately \$5,024,000 in cash payments to DuPont, approximately \$251,000 in acquisition related expenses and the assumption of accrued liabilities in the amount of approximately \$47,000. Assets acquired consisted principally of trade accounts receivable, inventories, machinery and equipment, leasehold improvements and trade names used in the business, as well as subleases of Detaclad manufacturing and office facilities. The acquisition was financed with Company cash and borrowings under a revolving credit facility.

The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated to the assets acquired based on their approximate fair values at the purchase date. The results of operations of Detaclad since the July 22, 1996 purchase date are included in the Company's financial statements.

The following unaudited pro forma results of operations of the Company for the year ended December 31, 1996 assume that the acquisition of Detaclad had occurred on January 1, 1996. 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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	Year Ended December 31, 1996 -----
Revenues	\$35,090,000
Net income	\$ 1,703,000
Net income per share - basic	\$.68
Net income per share - diluted	\$.62

In addition, concurrent with the acquisition of Detaclad, the Company entered into a Tolling/Services Agreement with DuPont whereby the Company is to provide services and materials to DuPont for use in the production of industrial diamonds. The agreement may be terminated by either party, without cause, beginning January 1999, with nine months written notice.

AMK WELDING, INC.

On January 5, 1998, the Company acquired certain assets of AMK Welding, Inc. ("AMK"). AMK supplies commercial aircraft and aerospace-related automatic and manual, gas tungsten and arc welding services. The total purchase price of approximately \$940,000 included a cash payment made to the seller of \$900,000 and transaction costs paid of approximately \$40,000. Assets acquired consisted primarily of machinery and equipment, land and the building that houses AMK's operations.

SPIN FORGE, LLC

On March 18, 1998, the Company acquired 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 (which includes approximately \$146,000 in transaction related costs), assumption of approximately \$760,000 in liabilities and 50,000 shares of the Company's stock valued at \$449,800. Spin Forge manufactures 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 leases the 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.

PRECISION MACHINED PRODUCTS, INC.

On December 1, 1998, the Company acquired substantially all of the assets of Precision Machined Products, Inc. ("PMP") for a purchase price of approximately \$7,073,000 (including approximately \$57,000 in transaction related costs) which was paid with a combination of \$6,800,000 in cash payments to the seller and the delivery of 40,000 shares of the Company's stock valued at approximately \$216,000. PMP is a contract machining shop specializing in high precision, high quality, complex machined parts used in the aerospace, satellite, medical equipment and high technology industries. The company is leasing the land and building used in the operation of PMP and holds an option to purchase such land and building at fair market value exercisable through December 2000. Subsequent to the expiration of the option term, the Company has a right of first offer to purchase the land and building at fair market value. This right of first offer is exercisable through December 2008.

31.

The following unaudited pro forma results of operations of the Company for the years ended December 31, 1998 and 1997 assumes that the acquisitions of AMK, Spin Forge and PMP 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.

	For the years ended December 31,	
	1998	1997
Revenues	\$43,580,636	\$43,832,655
Net income	\$ 2,036,607	\$ 2,533,711
Net income per share - basic	\$.71	\$.91
Net income per share - diluted	\$.69	\$.85

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVENTORIES

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

Inventories consist of the following at December 31, 1998 and 1997:

	1998	1997
Raw materials	\$1,534,800	\$ 984,788
Work in process	3,614,485	2,865,164
Supplies	224,544	179,607
	=====	=====
	\$5,373,829	\$4,029,559

32.

PROPERTY, PLANT AND EQUIPMENT

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

Building and improvements	3-20 years
Manufacturing equipment and tooling	3-15 years
Furniture, fixtures and computer equipment	3-10 years
Other	3-5 years

Property, plant and equipment consists of the following at December 31, 1998 and 1997:

	1998	1997
Land	\$ 387,308	145,708

Building and improvements	3,022,967	2,024,809
Manufacturing equipment and tooling	7,507,302	2,506,125
Furniture, fixtures and computer equipment	1,556,158	926,470
Other	255,474	228,575
	-----	-----
	\$12,729,209	\$5,831,687
	=====	=====

#### CONSTRUCTION IN PROCESS

The construction in process balance of \$1,853,723 represents costs incurred through December 31, 1998 related to the construction of the Company's new manufacturing facility and acquisition of related manufacturing equipment for the Company's explosion metalworking business. Construction began in September 1998 and is expected to be completed during the year ended December 31, 1999, at which time the assets placed in service will be depreciated consistent with other similar assets of the Company. The project is being financed using proceeds from the issuance of industrial development revenue bonds ("the Bonds") (see Note 4). The Company is capitalizing the interest expense related to the Bonds net of the interest earned on the investments purchased with the excess proceeds. During 1998, interest expense on the Bonds approximated interest income earned by the restricted investments.

#### INTANGIBLE ASSETS

The Company holds numerous United States product and process patents related to the business of explosion metalworking and metallic products produced by various explosive processes. The Company's current patents expire between 1999 and 2010; however, expiration of any single patent is not expected to have a material adverse effect on the Company or its operations.

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

33.

As a result of the Detaclad acquisition discussed in Note 2, \$1,081,375 of excess cost over assets acquired was recorded. These costs are being amortized over a 25-year period using the straight-line method. The Company also acquired certain tradenames and entered into a non-compete agreement in connection with the Detaclad acquisition, which are included in intangible assets in the accompanying balance sheets. Such costs are being amortized over three and five years, respectively.

As a result of the AMK acquisition discussed in Note 2, the Company entered into two non-compete agreements which are included in intangible assets and are being amortized over five years.

As a result of the PMP acquisition discussed in Note 2, \$4,329,705 of excess cost over assets acquired was recorded and is being amortized over a 25-year period using the straight-line method. In addition, the Company entered into a non-compete agreement related to the acquisition of PMP. The value attributable to the non-compete agreement is also included in intangible assets and is being amortized over 4 years.

#### OTHER ASSETS

Included in other assets are deferred financing costs of \$224,866 and \$158,945, net of accumulated amortization of \$75,743 and \$41,449, for the years ended December 31, 1998 and 1997, respectively. The deferred financing costs were incurred in connection with obtaining the Company's lines of credit (see Note 4) and are being amortized over the applicable terms of the lines of credit. Also included in other assets at December 31, 1998 are bond issue costs of \$195,720 associated with the industrial development revenue bonds used to finance the Company's new manufacturing facility (see Note 4). The Company is amortizing these costs over the life of the bonds. The December 31, 1997 balance in other assets also included in-process system implementation costs of \$318,969. The costs were transferred to property, plant and equipment during 1998 upon completion of the system implementation project.

#### REVENUE RECOGNITION

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

#### RESEARCH AND DEVELOPMENT COSTS

Research and development expenditures for the creation and application of new and improved products and processes are expensed as incurred and consist of labor, materials and related overhead expenses.

34.

#### NET INCOME PER SHARE

Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per Share" superseded APB Opinion No. 15 ("APB 15") and is effective for interim and annual periods after December 15, 1997. SFAS 128 replaced primary earnings per share ("EPS") with basic EPS and replaced fully diluted EPS with diluted EPS. 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 difference between basic and diluted weighted average number of shares outstanding is due to dilutive effects of stock options.

#### USE OF ESTIMATES

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

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, trade accounts receivable and payable, accrued expenses and notes receivable are considered to approximate fair value due to the short-term nature of these instruments. The fair value of the Company's long-term debt is estimated to approximate carrying value based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities. The fair values of the interest swap agreements were estimated by assuming that the difference between the interest being received and the interest the Company is paying remains constant for the remaining term of the interest rate swaps. The amount resulting from the difference in the interest amounts were then discounted.

The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

<TABLE>

	December 31, 1998		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
Financial Assets-				
Cash and cash equivalents	\$ -	\$ -	\$ 53,809	\$ 53,809
Accounts receivable	\$ 4,832,658	\$ 4,832,658	\$ 4,936,350	\$ 4,936,350
Receivable from related party	\$ 280,000	\$ 211,725	\$ 221,274	\$ 221,274
Financial Liabilities-				
Accounts payable and accrued expenses	\$ 4,082,372	\$ 4,082,372	\$ 3,341,775	\$ 3,341,775
Debt	\$ 15,455,742	\$ 15,455,742	\$ 90,120	\$ 90,120
Unrecognized financial instruments-				
Interest rate swap agreements	\$ -	\$ (192,688)	\$ -	\$ -

</TABLE>

35.

#### INCOME TAXES

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

#### CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, the Company considers highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

INTEREST RATE SWAP AGREEMENTS

The differential to be paid or received is accrued as interest rates change and is recognized over the life of the agreements.

RECLASSIFICATIONS

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

NEW ACCOUNTING PRINCIPLES

The Financial Accounting Standards Board ("FASB") recently issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and related information" ("SFAS 131"), which requires that a public business enterprise report certain financial and descriptive information about its reportable segments. The Company adopted SFAS 131 for the year ended December 31, 1998. See Note 9 for required disclosures.

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

The American Institute of Certified Public Accountants ("AICPA") recently issued Statement of Position 98-5, "Reporting on the cost of Start-Up Activities" ("SOP 98-5"), which is required to be adopted by affected companies for fiscal years beginning after December 15, 1998. SOP 98-5 defines start-up and organization costs, which must be expensed as incurred. In addition, all deferred start-up and organization costs existing as of January 1, 1999 must be written-off and accounted for as a cumulative effect of an accounting change. The Company elected to early adopt SOP 98-5 during 1998.

The AICPA also recently issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), which is required to be adopted by affected companies for financial statements for fiscal years beginning after December 15, 1998. SOP 98-1 provides guidance on accounting for the costs of computer software developed or obtained for internal use and identifies the characteristics of internal-use software. In general, SOP 98-1 requires that these costs are to be capitalized. These requirements are to be applied prospectively from the date of adoption. The Company believes SOP 98-1 will not materially impact its financial statements.

36.

(4) LONG-TERM DEBT

LONG-TERM DEBT

Long-term debt consists of the following at December 31, 1998 and 1997:

<TABLE>

	1998	1997
	-----	-----
<S>	<C>	<C>
Lines of credit	\$ 8,600,000	\$ -
Industrial development revenue bonds	6,850,000	-
Note payable to a financial institution payable in monthly installments of \$3,104 including interest at 8.85% through June 30, 1998, secured by selected Company assets; paid in full during 1998	-	13,203
Note payable to a financial institution payable in monthly installments of \$5,786 including interest at 8.37% through January 31, 1999, secured by selected Company assets; paid in full subsequent to December 31, 1998	5,742	76,917
	-----	-----
	15,455,742	90,120
Less-Current maturities	(1,148,924)	(84,037)
	-----	-----
	\$14,306,818	\$ 6,083
	=====	=====

## LINES OF CREDIT

During fiscal year 1996, the Company secured a \$7,500,000 revolving line of credit ("Original Line") which had no outstanding balance as of December 31, 1997. The Original Line was to expire on July 19, 1999 at which point all or part of the outstanding balance could have been converted to a term loan which would mature on July 19, 2003. On November 30, 1998 the Company and its bank entered into an amended and restated credit facility and security agreement which was further amended on December 31, 1998. The amended credit facility allows for maximum borrowings of \$14,000,000 under the following three separate lines of credit: An "acquisition line" of \$5,700,000, an "accommodation line" of \$2,300,000 and a "working capital line" of \$6,000,000 (subject to borrowing base restrictions). The borrowings at December 31, 1998 on the acquisition line, accommodation line and working capital line totaled \$5,700,000, \$2,300,000 and \$600,000, respectively. Of the \$8,600,000 outstanding under these lines of credit at December 31, 1998, \$978,182 represent current maturities. Beginning on September 30, 1999 and on the last day of each calendar quarter thereafter, the maximum borrowings available under the acquisition line become permanently reduced by \$259,091, with ultimate maturity on November 30, 2004. Beginning on September 30, 1999 and on the last day of each calendar quarter thereafter, the maximum borrowings available under the accommodation line become permanently reduced by \$230,000, with ultimate maturity on December 31, 2001. The working capital line expires on November 30, 2000. At the Company's option, the borrowings under the acquisition line and working capital line may be in the form of loans bearing an interest rate of 1 to 2% above the LIBOR rate, depending on certain financial ratios, or loans bearing an interest rate of 2% above the Federal Funds rate. Loans under the

37.

accommodation line bear interest of 1/4% above the bank's Prime rate. The weighted average interest rate on all line of credit borrowings at December 31, 1998 was 7.36%. The lines of credit are secured by the Company's accounts receivable, inventory and property, plant and equipment.

On December 1, 1998, the Company entered into an interest rate swap agreement with its bank under which the Company converted \$4,000,000 of the acquisition line of credit loans to a rate that is largely fixed. The amount of the swap agreement decreases by \$181,818 beginning on September 30, 1999 and at the end of each quarter thereafter, and ultimately matures on December 31, 2004. Under the swap agreement, the Company has agreed to pay the bank a fixed interest rate of 5.49% over the life of the swap agreement and, in return, receive interest payments from the bank in an amount equal to the then current LIBOR rate (5.28% at December 31, 1998). Since the interest payments received under the swap agreement and the interest paid on the acquisition line of credit are both based on the LIBOR rate, the interest rate on \$4,000,000 of the \$5,700,000 acquisition line of credit is largely fixed at 5.49% plus the then current premium over the LIBOR rate the Company is required to pay based upon certain financial ratios.

## INDUSTRIAL DEVELOPMENT REVENUE BONDS

During September 1998, the Company began construction on a new manufacturing facility in Fayette County, Pennsylvania. This project is being financed with proceeds from 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 December 31, 1998 was \$6,850,000, including a current portion of \$165,000. 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 December 31, 1998 was 3.10%. 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 \$5,048,981 (which includes accrued interest of \$89,692) as of December 31, 1998 and was classified as restricted cash and investments (non-current) in the accompanying balance sheet. The proceeds are held by a trustee until qualified expenditures are made and reimbursed to the Company. 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 its 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 (3.10% at December 31, 1998) is lower than 76% of the commercial paper rate (3.78% at December 31, 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.

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

Aggregate maturities for debt outstanding are as follows:

38.

1999	\$ 1,148,924
2000	3,236,364
2001	2,681,364
2002	1,831,364
Thereafter	6,557,726
	-----
Total debt	\$15,455,742
	=====

(5) COMMON STOCK OPTIONS AND BENEFIT PLAN

STOCK OPTION PLANS

The Company maintains stock option plans that provide for grants of both incentive stock options and non-statutory stock options. During 1997, the 1992 Incentive Stock Option Plan and the 1994 Nonemployee Director Stock Option Plan were both amended and restated in the form of the 1997 Equity Incentive Plan, which was approved by the Company's stockholders in May of 1997. Incentive stock options are granted at exercise prices that equal the fair market value at date of grant based upon the closing sales price of the Company's common stock on that date. Incentive stock options generally vest 25% annually and expire ten years from the date of grant. Non-statutory stock options are granted at exercise prices that range from 85% to 100% of the fair market value of the stock at date of grant. These options vest over periods ranging from one to four years and have expiration dates that range from five to ten years from the date of grant. Under the 1997 Equity Incentive Plan, there are 1,075,000 shares of common stock authorized to be granted, of which 331,125 remain available for future grants.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 123 ("SFAS 123")

SFAS 123, "Accounting for Stock-Based Compensation," defines a fair value based method of accounting for employee stock options or similar equity instruments. However, SFAS 123 allows the continued measurement of compensation cost for such plans using the intrinsic value based method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), provided that pro forma disclosures are made of net income and net income per share, assuming the fair value based method of SFAS 123 had been applied. The Company has elected to account for its stock-based compensation plans under APB 25; accordingly, for purposes of the pro forma disclosures presented below, the Company has computed the fair values of all options granted during 1998, 1997 and 1996, using an acceptable option pricing model and the following weighted average assumptions:

	1998	1997	1996
	-----	-----	-----
Risk-free interest rate	5.4%	6.5%	5.9%
Expected lives	4.0 years	4.0 years	4.0 years
Expected volatility	68.0%	71.0%	54.4%
Expected dividend yield	0%	0%	0%

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

39.

The total fair value of options granted was computed to be approximately \$2,211,800, \$147,200 and \$695,500 for the years ended December 31, 1998, 1997 and 1996, respectively. These amounts are amortized on a straight-line basis over the vesting periods of the options. Pro forma stock-based compensation, net of the effect of forfeitures, was \$520,200, \$312,700 and \$101,800 for 1998, 1997 and 1996, respectively.



</TABLE>

EMPLOYEE STOCK PURCHASE PLAN

During 1998, the Company adopted an Employee Stock Purchase Plan ("ESPP") which was approved by the Company's stockholders in May of 1998. The Company is authorized to issue up to 50,000 shares under the ESPP. The initial offering under the ESPP was January 1, 1998 and ended June 30, 1998. Subsequent offerings begin on the first day following each previous offering ("Offering Date") and end six months from the offering date ("Purchase Date"). The ESPP provides that full time employees may authorize the Company to withhold up to 15% of their earnings, subject to certain limitations, to be used to purchase common stock of the Company at the lessor of 85% of the fair market value of the Company's common stock on the Offering Date or the Purchase Date. During the year ended December 31, 1998, 23,068 shares of the Company's common stock were purchased in connection with the ESPP.

The 1998 pro forma net income calculation above reflects \$46,800 in compensation expense associated with the ESPP. The compensation expense represents the fair value of the employees' purchase rights which was estimated using an acceptable pricing model with the following weighted-average assumptions: risk free interest rate of 5.24%; expected lives of one year; expected volatility of 71.0% and an expected dividend yield of 0%. The weighted-average per share value of the purchase rights granted in 1998 was \$2.80.

401(K) PLAN

The Company offers a contributory 401(k) plan (the "Plan") to its employees. The Company made matching contributions to the Plan at 50% of the employees' contribution for the first 8% of the employees' compensation for 1998, 1997 and 1996. Total Company contributions were \$158,890, \$90,140 and \$55,160 for the years ended December 31, 1998, 1997 and 1996, respectively.

(6) INCOME TAXES

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

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Current	\$747,079	\$ 878,069	\$1,017,950
Deferred	119,900	74,550	(58,950)
Tax effect of deduction for exercised stock options credited to paid-in capital	20,021	268,381	-
Income tax provision	\$887,000	\$1,221,000	\$ 959,000
	=====	=====	=====

</TABLE>

The Company's deferred tax assets and liabilities at December 31, 1998 and 1997 consist of the following:

	1998	1997
	-----	-----
Deferred tax assets-		
Inventory	\$ 25,700	\$ 35,100
Allowance for doubtful accounts	85,500	55,500
Repair reserve	47,500	55,500
Vacation accrual	49,600	50,000
Accrual for unbilled services	-	5,300
Other	5,400	17,900
	-----	-----
	213,700	219,300
Deferred tax liability-		
Depreciation	(147,400)	(33,100)
	-----	-----
Net deferred tax assets	\$ 66,300	\$186,200
	=====	=====
Net current deferred tax assets	\$ 224,800	\$200,000
Net long-term deferred tax liability	(158,500)	(13,800)
	-----	-----

\$ 66,300                      \$186,200  
 =====                              =====

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

<TABLE>	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Federal income tax at statutory rate	\$772,700	\$1,097,800	\$878,100
State taxes, net of federal tax effect	93,400	99,000	77,800
Nondeductible expenses	20,900	24,200	3,100
	-----	-----	-----
Provision for income taxes	\$887,000	\$1,221,000	\$959,000
	=====	=====	=====

</TABLE>

43.

(7) CAPITAL LEASE

In February 1996, the Company entered into an agreement to lease a phone system. The lease has been capitalized using an implicit interest rate of 8.25%. Future minimum lease payments under the lease as of December 31, 1998 are as follows:

1999	\$ 37,078
2000	37,078
2001	3,090
	-----
	77,246
Less- Amount representing interest	(6,497)
	-----
	70,749
Less- Current portion of capital lease obligation	(32,450)
	-----
	\$ 38,299
	=====

(8) RECEIVABLE FROM RELATED PARTY

The receivable from related party of \$221,274 at December 31, 1997 represented a loan to an officer of the Company during 1997. The loan accrued interest at 6.8% per year. In October 1998, as part of a separation agreement with the officer, the Company forgave \$147,998 of the loan which totaled \$241,351 at that date, including accrued interest. The remaining balance of \$93,085 and a new receivable in the amount of \$51,253 relating to payroll taxes associated with the debt forgiveness was satisfied through the transfer of 24,832 shares of the Company's stock by this officer to the Company.

In connection with the acquisition of Spin Forge, the Company advanced \$280,000 to the seller. At the time, Spin Forge was owned and controlled by an individual who was not an officer of the Company, and his spouse. The advance was made to allow the seller to retire certain debt that was outstanding on land and buildings that the Company currently leases from the seller and on which the Company holds a purchase option as discussed in Note 2 above. The Company also agreed to make additional advances to the seller in connection with future principal payments that the seller is required to make to satisfy debt obligations relating to the property. The Company's promissory note from the seller, which matures on January 1, 2002, bears no interest, is secured by a pledge of 50,000 shares of the Company's common stock held by the seller and is personally guaranteed by the seller's two owners. One of these two owners was named President and CEO of the Company during 1998.

(9) BUSINESS SEGMENTS

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

44.

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

The Company's reportable segments are strategic business units that offer different products and services and are separately managed. Each segment is marketed to different customer types and requires different manufacturing processes and technologies.

The Aerospace segment was formed in 1998 as a result of the Company's acquisitions of AMK, Spin Forge and PMP during the year ended December 31, 1998. Explosive Manufacturing was the Company's only segment prior to 1998. Accordingly segment information is presented only for the year ended December 31, 1998 as follows:

<TABLE>

	Explosive Manufacturing	Aerospace	Total
<S>	<C>	<C>	<C>
As of and for the year ended December 1998:			
Net sales	\$29,727,273	\$ 8,484,778	\$38,212,051
	=====	=====	=====
Depreciation and amortization	\$ 861,769	\$ 233,227	\$ 1,094,996
	=====	=====	=====
Income from operations	\$ 1,252,618	\$ 1,283,338	\$2,535,956
Unallocated amounts:			
Other income			8,921
Interest expense			(283,706)
Interest income			11,585
			-----
Consolidated income before income tax provision			\$ 2,272,756
			=====
Segment assets	\$18,086,015	\$13,428,751	\$31,514,766
	=====	=====	=====
Assets not allocated to segments:			
Prepaid expenses and other			214,776
Income tax receivable			499,932
Current deferred tax asset			224,800
Other long term corporate assets			747,304
			-----
Consolidated total assets			\$33,201,578
Capital expenditures	\$ 2,442,041	\$ 372,774	\$ 2,814,815
	=====	=====	=====

</TABLE>

Capital expenditures for the Explosive Manufacturing segment include \$1,853,723 of costs incurred related to the construction of the Company's new manufacturing facility and the acquisition of related manufacturing equipment.

45.

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

	For the years ended December 31,		
	1998	1997	1996
	-----	-----	-----
United States	\$32,478,791	\$24,092,908	\$21,624,465
Canada	3,818,968	2,532,983	1,656,585
Australia	38,428	4,735,542	3,728,645
Other foreign countries	1,875,864	758,152	2,155,594
	-----	-----	-----
Total consolidated net sales	\$38,212,051	\$32,119,585	\$29,165,289
	=====	=====	=====

During the year ended December 31, 1998, no one customer accounted for more than 10% of the Company's net sales. During the year ended December 31, 1997, sales to one customer represented approximately \$4,074,000 (13%) of total net sales and, during the year ended December 31, 1996, sales to another customer represented approximately \$3,146,000 (11%) of total net sales.

(10) COMMITMENTS AND CONTINGENCIES

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

Year ended December 31-	
1999	\$ 540,529
2000	400,589
2000	286,939
2002	97,510
2003 and thereafter	89,384
	-----
	\$1,414,951
	=====

Total rental expense included in operations was \$713,731, \$394,875 and \$348,174 in the years ended December 31, 1998, 1997 and 1996, respectively.

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

46.

#### LITIGATION

During 1997, the Company was named as a defendant in a lawsuit filed by a French company with which the Company had merger/acquisition discussions, seeking damages of approximately \$1.3 million. Subsequent to December 31, 1998, the Company reached a settlement with the plaintiff that effectively dropped all claims by each party and provided no damages to either party related to the lawsuit. Each party was deemed to be responsible only for its own legal costs.

47.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

48.

#### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning directors and executive officers is set forth in the Proxy Statement for the 1999 Annual Meeting of Shareholders of the Company under the headings "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance", which information is incorporated herein by reference.

#### ITEM 11. EXECUTIVE COMPENSATION

The information concerning executive compensation is set forth in the Proxy Statement for the 1999 Annual Meeting of Shareholders of the Company under the heading "Executive Compensation", which information is incorporated herein by reference.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information concerning security ownership of certain beneficial owners and management is set forth in the Proxy Statement for the 1999 Annual Meeting of Shareholders of the Company under the heading "Security Ownership of Certain Beneficial Owners and Management", which information is incorporated herein by reference.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information concerning certain relationships and related transactions is set forth in the Proxy Statement for the 1999 Annual Meeting of Shareholders of the Company under the heading "Certain Transactions", which information is incorporated herein by reference.

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## ITEM 14. EXHIBITS, LIST AND REPORTS ON FORM 8-K

(a) EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
2.1	Asset Purchase Agreement, dated January 1998, between the Registrant and AMK Inc. (Incorporated by reference on Form 10-Q as filed with the Commission as of May 15, 1998.)
10.1	Credit Facility and Security Agreement. Dated as of March 18, 1998, between the Registrant and KeyBank National Association. (Incorporated by reference on Form 10-Q as filed with the Commission as of May 15, 1998.)
10.2	First Amendment to Loan Documents, dated as of March 18, 1998, between the Registrant and KeyBank National Association. (Incorporated by reference on Form 10-Q as filed with the Commission as of May 15, 1998.)
10.3	Loan Agreement, dated as of September 1, 1998, between the Registrant and Fayette County Industrial Development Authority. (Incorporated by reference on Form 10-Q as filed with the Commission as of November 14, 1998.)
10.4	Reimbursement Agreement, dated as of September 1, 1998, between the Registrant and KeyBank National Association. (Incorporated by reference on Form 10-Q as filed with the Commission as of November 14, 1998.)
10.5	Master Agreement, dated as of September 15, 1998, between the Registrant and KeyBank National Association. (Incorporated by reference on Form 10-Q as filed with the Commission as of November 14, 1998.)
10.6	Separation Agreement, dated as of September 1, 1998, between the Registrant and Paul Lange. (Incorporated by reference on Form 10-Q as filed with the Commission as of November 14, 1998.)
10.7	First Amendment to Amended and Restated Credit Facility and Security Agreement, dated as of December 31, 1998, between the Registrant and Keybank National Association.
10.8	Amended and Restated Credit Facility and Security Agreement, dated as of November 30, 1998, between the Registrant and Keybank National Association.
27	Financial Data Schedule

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(b) REPORTS ON FORM 8-K

EXHIBIT NUMBER	DESCRIPTION
2.1	Asset Purchase Agreement, dated as of March 18, 1998, between the Registrant, Spin Forge, LLC, Joseph Allwein and Darleen Bauer Allwein. (Incorporated by reference on Form 8-K as filed with the Commission as of April 2, 1998.)
2.2	Asset Purchase Agreement, dated as of November 18, 1998, between the Registrant, Precision Machined Products, Inc., Richard B. Bellows and Michelle L. Bellows. (Incorporated by reference on Form 8-K as filed with the Commission as of January 8, 1998.)
4.1	Rights Agreement, dated as of January 8, 1999, between the Registrant and Harris Trust and Savings Bank which includes the Certificate of Designation for the Series A Junior Participant Preferred Stock as Exhibit A and the form of Right Certificate as Exhibit B. (Incorporated by reference on Form 8-K as filed with the Commission as of January 21, 1999.)
10.1	Option Agreement, dated as of March 18, 1998, between the Registrant and Spin Forge, LLC. (Incorporated by reference on Form 8-K as filed with the Commission as of April 2, 1998.)
10.2	Operating Lease, dated as of March 18, 1998, between the Registrant and Spin Forge, LLC. (Incorporated by reference on Form 8-K as filed with the Commission as of April 2, 1998.)
10.3	Loan Agreement, dated as of March 18, 1998, between the Registrant and Spin Forge, LLC. (Incorporated by reference on Form 8-K as filed with the Commission as of April 2, 1998.)
10.4	Personnel Services Agreement, dated as of March 18, 1998, between the Registrant and Joseph Allwein. (Incorporated by reference on Form 8-K as filed with the Commission as of April 2, 1998.)*
10.5	Stock Agreement, dated as of March 18, 1998, between the Registrant and Spin Forge, LLC. (Incorporated by reference on Form 8-K as filed with the Commission as of April 2, 1998.)
10.6	Stock Agreement, dated as of March 18, 1998, between the Registrant and Joseph Allwein. (Incorporated by reference on Form 8-K as filed with the Commission as of April 2, 1998.)*
10.7	Non-Competition Agreement, dated as of March 18, 1998, between the

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- 10.8 Master Promissory Note, dated as of March 18, 1998 by Spin Forge, LLC. (Incorporated by reference on Form 8-K as filed with the Commission as of April 2, 1998.)
- 10.9 Personal Guaranty, dated as of March 18, 1998, between the Registrant, Joseph Allwein and Darleen Bauer Allwein. (Incorporated by reference on Form 8-K as filed with the Commission as of April 2, 1998.)
- 10.10 Option and Right of First Offer Agreement, dated as of December 11, 1998, between the Registrant and JEA Property, LLC. (Incorporated by reference on Form 8-K as filed with the Commission as of January 8, 1998.)
- 10.11 Operating Lease, dated as of December 1, 1998, between the Registrant and JEA Property, LLC. (Incorporated by reference on Form 8-K as filed with the Commission as of January 8, 1998.)
- 99.1 Press release dated March 18, 1998. (Incorporated by reference on Form 8-K as filed with the Commission as of April 2, 1998.)
- 99.1 Press release dated December 3, 1998. (Incorporated by reference on Form 8-K as filed with the Commission as of January 8, 1998.)

\* Indicates compensation agreement for executive management.

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SIGNATURES

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

DYNAMIC MATERIALS CORPORATION

March 31, 1999 By: /s/ Richard A. Santa  
 -----  
 Richard A. Santa  
 Vice President of Finance and Chief  
 Financial Officer

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

<TABLE> SIGNATURE	TITLE	DATE
<S> /s/ Joseph P. Allwein ----- Joseph P. Allwein	<C> President, Chief Executive Officer and Director (Principal Executive Officer)	<C> March 31, 1999
/s/ Richard A. Santa ----- Richard A. Santa	Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 1999
/s/ Dean K. Allen ----- 1999 Dean K. Allen	Director	March 31,
/s/ David E. Bartlett ----- 1999 David E. Bartlett	Director	March 31,
/s/ George W. Morgenthaler ----- 1999 George W. Morgenthaler	Director	March 31,

/s/ Michael C. Franson  
-----  
1999  
Michael C. Franson

Director

March 31,

</TABLE>

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DYNAMIC MATERIALS CORPORATION  
INDEX TO SCHEDULE II

AS OF DECEMBER 31, 1998

	PAGE
Report of Independent Public Accountants.....	55
Schedule II (a).....	56
Schedule II (b).....	56

54.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Dynamic Materials Corporation:

We have audited in accordance with generally accepted auditing standards, the financial statements of Dynamic Materials Corporation included in this form 10K and have issued our report thereon dated February 5, 1999. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The following schedule is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements as indicated in our report with respect thereto and, in our opinion, based on our audit, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen, LLP

Denver, Colorado  
February 5, 1999

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

<TABLE>

	Balance at beginning of period	Additions charged to income	Accounts receivable written off	Other adjustments	Balance at end of period
<S> Year ended -	<C>	<C>	<C>	<C>	<C>
December 31, 1996	\$ 150,000	\$ 34,650	\$ (16,720)	\$ 2,070	\$ 170,000
December 31, 1997	\$ 170,000	\$ 5,921	\$ (8,171)	\$ (17,750)	\$ 150,000
December 31, 1998	\$ 150,000	\$ 78,732	\$ (3,732)	\$ -	\$ 225,000

</TABLE>

REPAIR RESERVE

Year ended -	Balance at beginning of period	Additions charged to income	Repairs allowed	Balance at end of period
December 31, 1996	\$ 100,000	\$ 137,330	\$ (87,330)	\$ 150,000
December 31, 1997	\$ 150,000	\$ 69,513	\$ (69,513)	\$ 150,000
December 31, 1998	\$ 150,000	\$ 30,582	\$ (55,582)	\$ 125,000

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CROSS-REFERENCE SHEET

<TABLE>		Annual Report Page	Proxy Statement Page
		-----	-----
PART I			
<S>	<C>	<C>	<C>
ITEM 1.	Business.....	--	N/A
ITEM 2.	Properties.....	--	N/A
ITEM 3.	Legal Proceedings.....	--	N/A
ITEM 4.	Submission of Matters to a Vote of Security Holders.....	--	N/A
PART II			
ITEM 5.	Market for Common Equity and Related Stockholder Matters.....	--	N/A
ITEM 6.	Selected Financial Data.....	--	N/A
ITEM 7.	Management's Discussion and Analysis or Plan of Operation.....	--	N/A
ITEM 7.A	Quantative and Qualitive Disclosure About Market Risk.....	--	N/A
ITEM 8.	Financial Statements.....	--	N/A
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	--	N/A
PART III			
ITEM 10.	Directors and Executive Officers of the Registrant.....	N/A	--
ITEM 11.	Executive Compensation.....	N/A	--
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management.....	N/A	--
ITEM 13.	Certain Relationships and Related Transactions.....	N/A	N/A
ITEM 14.	Exhibits, List and Reports on Form 8-K.....	--	N/A

</TABLE>

AMENDED AND RESTATED  
CREDIT FACILITY AND  
SECURITY AGREEMENT

THIS AGREEMENT is made by and between the Company (as herein defined) and the Bank (as herein defined).

WHEREAS, the Company and the Bank entered into a Credit Facility and Security Agreement dated as of July 19, 1996, (the "Receivables Line") which, as amended, provided for loans up to five million dollars (\$5,000,000) to be supported by the Company's eligible accounts receivable and inventory; and

WHEREAS, the Company and the Bank entered into a Credit Facility and Security Agreement dated as of March 18, 1998, (the "Reducing Revolving Credit") which, as amended, provided for loans of up to four million dollars (\$4,000,000); and

WHEREAS, the Company has entered into an Asset Purchase Agreement dated as of November 18, 1998 which contemplates the acquisition (the "Acquisition") by the Company of certain of the assets of Precision Machined Products, a Colorado corporation, and the Company has requested that the Bank restructure the Receivables Line and the Reducing Revolving Credit to provide financing for the Acquisition and a working line of capital; and

WHEREAS, the Bank is willing to restructure the above-referenced credit facilities on the terms and subject to the conditions set forth herein.

NOW THEREFORE, in consideration of the covenants and agreements contained herein, the Company and the Bank hereby mutually agree that the Receivables Line and the Reducing Revolving Credit are amended and restated in their entirety as follows:

ARTICLE I. DEFINITIONS

SECTION 1.1 GENERAL. Any accounting term used but not specifically defined herein shall be construed in accordance with GAAP. The definition of each agreement, document, and instrument set forth in Section 1.2 hereof shall be deemed to mean and include such agreement, document, or instrument as amended, restated, or modified from time to time.

SECTION 1.2 DEFINED TERMS. As used in this Agreement:

"ACCEPTABLE REAL ESTATE" shall mean only such real property of the Company, valued at the lower of cost or fair market value, as the Bank in its reasonable discretion, shall from time to time consider eligible to support advances under the Acquisition Line or the Working Capital Line.

"ACCOUNT" shall mean (a) any account as defined in the UCC, and (b) any right to payment for Goods sold or leased or for services rendered which is not evidenced by an Instrument or Chattel Paper, whether or not it has been earned.

"ACCOUNT DEBTOR" shall mean the Person who is obligated on an Account Receivable.

"ACCOUNT RECEIVABLE" shall mean:

(a) any account receivable, Account, Chattel Paper, Contract Right, General Intangible Document, or Instrument owned, acquired, or received by a Person,

(b) any other indebtedness owed to or receivable owned, acquired, or received by a Person of whatever kind and however evidenced, and

(c) any right, title, and interest in a Person's Goods which were sold, leased, or furnished by that Person and gave rise to either (a) or (b) above, or both of them, including, without limitation (i) any rights of stoppage in transit of a Person's sold, leased, or furnished Goods, (ii) any rights to reclaim a Person's sold, leased, or furnished Goods, and (iii) any rights a Person has in such sold, leased, or furnished Goods that have been returned.

"AFFILIATE" shall mean, with respect to a specified Person, any other Person: (a) which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with such Person, (b) which beneficially owns or holds with power to vote five percent (5 %) or more of any class of the voting stock of such Person, (c) five percent (5 %) or more of the voting stock of which other Person is beneficially owned or held by such Person, or (d) who is an officer or director of such Person.

"ACQUISITION" shall have the meaning set forth in the recitals hereto.

"ACQUISITION LINE" shall mean the line of credit provided by the Bank pursuant to Section 2.1(a) hereof.

"ACQUISITION LINE CREDIT LIMIT" shall mean \$8,000,000 less any permanent reductions to such amount resulting from (i) conversion of Credit Loans to Term Loans pursuant to Section 2.2 hereof, (ii) principal payments required to be made under Section 2.7(a) hereof and (iii) Free Cash Flow recapture payments made under Section 2.8(c) hereof.

"ACQUISITION LINE MATURITY DATE" shall mean the last day of the sixth (6th) Contract Year.

"ACQUISITION NOTE" shall mean the promissory note of the Company in substantially the form of Exhibit A hereto, evidencing amounts advanced by the Bank pursuant to Section 2.1(a) hereof.

"BANK" shall mean KeyBank National Association, a national banking association, and its successors and assigns.

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"BORROWING BASE" shall mean an amount equal to the sum of:

(a) the lesser of (i) 50% of the net book value of all Eligible Equipment of the Company, or (ii) 70% of the orderly liquidation value of all Eligible Equipment of the Company, or (iii) 80% of the forced sale value of all Eligible Equipment of the Company, each as determined in accordance with an appraisal performed prior to the inclusion of such Equipment in the Borrowing Base by a licensed appraiser satisfactory to the Bank, in its reasonable discretion; plus

(b) 75% of Acceptable Real Estate; plus

(c) 80% of Eligible Accounts Receivable; plus

(d) the sum of (i) 50% of Eligible Inventory consisting of raw materials and Eligible Inventory consisting of work-in-process previously purchased by the Company from Spin Forge LLC or purchased from Precision Machined Products pursuant to the Acquisition, plus (ii) 30% of Eligible Inventory consisting of work-in-process other than work-in-process previously purchased by the Company from Spin Forge LLC or purchased from Precision Machined Products pursuant to the Acquisition, plus (iii) 50% of Eligible Inventory consisting of finished product.

Each dollar of Borrowing Base availability shall support one dollar of Loans under either the Acquisition Line or the Working Capital Line, and the Borrowing Base shall be utilized to support borrowings under the Acquisition Line and the Working Capital Line in such amounts and in such proportions as the Bank and the Company shall agree.

"BORROWING BASE CERTIFICATE" shall mean the Borrowing Base Certificate in the form of Exhibit D attached hereto.

"BUSINESS CONDITION" shall mean the financial condition, business and assets of a Person.

"BUSINESS DAY" shall mean a day of the year on which banks are not required or authorized to close in Denver, Colorado and, if the applicable Business Day relates to any LIBOR Rate Loan, on which dealings are carried on in the London interbank eurodollar market.

"CAPITAL EXPENDITURES" shall mean any and all amounts invested, expended or incurred by a Person in respect of the purchase, improvement, renovation or expansion of any land and depreciable or amortizable property of such Person (including expenditures required to be capitalized in accordance with GAAP but excluding expenditures relating to the Company's Pennsylvania Industrial Development Revenue Bond Project).

"CASH COLLATERAL ACCOUNT" shall mean a commercial Deposit Account designated "cash collateral account" and maintained by the Company with Bank, without liability by Bank to pay interest thereon, from which account Bank shall have the exclusive right to withdraw funds until all Obligations are paid, performed, satisfied, enforced, and observed in full.

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"CASH SECURITY" shall mean all cash, Instruments, Deposit Accounts, and other cash equivalents, whether matured or unmatured, whether collected or in the process of collection, upon which Company presently has or may hereafter have any claim, that are presently or may hereafter be existing or maintained with, issued by, drawn upon, or in the possession of Bank.

"CHATTEL PAPER" shall mean "chattel paper" as defined in the UCC.

"CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"COLLATERAL" shall have the meaning described in Section 3.1 hereof

"COLLECTIONS" shall have the meaning described in Section 4.1 hereof.

"COMMONLY CONTROLLED ENTITY" shall mean a Person, whether or not incorporated, which is under common control with the Company within the meaning of Section 414(b) or (c) of the Code.

"COMPANY" shall mean Dynamic Materials Corporation, a Delaware corporation, with its principal office located at 551 Aspen Ridge Dr., Lafayette, Colorado 80026, and its successors.

"CONTRACT RIGHT" shall mean (a) any contract right, and (b) any right to payment under a contract not yet earned by performance and not evidenced by an Instrument or Chattel Paper.

"CONTRACT YEAR" shall mean the each twelve (12) month period which commences on the date hereof and on each anniversary of the date of execution of the Agreement.

"CREDIT LOAN" shall mean a revolving Loan described in Section 2.1 of this Agreement.

"CURRENT ASSETS" and "CURRENT LIABILITIES" shall mean the amounts as determined in accordance with GAAP not inconsistent with present accounting procedures.

"DEBT SERVICE COVERAGE RATIO" shall mean the ratio of (i) the sum of (A) net income after taxes, exclusive of extraordinary gains and gains on the sale of assets, plus (B) depreciation and amortization, plus (C) interest expense (including the portion of any capitalized lease obligation allocable to interest expense), to (ii) the sum of (A) current maturities of long-term debt and capitalized leases, plus (B) interest expense (including the portion of any capitalized lease obligation allocable to interest expense), plus (C) dividends and distributions, plus (D) unfinanced Capital Expenditures.

"DEPOSIT ACCOUNT" shall mean (a) any deposit account, and (b) any demand, time, savings, passbook, or a similar account maintained with a bank, savings and loan association, credit union, or similar organization, other than an account evidenced by a certificate of deposit.

"DOCUMENT" shall mean (a) any document, (b) any document of title, including a bill of lading, dock warrant, dock receipt, warehouse receipt or order for the delivery of Goods, and any other document which in the regular course of business or financing is treated as adequately

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evidencing that the Person in possession of it is entitled to receive, hold, and dispose of the document and the Goods it covers, and (c) any receipt covering Goods stored under a statute requiring a bond against withdrawal or a license for the issuance of receipts in the nature of warehouse receipts even though issued by a Person who is the owner of the Goods and is not a warehouseman.

"EBITDA" of the Company for any period shall mean the Company's earnings (including one-time or extraordinary adjustments relating to the Paul Lange Separation Agreement and one-time start-up costs associated with the Company's Pennsylvania Industrial Development Revenue Bond- backed project) plus interest, taxes, depreciation and amortization, each as calculated for such period in accordance with GAAP.

"ELIGIBLE ACCOUNTS RECEIVABLE" means, as at any applicable date of determination, the aggregate face amount of the Accounts Receivable included in the definition of Accounts Receivable hereunder without duplication, in each case less (without duplication) the aggregate amount of all reserves, limitations and deductions with respect to such Accounts Receivable set forth below or as otherwise provided in this Agreement and less the aggregate amount of all returns, discounts, claims, credits, charges and allowances of any nature with respect to such Accounts Receivable (whether issued, owing, granted or outstanding). Unless otherwise approved in writing by the Bank in its sole discretion, no individual Account Receivable shall be deemed to be an Eligible Account Receivable if:

(a) the Company does not have legal and valid title to the Account Receivable; or

(b) the Account Receivable is not the valid, binding and legally

enforceable obligation of the Account Debtor subject, as to enforceability, only to (i) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws at the time in effect affecting the enforceability of creditors' rights generally and (ii) judicial discretion in connection with the remedy of specific performance and other equitable remedies; or

(c) the Account Receivable arises out of sale made to any Affiliate of the Company; or

(d) the Account Receivable or any portion thereof is unpaid more than the earlier of (i) 90 days after the original invoice date, or (ii) 105 days after the services were provided, or goods sold, which gave rise to such Account Receivable; or

(e) the Account Receivable, when aggregated with all other Accounts Receivable of the same Account Debtor (or any Affiliate thereof), exceeds fifty percent (50%) in face value of all Accounts Receivable of the Company then outstanding, to the extent of such excess;

(f) (i) the Account Debtor is also a creditor of the Company, to the extent of the amount owed by the Company to the Account Debtor, (ii) the Account Receivable is subject to any claim on the part of the Account Debtor disputing liability under such Account Receivable in whole or in part, to the extent of the amount of such dispute or (iii) the Account Receivable otherwise is or is

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reasonably likely to become subject to any right or setoff or any counterclaim, claim or defense by the Account Debtor, to the extent of the amount of such setoff or counterclaim, claim or defense; or

(g) the Account Debtor has commenced a voluntary case under applicable bankruptcy laws, as now constituted or hereafter amended, or made an assignment for the benefit of creditors or if a decree or order for relief has been entered by a court having jurisdiction in the premises in respect of the Account Debtor in an involuntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or if any other petition or other application for relief under the Account Debtor, or if the Account Debtor has failed, suspended business, ceased to be solvent, or consented to or suffered a receiver, trustee, liquidator or custodian to be appointed for it or for all or a significant portion of its assets or affairs; or

(h) the Bank does not have a valid and perfected first priority security interest in such Account Receivable; or

(i) the sale to the Account Debtor is on a consignment, bill-and-hold, sale on approval, guaranteed sale or sale-and-return basis or pursuant to any written agreement providing for repurchase or return; or

(j) it is from the same Account Debtor (or any Affiliate thereof) and fifty percent (50%) or more, in face amount, of other Accounts Receivable from either such Account Debtor or any Affiliate thereof are ineligible pursuant to paragraph (d) above; or

(k) seventy-five percent (75%) or more, in face amount, of other Accounts Receivable from the same Account Debtor are not deemed Eligible Accounts Receivable hereunder; or

(l) the Goods giving rise to such Account have not been shipped and delivered to and accepted by the Account Debtor or the services giving rise to such Account have not been performed by the Borrower and accepted by the Account Debtor or the Account otherwise does not represent a final sale;

(m) the principal place of business of the Account Debtor is located outside of the United States, unless the Account Receivable is (i) backed by a bank letter of credit naming the Bank as beneficiary or assigned to the Bank, in the Bank's possession and acceptable to the Bank in all respects, in its sole discretion, or (ii) covered by a foreign receivables insurance policy acceptable to the Bank in its sole discretion;

(n) the Account Receivable does not comply in all material respects with all applicable legal requirements, including where applicable, the Federal Consumer Credit Protection Act, the Federal Truth in Lending Act and Regulation Z of the Board of Governors of the Federal Reserve System, in each case as amended; or

(o) the Account Receivable arises out of unbilled cooperative advertising activities.

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"ELIGIBLE EQUIPMENT" shall mean only such Equipment of the Company, valued at the lower of (i) cost (on a first in, first out basis), or (ii) fair market value, as the Bank, in its sole discretion, shall from time to time consider to be Eligible Equipment.

"ELIGIBLE INVENTORY" shall mean only such Inventory of the Company, valued at the lower of (i) cost (on a first in, first out basis), or (ii) fair market value, as the Bank, in its sole discretion, shall from time to time consider to be Eligible Inventory.

"ENVIRONMENTAL LAW" shall mean any federal, state, or local statute, law, ordinance, code, rule, regulation, order or decree regulating, relating to, or imposing liability upon a Person in connection with the use, release or disposal of any hazardous toxic or dangerous substance, waste or material.

"EQUIPMENT" shall mean "equipment" (as defined in the UCC) and fixtures (as defined in the UCC) including, without limitation, all machinery, equipment, furniture, furnishings, fixtures, and packaging production equipment, parts, material handling, supplies, and motor vehicles (titled or untitled) of every kind and description, now or hereafter owned by the Company.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

"EVENT OF DEFAULT" shall mean any one or more of the occurrences described in ARTICLE IX hereof.

"FEDERAL FUNDS EFFECTIVE RATE" shall mean, during any period, a fluctuating interest rate per annum for each day during such period, that is the rate determined by Bank to be the opening rate per annum paid or payable by it on the day in question in its region market for federal funds purchased overnight from other banking institutions.

"FEDERAL FUNDS EFFECTIVE RATE LOAN" shall mean any Loan that bears interest with reference to the Federal Funds Effective Rate.

"FREE CASH FLOW" of the Company shall mean the difference between (i) the sum of the Company's net income plus depreciation and amortization, and (ii) the sum of (A) current maturities of long-term debt and capitalized leases of the Company, and (B) unfinanced Capital Expenditures.

"FUNDED DEBT" of the Company shall mean the sum of (i) all outstanding senior bank Indebtedness of the Company, (ii) all Indebtedness of the Company relating to any bonds or other debt securities issued by the Company, (iii) all Indebtedness in respect of the Letter of Credit Loan, and (iv) all Subordinated Debt of the Company.

"GAAP" shall mean generally accepted accounting principles as then in effect, which shall include the official interpretations thereof by the Financial Accounting Standards Board, consistently applied.

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"GENERAL INTANGIBLE" shall mean (a) any "general intangible" (as defined in the UCC), and (b) any personal property (including things in action) other than Goods, Accounts, Contract Rights, Chattel Paper, Documents, Instruments, and money.

"GOODS" shall mean (a) any "goods" (as defined in the UCC), and (b) all things which are movable at the time the security interest granted Bank under the Agreement attaches or which are fixtures but does not include money, Instruments, Documents, Accounts, Chattel Paper, General Intangibles, or Contract Rights.

"HAZARDOUS MATERIALS" shall mean any substance or material defined or designated as a hazardous or toxic waste, hazardous or toxic material, hazardous or toxic substance, or other similar term, by any United States federal, state or local environmental statute, regulation or ordinance.

"INDEBTEDNESS" shall mean for any Person (i) all obligations to repay borrowed money, direct or indirect, incurred, assumed, or guaranteed, (ii) all obligations for the deferred purchase price of capital assets excluding trade payables, (iii) all obligations under conditional sales or other title retention agreements, and (iv) all lease obligations which have been or should be capitalized on the books of such Person.

"INSTRUMENT" shall mean "instruments" (as defined in the UCC).

"INTEREST PERIOD" means, with respect to any LIBOR Rate Loan, the period commencing on the date such Loan is made, continued, or converted and ending on the last day of such period as selected by the Company pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of

such period as selected by the Company pursuant to the provisions below. The duration for any LIBOR Rate Loan which is a Credit Loan shall be 1 month, 2 months, or 3 months, as selected by the Company; and the duration for any LIBOR Rate Loan which is a Term Loan shall be 3 months; provided, however, that whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall occur on the next succeeding Business Day, and; provided, further, however, that if such extension of time would cause the last day of such Interest Period for a LIBOR Rate Loan to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day.

"INVENTORY" shall mean all "inventory" (as defined in the UCC) now owned or hereafter acquired by the Company, including, without limitation, all Goods, merchandise, work-in-process, raw materials, finished Goods, and inventory held for lease to other Persons; all other materials, supplies, and tangible personal property of any kind, nature, or description held for sale or lease or for display or demonstration; and all documents of title or other Documents pertaining thereto, and all proceeds of the foregoing.

"LETTER OF CREDIT LOAN" shall mean the \$7,000,000 loan to Company from Bank, evidenced by the issuance of a Letter of Credit to provide a credit enhancement for bond financing and which loan shall be secured by a lien on certain property, plant and equipment of the Company located in Mount Braddock, Pennsylvania.

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"LIBOR RATE" shall mean, for any Interest Period for any LIBOR Rate Loan, an interest rate per annum (rounded upwards to the next higher whole multiple of 1/16% if such rate is not such a multiple) equal at all times during such Interest Period to the quotient of (a) the rate per annum (rounded upwards to the next higher whole multiple of 1/16 % if such rate is not such a multiple) at which deposits in United States dollars are offered at 11:00 a.m. (London, England time) (or as soon thereafter as is reasonably practicable) by prime banks in the London interbank eurodollar market two Business Days prior to the first day of such Interest Period in an amount and maturity of such LIBOR Rate Loan, divided by (b) a number equal to 1.00 minus the aggregate (without duplication) of the rates (expressed as a decimal fraction) of the LIBOR Reserve Requirements current on the date two Business Days prior to the first day of such Interest Period.

"LIBOR RATE LOAN" shall mean any Loan that bears interest with reference to the LIBOR Rate.

"LIBOR RATE MARGIN" shall mean: (i) during the period prior to the first Margin Adjustment Date, 200 basis points, and (ii) thereafter, the number of basis points determined pursuant to Section 2.5(b)(ii) hereof.

"LIBOR RESERVE REQUIREMENTS" means, for any Interest Period for any LIBOR Rate Loan, the maximum reserves (whether basic, supplemental, marginal, emergency, or otherwise) prescribed by the Board of Governors of the Federal Reserve System (or any successor) with respect to liabilities or assets consisting of or including "Eurocurrency liabilities" (as defined in Regulation D of the Board of Governors of the Federal Reserve System) having a term equal to such Interest Period.

"LIEN" shall mean any mortgage, security interest, lien, charge, encumbrance on, pledge or deposit of, or conditional sale or other title retention agreement with respect to any property or asset.

"LOAN" or "LOANS" shall mean any of the loan advances to the Company extended by the Bank in accordance with ARTICLE II hereof.

"LOAN DOCUMENTS" shall mean this Agreement, the Notes and any other documents relating thereto.

"LOCKBOX" shall have the meaning specified in Section 4.1 of this Agreement.

"MARGIN ADJUSTMENT DATE" shall have the meaning specified in Section 2.5(b)(i) hereof.

"MARGIN STOCK" shall have the meaning given to it under Regulation U of the Board of Governors of the Federal Reserve System, as amended from time to time.

"MATERIAL ADVERSE EFFECT" shall mean material adverse effect on (i) the ability of the Company and any Subsidiaries taken as a whole to fulfill their obligations under any of the Loan Documents or (ii) the Business Condition of the Company and any Subsidiaries taken as a whole.

"MATERIAL AGREEMENTS" shall mean (a) any agreement to which the Company is a party which provides for the receipt or expenditure by the Company or any Subsidiary of more than \$500,000.00 in any 12-month period other than sales orders in the ordinary course of business, and (b) any other agreement to which the Company is a party which is material to the business of the Company.

"MULTIEMPLOYER PLAN" shall mean a Plan described in ERISA which covers employees of the Company and employees of any other Person, which together would be treated as a single employer for purposes of ERISA.

"NOTE" shall mean the Acquisition Note or the Working Capital Note;  
"NOTES" shall mean the Acquisition Note and the Working Capital Note.

"OBLIGATIONS" shall mean any and all indebtedness, obligations, liabilities, contracts, indentures, agreements, warranties, covenants, guaranties, representations, provisions, terms, and conditions of whatever kind, now existing or hereafter arising, and however evidenced, that are now or hereafter owed, incurred, or executed by Company to, in favor of, or with Bank or any Affiliate of the Bank.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to subtitle A of Title IV or ERISA.

"PERMITTED INVESTMENT" shall mean the Company's:

(a) investments existing on the date hereof as disclosed in the Schedule on Exhibit C hereto;

(b) extensions of credit in the nature of Accounts Receivable, or notes receivable arising from the Company's sale or lease of goods or services in the ordinary course of business;

(c) investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business;

(d) investments (excluding debt obligations) received in connection with the bankruptcy or reorganization of the Company's customers or suppliers and in settlement of delinquent obligations of, and other disputes with, such customers or suppliers arising, from transactions in the ordinary course of business;

(e) investments consisting of (i) compensation of Company employees, officers or directors so long as the Company's Board of Directors lawfully determines that such compensation is in the Company's best interest, (ii) travel advances, employee relocation loans and other employee loans and advances lawfully made in the ordinary course of business, and (iii) loans lawfully made to Company's employees, officers or directors relating to the purchase of equity securities of Company;

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(f) investments in marketable U.S. Treasury and Agency obligations;

(g) investments in certificates of deposit and bankers' acceptances issued or created by any domestic commercial bank;

(h) investments in instruments issued or enhanced by a member bank of the Federal Reserve System;

(i) investments in debt obligations issued by a corporation, or state or municipal entity rated Bb or better in accordance with a rating system employed by either Moody's Investor's Service, Inc. or Standard & Poor's Corporation; or

(j) investments of types not enumerated in subparts (a) through (i) aggregating not in excess of \$100,000.

"PERMITTED LIEN" shall mean the following:

(a) Liens existing as of the date of this Agreement and disclosed in the Schedule on Exhibit C hereto;

(b) Liens for taxes or governmental assessments, charges, or levies the payment of which is not at the time required by any provision of this Agreement or any other Loan Document unless such Liens are not delinquent or are being contested in good faith by appropriate proceedings;

(c) Liens that secure the Company's Indebtedness for the purchase price of any real or personal property and that only encumber the property purchased, improvements or accessions thereto, and proceeds thereof;

(d) Liens securing capital lease obligations;

(e) Liens on Equipment leased by the Company pursuant to an operating lease in the ordinary course of business (including proceeds thereof and accessions thereto) incurred solely for the purpose of financing the lease of such Equipment (including Liens arising from UCC financing statements regarding leases permitted by this provision);

(f) Easements, reservations, rights-of-way, restrictions, minor defects or irregularities in title and other similar Liens affecting real property not interfering in any material respect with the ordinary conduct of the business of the Company;

(g) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of Goods;

(h) Liens imposed by law, such as Liens of landlords, carriers, warehousemen, mechanics, and materialmen arising in the ordinary course of business for sums not yet due or being contested by appropriate proceedings promptly initiated and diligently conducted, provided the

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Company has set aside proper amounts, determined in accordance with GAAP, for the payment of all such Liens;

(i) Liens incurred or deposits made in the ordinary course of business in conjunction with worker's compensation, unemployment insurance, and other types of social security, or to secure the performance of tenders, statutory obligations, and surety and appeal bonds, or to secure the performance and return of money bonds and other similar obligations, but excluding Indebtedness;

(j) Liens in respect of judgments or awards with respect to which the Company shall, in good faith, be prosecuting an appeal or proceeding for review and with respect to which a stay of execution upon such appeal or proceeding for review shall have been obtained;

(k) Liens in favor of the Bank or any Affiliate of the Bank; and

(l) Liens incurred in connection with the extension, renewal, refunding, refinancing, modification, amendment or restatement of Indebtedness secured by Liens of the type described in clauses (a), (c), (d) and (k) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase.

"PERSON" shall mean any natural person, corporation (which shall be deemed to include business trust), association, limited liability company, partnership, joint venture, political entity, or political subdivision thereof.

"PLAN" shall mean any plan (other than a Multiemployer Plan) defined in ERISA in which the Company or any Subsidiary is, or has been at any time during the preceding two (2) years, an "employer" or a "substantial employer" as such terms are defined in ERISA.

"PROCEEDS" means any "proceeds" (as defined in the UCC).

"RELATED EXPENSES" means any and all reasonable costs, liabilities, and expenses (including without limitation, losses, damages, penalties, claims, actions, reasonable attorney's fees, legal expenses, judgments, suits, and disbursements) incurred by, imposed upon, or asserted against, Bank in any attempt by Bank:

(a) to obtain, preserve, perfect, or enforce any security interest evidenced by (i) the Agreement, or (ii) any other pledge agreement, mortgage deed, deed of trust, hypothecation agreement, guaranty, security agreement, assignment, or security instrument executed or given by Company to or in favor of Bank;

(b) to obtain payment, performance, and observance of any and all of the Obligations;

(c) to maintain, insure, audit, collect, preserve, repossess, and dispose of any of the Collateral; or

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(d) incidental or related to subparts (a) through (c) above.

"REMITTANCES" shall have the meaning described in Section 4.1 of this Agreement.

"REPORTABLE EVENT" shall have the meaning assigned to that term in Section 4043 of ERISA for which the requirement of 30 days' notice to the PBGC has not been waived by the PBGC.

"SINGLE EMPLOYER PLAN" shall mean any Plan as defined in Section 4001(a)(15) of ERISA.

"SUBORDINATED DEBT" shall mean Indebtedness of a Person which is subordinated, in a manner satisfactory to the Bank, to the Obligations.

"SUBSIDIARY" shall mean any Person of which more than fifty percent (50%) of (i) the voting stock entitling the holders thereof to elect a majority of the Board of Directors, managers, or trustees thereof, or (ii) the interest in the capital or profits of such Person, which at the time is owned or controlled, directly or indirectly, by the Company or one or more other Subsidiaries.

"TANGIBLE NET WORTH" of the Company shall mean its net worth plus Subordinated Debt, MINUS intangible assets and any notes, Accounts Receivable or other obligations owed to the Company by any Affiliate or officer of the Company.

"TERM LOAN" shall mean any of the term loans described in Section 2.2 of this Agreement.

"TOTAL INDEBTEDNESS" of the Company shall mean the Company's aggregate Indebtedness (including any Indebtedness in respect of the Letter of Credit Loan) minus any Subordinated Debt of the Company.

"UCC" shall mean the Uniform Commercial Code in effect in the State of Colorado from time to time.

"UNUSED AMOUNT" shall mean the difference between (i) the Working Capital Line Credit Limit, and (ii) the aggregate amount of all outstanding Credit Loans under the Working Capital Line.

"UNUSED LINE RATE" shall mean: (i) during the period prior to the first Margin Adjustment Date, a rate of interest per annum equal to 37.5 basis points, and (ii) thereafter, a rate of interest per annum, to be redetermined on each Margin Adjustment Date, equal to the number of basis points indicated on the following table corresponding to the ratio of the Company's Indebtedness to its Tangible Net Worth:

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RATIO	UNUSED LINE RATE
<1.00 to 1.00	12.5 Basis Points
>=1.00 to 1.00 but <2.00 to 1.00	25.0 Basis Points
>=2.00 to 1.00 but <3.00 to 1.00	25.0 Basis Points
>=3.00 to 1.00	37.5 Basis Points

"WORKING CAPITAL LINE" shall mean the line of credit provided by the Bank pursuant to Section 2.1(b) hereof.

"WORKING CAPITAL LINE CREDIT LIMIT" shall mean \$6,000,000 less any permanent reductions to such amount resulting from (i) conversion of Credit Loans to Term Loans pursuant to Section 2.2 hereof and (ii) principal payments required to be made under Section 2.7(b) hereof.

"WORKING CAPITAL LINE MATURITY DATE" shall mean the last day of the second (2nd) Contract Year.

"WORKING CAPITAL NOTE" shall mean the promissory note of the Company in substantially the form of Exhibit B hereto, evidencing amounts advanced by the Bank pursuant to Section 2.1(b) hereof.

The foregoing definitions shall be applicable to the singulars and plurals of the foregoing defined terms. All accounting and financial terms used in this Section and in this Agreement and not otherwise defined shall be determined in accordance with GAAP consistently applied.

## ARTICLE II. CREDIT FACILITIES

### SECTION 2.1 AMOUNT AND TERMS OF THE CREDIT FACILITIES.

(a) ACQUISITION LINE. The Bank hereby agrees, subject to the terms and conditions of this Agreement, to make a Credit Loan or Credit Loans available to the Company from time to time on and after the date of this Agreement through and including the Acquisition Line Maturity Date, in an aggregate principal

amount not to exceed the lesser of (i) the Acquisition Line Credit Limit and (ii) that portion of the Borrowing Base which is utilized to support advances under the Acquisition Line (which amount shall not be greater than the difference between (i) the Borrowing Base, and (ii) the aggregate principal amount outstanding under the Working Capital Line). Until the Acquisition Line Maturity Date, the Company may borrow, repay, and reborrow such Credit Loan up to the maximum amount thereof, subject to the mandatory principal reductions set forth in Sections 2.7(a) and 2.8(b) hereof and sufficient Borrowing Base availability.

(b) WORKING CAPITAL LINE. The Bank hereby agrees, subject to the terms and conditions of this Agreement, to make a Credit Loan or Credit Loans available to the Company from time to time on and after the date of this Agreement through and including the Working Capital Line Maturity Date, in an aggregate principal amount not to exceed the lesser of (i) the Working Capital

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Line Credit Limit and (ii) that portion of the Borrowing Base which is utilized to support advances under the Working Capital Line (which amount shall not be greater than the difference between (i) the Borrowing Base, and (ii) the aggregate principal amount outstanding under the Acquisition Line). Until the Working Capital Line Maturity Date, the Company may borrow, repay, and reborrow such Credit Loan up to the maximum amount thereof, subject to the mandatory principal reductions set forth in Section 2.7(b) hereof and sufficient Borrowing Base availability.

#### SECTION 2.2 CONVERSION OF CREDIT LOANS.

(a) If no Event of Default shall have occurred and be continuing, the Company may elect to convert all or a portion of any Credit Loan made pursuant to Section 2.1(a) or 2.1(b) hereof to a Term Loan, whereupon the aggregate amount of Credit Loans available to be borrowed under the Acquisition Line and the Working Capital Line, as applicable, shall be permanently and automatically reduced. The Company shall make such election by written notice delivered to the Bank not less than fifteen (15) days prior to the effective date of the Term Loan, specifying the principal amount of the Term Loan and the initial interest rate applicable thereto (i.e. whether the Term Loan is to be a LIBOR Rate Loan or a Federal Funds Effective Rate Loan). Each Term Loan shall be in an amount of \$50,000.00 or an integral multiple thereof. The Company shall repay each Term Loan on a fully amortized basis over a period commencing on the date of each Term Loan and ending on a date not later than the Acquisition Line Maturity Date, in the case of Term Loans made pursuant to Section 2.1(a) hereof, or the Working Capital Line Maturity Date, in the case of Term Loans made pursuant to Section 2.1(b) hereof. The principal amount of each Term Loan shall be payable in consecutive and equal quarterly installments on the last day of each March, June, September and December (commencing with the first such date following the fixing of the Term Loan) until the maturity date of such Term Loan or the earlier acceleration of the maturity of the Term Loan in accordance with ARTICLE XI hereof, when any remaining principal balance shall be due and payable in full. Each principal installment shall be an amount equal to the remaining principal amount of such Term Loan divided by the number of remaining payments (including the payment to be made at maturity).

SECTION 2.3 LIBOR AND FEDERAL FUNDS EFFECTIVE RATE LOANS. Each Credit Loan or Term Loan shall be either a LIBOR Rate Loan or a Federal Funds Effective Rate Loan, subject to the following conditions:

(a) Each Loan that is made or continued as or converted into a LIBOR Rate Loan shall be made, continued, or converted on such Business Day, in such amount (equal to \$10,000 or an integral multiple thereto), and with such an Interest Period as the Company shall request by written notice given to the Bank no later than 11:00 a.m. (Denver, Colorado time) on the third Business Day prior to the date of disbursement or continuation of or conversion into the requested LIBOR Rate Loan. Each written notice of any LIBOR Rate Loan shall be irrevocable and binding on the Company and the Company shall indemnify the Bank against any loss or expense incurred by the Bank as a result of any failure by the Company to consummate such LIBOR Rate Loan, including, without limitation, any loss (including loss of anticipated profits) or expense incurred by reason of liquidation or reemployment of deposits or other funds acquired by the Bank to fund the LIBOR Rate Loan. A certificate as to the amount of such loss or expense submitted by the Bank to the Company

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shall be conclusive and binding for all purposes, absent manifest error. In the event that the Company fails to provide the Bank with the required written notice, the Company shall be deemed to have given a written notice that such LIBOR Rate Loan shall be converted to a Federal Funds Effective Rate Loan on the last day of the applicable Interest Period. In no event shall the Company be permitted to select a LIBOR Rate Loan having an Interest Period ending after the

maturity date of the credit facility under which such Loan is requested.

(b) Each Loan that is made as or converted into a Federal Funds Effective Rate Loan shall be made or converted on such Business Day and in such amount (equal to \$10,000 or any integral multiple thereof) as the Company shall request by written notice given to the Bank no later than 11:00 a.m. (Denver, Colorado time) on the date of disbursement of or conversion into the requested Federal Funds Effective Loan;

(c) Each LIBOR Rate Loan that is a Term Loan shall have an Interest Period of three (3) months.

SECTION 2.4 LOAN EVIDENCED BY NOTES. All Loans made under the Acquisition Line shall be evidenced by the Acquisition Note, and all Loans made under the Working Capital Line shall be evidenced by the Working Capital Note. The Notes shall be master notes, and the principal amount of all Loans outstanding under each Note shall be evidenced by such Note or any ledger or other record of the Bank, which shall be presumptive evidence of the principal owing and unpaid on such Note.

SECTION 2.5 INTEREST RATES. The Company shall pay interest on the unpaid principal amount of each Credit Loan and Term Loan made by the Bank from the date of such Credit Loan or Term Loan, as the case may be, until such principal amount shall be paid in full as follows:

(a) During such periods as any LIBOR Rate Loan comprising a Credit Loan or Term Loan is outstanding, at a rate per annum equal to the sum of the LIBOR Rate and the LIBOR Rate Margin (as described in subpart (b) below) in effect from time to time from and after each Margin Adjustment Date occurring, on or prior to the date of the making, the conversion or the continuation of such Loan, as the case may be, in accordance with this Agreement, and (ii) during such periods as any Federal Funds Effective Rate Loan comprising a Credit Loan or Term Loan is outstanding, at a rate per annum equal to all times to the sum of the Federal Funds Effective Rate plus two hundred (200) basis points.

(b) (i) Except as otherwise provided herein, the LIBOR Rate Margin in effect shall be adjusted as of the first day of each calendar quarter, beginning with January 1, 1999 (each a "Margin Adjustment Date"), in accordance with Section 2.5(b)(ii) below. The LIBOR Rate Margin in effect shall be applicable to new advances for Credit or Term Loans as of the date of such advances, and to a converted or continued Loan as of the date of conversion or continuation, occurring within the calendar quarter in which such LIBOR Rate Margin is in effect. With respect to any LIBOR Rate Loan for which the last day of the Interest Period is a date subsequent to the Margin Adjustment Date, such LIBOR Rate Margin shall not be applicable until the continuation date of such LIBOR Rate Loan, if applicable, subsequent to the Margin Adjustment Date.

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(ii) As of any Margin Adjustment Date, the LIBOR Rate Margin shall be adjusted to be the percentage indicated in the following table corresponding to the ratio of the Company's Indebtedness to its Tangible Net Worth, which shall be calculated from the quarterly balance sheet most recently provided by the Company to the Bank under Section 8.1(a) hereof:

RATIO	LIBOR RATE MARGIN
<1.00 to 1.00	100 Basis Points
>=1.00 to 1.00 but <2.00 to 1.00	125 Basis Points
>=2.00 to 1.00 but <3.00 to 1.00	150 Basis Points
>=3.00 to 1.00	200 Basis Points

(iii) Any such adjustment to the LIBOR Rate Margin shall only remain effective until the earlier of the next Margin Adjustment Date or the date on which an Event of Default shall occur. The LIBOR Rate Margin to be effective from such earlier date and from time to time thereafter shall be the LIBOR Rate Margin as adjusted pursuant to this Agreement, PROVIDED, HOWEVER, that: (i) if the Company shall not deliver its financial statements in accordance with Section 8.1 of this Agreement, the LIBOR Rate Margin shall be two hundred (200) basis points per annum and (ii) if an Event of Default shall occur which has not been waived in writing by the Bank, the interest rate shall be the interest rate applicable pursuant to subsection (c) below.

(c) Upon the occurrence of any Event of Default and so long as such Event of Default is continuing (excepting therefrom an Event of Default created by the Company's failure to deliver its financial statements in accordance with Section 8.1 of this Agreement), the unpaid principal amount of the Loan, and accrued interest thereon, or any fees or any other sum payable hereunder, shall thereafter until paid in full bear interest at a rate per annum equal to six hundred (600) basis points in excess of the Federal Funds Effective Rate in effect from time to time.

SECTION 2.6 INTEREST PAYMENTS. The Company shall pay to the Bank interest on the unpaid principal balance of each Federal Funds Effective Rate Loan on either (i) the date such Loan is converted to a LIBOR Rate Loan, or (ii) the last date of each March, June, September and December. The Company shall pay to the Bank interest on the unpaid principal balance of each LIBOR Rate Loan on (i) the date such Loan is converted to a Federal Funds Effective Rate Loan, or (ii) the last day of the applicable Interest Period of such Loan, whichever is earlier.

SECTION 2.7 PRINCIPAL PAYMENTS.

(a) Commencing September 30, 1999, and on the last day of each calendar quarter thereafter, the aggregate principal amount available under the Acquisition Line shall be permanently reduced by the amount of \$363,637.00, and the Company shall immediately pay to the Bank the amount, if any, by which the aggregate principal amount outstanding under the Acquisition Line exceeds such reduced commitment of the Bank at that time. If, after giving effect to any such

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payment any LIBOR Rate Loan would be prepaid prior to the end of its applicable Interest Period, the Company shall pay the Bank the breakage fee required under Section 2.11(c) hereof.

(b) The aggregate principal amount available under the Working Capital Line shall be permanently reduced by the amount of \$1,000,000 on the last day of the first Credit Year, and the Company shall immediately pay to the Bank the amount, if any, by which the aggregate principal amount outstanding under the Working Capital Line exceeds such reduced commitment of the Bank at that time. If, after giving effect to any such payment any LIBOR Rate Loan would be prepaid prior to the end of its applicable Interest Period, the Company shall pay the Bank the breakage fee required under Section 2.11(c) hereof.

(c) On the Acquisition Line Maturity Date, in the case of the Acquisition Line, and on the Working Capital Line Maturity Date, in the case of the Working Capital Line, all amounts outstanding under the Acquisition Line and the Working Capital Line, respectively, shall be immediately due and payable. If payment of the outstanding Loans at maturity causes any LIBOR Rate Loan to be prepaid prior to the end of its applicable Interest Period, the Company shall pay the Bank the breakage fee required under Section 2.11(c) hereof.

SECTION 2.8 PREPAYMENT.

(a) VOLUNTARY PREPAYMENT. The Company may prepay any Federal Funds Effective Rate Loan in whole, or in part, at any time or times. The Company may prepay any LIBOR Rate Loan, in whole or in part, only on the last day of the Interest Period applicable to such LIBOR Rate Loan upon not less than three (3) Business Days' prior written notice given to the Bank. Each prepayment of a Term Loan shall be applied to the principal installments in the inverse order of their respective maturities.

(b) MANDATORY PREPAYMENT. Without notice or demand, if the sum of the outstanding principal balance of Loans made under Sections 2.1(a) and 2.1(b) hereof shall at any time exceed the Borrowing Base, the Company shall immediately prepay the Loans to the extent necessary to eliminate such excess. Any payment received by the Lender under this Section 2.8(b) or under 2.8(a) may be applied to the Obligations, in such order and in such amounts as the Bank, in its discretion, may from time to time determine. If, after giving effect to any such payment any LIBOR Rate Loan would be prepaid prior to the end of its applicable Interest Period, the Company shall pay the Bank the breakage fee required under Section 2.11(c) hereof.

(c) FREE CASH FLOW RECAPTURE. Within ninety (90) days of the end of each fiscal year of the Company commencing with the Company's fiscal year ending on December 31, 1999, the Company shall make a principal payment in respect of the Acquisition Line in an amount equal to fifty percent (50%) of the Company's Free Cash Flow for such fiscal year, and the aggregate principal amount available under the Acquisition Line shall be permanently reduced in such amount. If, after giving effect to any such payment any LIBOR Rate Loan would be prepaid prior to the end of its applicable Interest Period, the Company shall pay the Bank the breakage fee required under Section 2.11(c) hereof.

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(d) PREPAYMENT UPON SIGNIFICANT SALE OF ASSETS. Without notice or demand, if the Company sells, leases, transfers or otherwise disposes of any plant or any manufacturing facility or other assets in any single transaction involving amounts exceeding \$250,000, the Company shall immediately prepay the Loans in the full amount of the consideration (whether cash or otherwise) received by the Company in respect of such sale. Such prepayment shall be applied to the

Acquisition Line or the Working Capital Line in such proportions as the Company shall direct, but such application shall not effect a permanent reduction to the applicable credit facility. If, after giving effect to any such prepayment, any LIBOR Rate Loan would be prepaid prior to the end of its applicable Interest Period, the Company shall pay the Bank the breakage fee required under Section 2.11(c) hereof.

SECTION 2.9 FEES. The Company shall pay to the Bank:

(a) A commitment fee of \$30,000 payable upon the execution of this Agreement;

(b) An annual administrative fee of \$5,000, payable on last day of each Credit Year and on the Acquisition Line Maturity Date;

(c) Prior to maturity (whether by acceleration or otherwise), for each payment of principal or interest not paid when due, a late fee equal to five percent (5.00%) of such payment, not to exceed \$100.00; and

(d) An unused line fee with respect to the Working Capital Line at the Unused Line Rate on the average daily Unused Amount of the Working Capital Line from the date of this Agreement to and including the Working Capital Line Maturity Date, due and payable quarterly in arrears on the last day of each calendar quarter and on the Working Capital Line Maturity Date.

SECTION 2.10 COMPUTATION OF INTEREST AND FEES. Interest on Loans and unpaid fees, if any, shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed.

SECTION 2.11 ADDITIONAL COSTS.

(a) If, due to either (i) the introduction of, or any change in, or in the interpretation of, any law or regulation, or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), there shall be any increase in the cost to the Bank of making, funding or maintaining LIBOR Rate Loans, then the Company shall from time to time, upon demand by the Bank pay to the Bank additional amounts sufficient to reimburse the Bank for any such additional costs. A certificate of the Bank submitted to the Company as to the amount of such additional costs, shall be conclusive and binding for all purposes, absent manifest error. Notwithstanding anything to the contrary contained in this Section 2.11(a), the Company shall not be obligated to indemnify or reimburse the Bank for any additional costs which arose or were incurred during, or is otherwise attributable to, any period of time more than 180 days prior to the date on which the Bank delivered its written certificate for indemnification or reimbursement for such additional costs and such costs shall be nondiscriminatory in nature and will apply without exception to all Bank clients of equal standing. Upon notice from the Company to the

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Bank within five (5) Business Days after the Bank notifies the Company of any such additional costs pursuant to this Section 2.11(a), the Company may either prepay in full all LIBOR Rate Loans so affected then outstanding, together with interest accrued thereon to the date of such prepayment, or (ii) convert such LIBOR Rate Loans so affected then outstanding into Federal Funds Effective Rate Loans upon not less than four (4) Business Days' notice to the Bank.

(b) If either (i) the introduction of, or any change in, or in the interpretation of, any law or regulation, or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), affects or would affect the amount of capital required or expected to be maintained by the Bank or any corporation controlling the Bank and the Bank determines that the amount of such capital is increased by or based upon the existence of the Loan (or commitment to make the Loan) and other extensions of credit (or commitments to extend credit) of similar type, then, upon demand by the Bank, the Company shall pay to the Bank from time to time as specified by the Bank additional amounts sufficient to compensate the Bank in the light of such circumstances, to the extent that the Bank reasonably determines such increase in capital to be allocable to the existence of the Bank's Loan (or commitment to make the Loan). A certificate of the Bank submitted to the Company as to such amounts shall be conclusive and binding for all purposes, absent manifest error. Notwithstanding anything to the contrary contained in this Section 2.11(b), the Company shall not be obligated to indemnify or reimburse the Bank for any such additional amounts which arose or were incurred during, or is otherwise attributable to, any period of time more than 180 days prior to the date on which the Bank delivered its written certificate for indemnification or reimbursement for such additional amounts and such amounts shall be nondiscriminatory in nature and will apply without exception to all Bank clients of equal standing. Upon notice from the Company to the Bank within five (5) Business Days after the Bank notifies the Company of any such additional costs pursuant to this Section 2.11(b), the Company may either (A) prepay in full the Loan if so affected, together with interest

accrued thereon to the date of such prepayment, or (B) convert the Loan if so affected into a Loan of any other type not so affected upon not less than four (4) Business Days' notice to the Bank.

(c) If any prepayment or conversion of any LIBOR Rate Loan (including any prepayment or conversion under this Section 2.11 or under Section 2.7 or subparts (b), (c) or (d) of Section 2.8) occurs on any day other than the last day of the applicable Interest Period for such Loan, the Company also shall pay to the Bank such additional amounts sufficient to indemnify the Bank against any loss, cost, or expense incurred by the Bank as a result of such prepayment or conversion, including, without limitation, any loss (including loss of anticipated profits), cost, or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by the Bank to fund any such Loan, and a certificate as to the amount of any such loss, cost, or expense submitted by the Bank to the Company shall be conclusive and binding for all purposes, absent manifest error.

SECTION 2.12 ILLEGALITY. Notwithstanding any other provision of this Agreement, if the introduction of or any change in or in the interpretation of any law or regulation shall make it unlawful, or any central bank or other governmental authority shall assert that it is unlawful, for the Bank to perform its obligations hereunder to make, continue, or convert LIBOR Rate Loans hereunder, then, (a) on notice thereof by the Bank to the Company, the obligation of the Bank to

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make or continue a LIBOR Rate Loan or to convert any Federal Funds Effective Rate Loan into a LIBOR Rate Loan shall terminate and the Bank shall thereafter be obligated to make only Federal Funds Effective Rate Loans whenever any written notice requests for any type LIBOR Rate Loan is received, and (b) upon demand therefor by the Bank to the Company, the Company shall either (i) forthwith prepay in full any LIBOR Rate Loan then outstanding, together with interest accrued thereon, or request that the Bank, upon four (4) Business Days' notice, convert any LIBOR Rate Loan then outstanding into a Federal Funds Effective Rate Loan. If any such prepayment or conversion of any LIBOR Rate Loan occurs on any day other than the last day of the applicable Interest Period for such Loan, the Company also shall pay to the Bank such additional amounts sufficient to indemnify the Bank against any loss, cost, or expense incurred by the Bank as a result of such prepayment or conversion, including, without limitation, any loss (including loss of anticipated profits), cost, or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by the Bank to fund any such Loan, and a certificate as to the amount of any such loss, cost, or expense submitted by the Bank to the Company shall be conclusive and binding, for all purposes, absent manifest error.

SECTION 2.13 INTEREST RATE SWAP CONTRACTS. The Company shall have the option at any time and from time to time to enter into one or more interest rate swap contracts with Key Capital Markets, Inc. on any portion of the Loans outstanding, on terms and conditions mutually agreeable to the Company and Key Capital Markets, Inc. Such interest rate swaps may be entered into for periods up to, but not extending beyond, the maturity date of the credit facility under which such Loans were made.

#### ARTICLE III. SECURITY AGREEMENT

SECTION 3.1 GRANT OF SECURITY INTEREST. To secure the prompt payment and performance of the Obligations, and in addition to any other collateral or Lien securing the Obligations, the Company hereby grants to the Bank a continuing security interest in and to a pledge of all of the tangible and intangible personal property and assets of the Company, whether now owned or existing or hereafter acquired or arising and wheresoever located including, without limitation (a) all Accounts Receivable, (b) all Inventory, (c) all Equipment, (d) all General Intangibles (excluding patents), (e) any and all deposits or other sums at any time credited by or due from the Bank to the Company, whether in the Cash Collateral Account, another Depository Account, or other account, (f) all Cash Security, (g) all Instruments, Documents, documents of title, policies and certificates of insurance, securities, Goods, choses in action, Chattel Paper, cash or other property, to the extent owned by the Company or in which the Company has an interest, (h) all personal property or assets owned by the Company which now or hereafter is at any time in the possession or control of the Bank or in transit by mail or carrier to or from the Bank or in the possession of any Person acting in the Bank's behalf, without regard to whether the Bank received the same in pledge, for safekeeping, as agent for collection or transmission or otherwise or whether the Bank had conditionally released the same, and any and all balances, sums, proceeds and credits of the Company with, and any claims of the Company against, the Bank, (i) all accessions to, substitutions for, and all replacements, products and Proceeds, profits and rents of the herein above-referenced property of the Company described in this Section including, but not limited to, proceeds of insurance policies insuring such property, (j) all books, records, and other property including, but not limited to, creditfiles,

programs, printouts, computer software (to the extent not disallowed by any agreement between the Company and third parties), programs, and disks, magnetic tape and other magnetic media, and other materials and records) of the Company pertaining to any such above-referenced property of the Company, (k) all real property, improvements, fixtures, appurtenances, leasehold interests and any other property of similar kind or character, and (l) all "investment property" (as defined in the UCC). Notwithstanding the foregoing, the Collateral shall not include that certain sublease (the "Sublease") dated July 22, 1996 between the Company and E.I. duPont de Nemours and Company ("DuPont") and those assets located on the property covered by the Sublease or those assets used directly or indirectly in connection with the services provided by the Company to DuPont under that certain Tolling/Services Agreement for Industrial Diamonds dated July 22, 1996, all of which assets are located at the Company's facility in Dunbar, Pennsylvania.

SECTION 3.2 GRANT OF LICENSE. The Company hereby grants to the Bank a fully-paid, royalty-free, worldwide right and license to, upon the occurrence of an Event of Default, (a) use, or sell or otherwise transfer, any and all of the Company's Inventory; (b) use or sell any such work-in-process, raw materials or completed or finished products, and (c) accept any and all orders or shipments of products ordered by the Company from manufacturers and use or sell any such products.

SECTION 3.3 PERFECTION. The Company shall execute such financing statements provided for by applicable law, and otherwise take such other action and execute such assignments or other instruments or documents, in each case as the Bank may reasonably request, to evidence, perfect, or record the Bank's security interest in the Collateral or to enable the Bank to exercise and enforce its rights and remedies under this Agreement with respect to any Collateral. The Company hereby authorizes the Bank to execute and file any such financing statement or continuation statement on the Company's behalf. The parties acknowledge that a carbon, photographic, or other reproduction of this Agreement shall be sufficient as a financing statement to the extent permitted by law.

SECTION 3.4 GENERAL REPRESENTATIONS AS TO COLLATERAL. The Company represents that the Schedule attached as Exhibit C hereto sets forth: (a) the principal place of business of the Company and the office where its chief executive offices and accounting offices are located, (b) the office where Company keeps its records concerning the Accounts Receivable and General Intangibles, (c) the location of the Company's registered office, (d) each location at which is located any Inventory, Equipment or other tangible Collateral of the Company, including, without limitation, the location of any warehouse, bailee or consignee at which Collateral is located, and (e) all trade names, assumed names, fictitious names and other names used by the Company during the five (5) years prior to the date hereof.

SECTION 3.5 TITLE TO COLLATERAL; LIENS; TRANSFERS. The Company has good, clear and merchantable title to and ownership of the Collateral, free and clear of all Liens, except for Permitted Liens. Except as otherwise provided herein or in any other Loan Document, and except as to Permitted Liens and sale of Inventory in the ordinary course of business, the Company shall not encumber, pledge, mortgage, grant a security interest in, assign, sell, lease or otherwise dispose of or transfer, whether by sale, merger, consolidation, liquidation, dissolution or otherwise, any of the Collateral.

SECTION 3.6 CHANGES AFFECTING PERFECTION. The Company shall not, without giving the Bank thirty (30) days prior notice thereof: (a) make any change in any location where Company's Equipment or material amounts of Company's Inventory is maintained or locate any of the Company's Equipment or material amounts of the Company's Inventory at any new locations, (b) make any change in the location of its chief executive office, principal place of business or the office where Company's records pertaining to its Accounts and General Intangibles are kept, (c) add any new places of business or close any of its existing places of business, (d) make any change in Company's name or adopt any trade names, assumed names or fictitious names or otherwise add any name under which the Company does business, or (e) make any other change (other than sales of Inventory in the ordinary course of business) which might affect the perfection or priority of the Bank's Lien in the Collateral.

SECTION 3.7 POWER OF ATTORNEY FOR INSURANCE. Upon request of the Bank, the Company shall promptly deliver to the Bank true copies of all reports made to insurance companies. The Company hereby irrevocably makes, constitutes, and appoints the Bank (and all officers, employees, or agents designated by the Bank) as its true and lawful attorney-in-fact and agent, with full power of substitution, such that the Bank shall have the right and authority, upon the occurrence and during the continuance of an Event of Default which has not been

waived in writing by the Bank as required by this Agreement, to make and adjust claims under such policies of insurance, receive and endorse the name of the Company on, any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and make all determinations and decisions with respect to such policies of insurance. The Company hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable. Without waiving or releasing any obligation, Potential Default or Event of Default by the Company under this Agreement, the Bank may (but shall not be required to) at any time or times thereafter maintain such action with respect thereto as the Bank deems advisable. All sums disbursed by the Bank in connection therewith (including, but not limited to, reasonable attorneys' and paralegals' fees and disbursements, court costs, expenses and other charges relating thereto) shall be payable on demand, and until paid by the Company to the Bank, with interest thereon at the then applicable Federal Funds Effective Rate plus six hundred (600) basis points, and shall be additional Obligations under this Agreement secured by the Collateral.

SECTION 3.8 PROTECTION OF COLLATERAL; REIMBURSEMENT. All insurance expenses and all expenses of protecting, storing, warehousing, insuring, handling, maintaining, and shipping any Collateral, any and all excise, property, sales, use, or other taxes imposed by any state, Federal, or local authority on any of the Collateral, or in respect of the sale thereof, or otherwise in respect of the Company's business operations which, if unpaid, could result in the imposition of any Lien upon the Collateral, shall be borne and paid by the Company. If the Company fails to promptly pay any portion thereof when due, except as may otherwise be permitted under this Agreement or under any of the other Loan Documents, the Bank, at its option, may, but shall not be required to, pay the same. All sums so paid or incurred by the Bank for any of the foregoing and any and all other sums for which the Company may become liable under this Agreement and all reasonable costs and expenses (including reasonable attorneys' fees and paralegals' fees, legal expenses, and court costs, expenses and other charges related thereto) which the Bank may incur in enforcing or protecting its Liens on

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or rights and interests in the Collateral or any of its rights or remedies under this Agreement or any other agreement between the parties to this Agreement or in respect of any of the transactions to be had under this Agreement shall be repayable within five (5) Business Days of demand and if not paid within said five (5) Business Day period, which amount shall also accrue interest, until paid by the Company to the Bank with interest thereon at a rate per annum equal to the Federal Funds Effective Rate plus six hundred (600) basis points, shall be additional Obligations under this Agreement secured by the Collateral. Unless otherwise provided by law, neither the Bank nor any Affiliate of the Bank shall be liable or responsible in any way for the safekeeping of any of the Collateral or for any loss or damage thereto or for any diminution in the value thereof, or for any act or default of any warehouseman, carrier, forwarding agency, or other Person whomsoever.

SECTION 3.9 INSPECTION; VERIFICATION. During regular business hours and with prior notice to the Company, the Bank (by any of its officers, employees, agents, representatives, or designees) shall have the right to inspect the Company's Collateral and to inspect and audit, all books, records, journals, orders, receipts, or other correspondence related thereto (and to make extracts or copies thereof as the Bank may desire) and to inspect the premises upon which any of the Collateral is located for the purpose of verifying the amount, quality, quantity, value, and condition of, or any other matter relating to, the Collateral, provided, however, that upon the occurrence and during the continuance of an Event of Default, the Bank may exercise such access and other rights at any time the Bank deems such action necessary or desirable. In addition to inspections as outlined above, the Bank or its designee shall have the right to make test verifications of the Accounts Receivable and other Collateral and physical verifications of the Inventory and other tangible items of the Collateral in any manner and through any commercially reasonable medium that the Bank considers advisable, and the Company agrees to furnish all such assistance and information as the Bank may require in connection therewith. The Company shall pay the costs for each of one such inspection and one such verification in each 12-month period; PROVIDED, HOWEVER that if an Event of Default has occurred and is continuing, the Company shall pay the costs of all such inspections and verifications.

SECTION 3.10 ASSIGNMENTS, RECORDS AND SCHEDULES OF ACCOUNTS. On or before the thirtieth (30th) calendar day of each month from and after the date of this Agreement, the Company shall deliver to the Bank, in form and substance acceptable to the Bank, a summary aged trial balance of the Company's Accounts Receivables dated as of the last day of the preceding month (and upon the Bank's request, a detailed aged trial balance, of all then existing Accounts Receivable specifying the names, face value and dates of invoices for each Account Debtor obligated on an Account Receivable so listed). In addition, upon the Bank's request, the Company shall furnish the Bank with copies of proof of delivery and the original copy, if available, of all documents relating to the Accounts

Receivable including, but not limited to, repayment histories and present status reports, and such other matters and information relating to the status of then existing Accounts Receivable as the Bank shall reasonably request. If, upon the occurrence of an Event of Default, the Bank so requests, the Company shall execute and deliver to the Bank, on forms supplied by the Bank and at such intervals as the Bank may from time to time require, written assignments of all of its Accounts after shipment of the subject goods, together with copies of invoices and/or invoice registers related thereto.

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SECTION 3.11 REPORTING REGARDING INVENTORY. The Company shall report inventory figures no later than thirty (30) days after the end of each month based upon month-end balances reconciled to the period end balance sheet. The Company's Inventory shall be reported based upon reconciliation of the financial statements to the perpetual inventory system or a regular physical count as the case may be, and: (a) the values shown on reports of Inventory shall be at the lower of cost or market value determined in accordance with the Company's usual cost accounting system, consistently applied, and (b) no later than thirty (30) days after the end of each month, or more frequently, if the Bank shall so request, the Company shall submit to the Bank an inventory report, the Company's perpetual inventory records and its general ledger, broken down into such detail and with such categories as the Bank shall require.

SECTION 3.12 OTHER COLLATERAL REPORTS. The Company shall furnish the Bank with, on or before the thirtieth (30th) day of each month from and after the date of this Agreement, a report listing the schedule of backlog of orders being processed by the Company, and such other reports regarding other Collateral as the Bank from time to time reasonably may request.

#### ARTICLE IV. COLLECTION OF ACCOUNTS AND LOCKBOX

##### SECTION 4.1 LOCKBOX; RECEIPT IN TRUST.

(a) MAINTENANCE OF LOCKBOX. The Company has rented and shall continue to rent the post office boxes in the name of the Company (the "Lockboxes") as and having the addresses set forth in the Schedule attached as Exhibit C hereto, and such other Lockboxes and addresses as the Bank upon request of the Company may approve from time to time. The Company shall notify all of its customers and Account Debtors to forward all Collections of every kind due the Company to one of the Lockboxes (such notices to be in such form and substance as the Bank may require from time to time). The Company shall establish and, unless otherwise directed by the Bank, maintain blocked accounts ("Blocked Accounts") with such other banks as are acceptable to the Bank, as set forth in each case in the Schedule attached as Exhibit C hereto (collectively, the "Lockbox Banks"). Each Lockbox Bank and the Company shall have entered into a Lockbox Agreement with respect to the Lockboxes controlled by such Lockbox Bank and with the Bank with respect to the Blocked Account maintained as such Lockbox Bank, each such Lockbox Agreement in form and substance satisfactory to the Bank. All collections from Account Debtors ("Collections") sent directly to the Lockboxes shall be deposited into the Blocked Account in accordance with the terms of the applicable Lockbox Agreement. The Company will promptly deposit all remittances from Account Debtors submitted to the Company ("Remittances"), in the identical form in which such Remittances were made (except for any necessary endorsements), whether by cash or check, into the applicable Blocked Account or the Cash Collateral Account established pursuant to Section 4.2 below. Only the Lockbox Banks, and to the extent not inconsistent with the applicable Lockbox Agreement, the Bank, shall have at all times sole access to the Lockboxes. The Company shall take all action necessary to grant the Lockbox Banks and, to the extent not inconsistent with the applicable Lockbox Agreements, the Bank such sole access. At no time shall the Company remove any item from any Lockbox without the Bank's prior written consent. The Company shall notify all customers or Account Debtors to pay all Collections to the Lockboxes and all payees to pay all Remittances to the Lockboxes, the Blocked Accounts or such Cash Collateral Account. The Company shall not instruct any Account Debtor or

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payee to pay any Collection or Remittance to any other place or address without the Bank's prior written consent. If the Company neglects or refuses to notify any customer or Account Debtor to pay any Collection to the applicable Lockbox, the Bank shall be entitled to make such notification. To the extent not inconsistent with the applicable Lockbox Agreement, the Company hereby grants to the Bank an irrevocable power of attorney, coupled with an interest, to take in the Company's name all action necessary to: (i) grant the Bank sole access to the Lockbox, (ii) after the occurrence and during the continuance of an Event of Default, contact Account Debtors to pay any Collections to the Lockbox or for any other reason, and (iii) endorse each Collection or Remittance delivered to the Lockbox for deposit to the Cash Collateral Account.

(b) RECEIPT IN TRUST. Any Collections or Remittances received directly by

the Company shall be deemed held by the Company in trust and as fiduciary for the Bank. The Company immediately shall deposit any such Collection or Remittance, in its original form, into one of the Blocked Accounts or into the Cash Collateral Account. Pending such deposit, the Company agrees that it will not commingle any such Collection or Remittance with any of the Company's other funds or property, but will hold it separate and apart therefrom in trust and as fiduciary for the Bank until deposit is made into a Blocked Account or the Cash Collateral Account.

SECTION 4.2 CASH COLLATERAL ACCOUNT. Each Lockbox Bank shall acknowledge and agree, in a manner satisfactory to the Bank, that: (i) all Collections and Remittances deposited in the Blocked Accounts are the sole and exclusive property of the Bank, and (ii) such Lockbox Bank shall have no right to setoff (except as the Bank may expressly agree upon in writing) against the Blocked Accounts. In accordance with the terms of the applicable Lockbox Agreements, each Lockbox Bank will wire, or otherwise transfer immediately available funds in a manner satisfactory to the Bank, all Collections and Remittances deposited into the Blocked Accounts to the Cash Collateral Account on a daily basis as soon as good funds in respect to such Collection and Remittances are collected. All funds in the Cash Collateral Account shall be deemed to be the property of the Bank and shall be subject only to the signing authority designated from time to time by the Bank. The Company shall have no control over such funds. The Bank shall have sole access to the Cash Collateral Account, and the Company shall have no access thereto. The Company hereby grants to the Bank a security interest in all funds held in any Lockbox and, to the extent funds in the Cash Collateral Account were to be construed to be the property of the Company, all funds held in the Cash Collateral Account as security for the Obligations. The Cash Collateral Account shall not be subject to any deduction, set-off, banker's lien or any other right in favor of any person or entity other than the Bank. Prior to the occurrence of an Event of Default which is continuing, deposits to the Cash Collateral Account shall be: (i) applied immediately against the principal and/or interest of the Loans and/or other Obligations all in such order and method of application as may be elected by the Bank in its sole discretion; PROVIDED, HOWEVER, that the Bank will use reasonable efforts to avoid applications that would cause early prepayment of a LIBOR Rate Loan prior to the expiration of its applicable Interest Period, or (ii) to the extent not so applied by the Bank, release to the Company for use in the Company's business.

SECTION 4.3 CREDITING OF COLLECTIONS AND REMITTANCES. For the purpose of calculating interest and determining the aggregate Loans outstanding and resulting loan availability hereunder, all Collections and Remittances shall be credited to the Company on the Business Day or on the next

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Business Day after which the Bank receives notice of the deposit of the proceeds of such Collections and Remittances into the Cash Collateral Account, and is in good funds with respect thereto, prior to 2:00 p.m. (Denver, Colorado time). From time to time, upon advance written notice to the Company, the Bank may adopt such additional or modified regulations and procedures as it may deem reasonable and appropriate with respect to the operation of the Cash Collateral Account and the services to be provided by the Bank under this Agreement.

SECTION 4.4 COST OF COLLECTION. All reasonable costs of collection of the Company's Accounts Receivable, including out-of-pocket expenses, administrative and record-keeping costs, reasonable attorney's fees, and all service charges and costs related to the establishment and maintenance of the Cash Collateral Account, shall be the sole responsibility of the Company, whether the same are incurred by the Bank or the Company, and the Bank, in its sole discretion, may charge the same against the Company and/or any account maintained by the Company with the Bank and the same shall be deemed part of the Obligations hereunder. The Company hereby indemnifies and holds the Bank harmless from and against any loss or damage with respect to any Collection or Remittance deposited in the Cash Collateral Account which is dishonored or returned for any reason. If any Collection or Remittance deposited in the Cash Collateral Account is dishonored or returned unpaid for any reason, the Bank, in its sole discretion, may charge the amount of such dishonored or returned Collection or Remittance directly against the Company and/or any account maintained by the Company with the Bank and such amount shall be deemed part of the Obligations hereunder. The Bank shall not be liable for any loss or damage resulting from any error, omission, failure or negligence on the part of the Bank under this Agreement, except losses or damages resulting from the Bank's gross negligence or willful misconduct as determined by a final judgment of a court of competent jurisdiction.

SECTION 4.5 RETURN OF FUNDS. Upon the payment in full of all Obligations: (a) the Bank's security interests and other rights in funds in the Cash Collateral Account under Section 4.2 of this Agreement shall terminate, (b) all rights to such funds shall revert to the Company, and (c) the Bank will, at the Company's expense, take such steps as the Company may reasonably request to evidence the termination of such security interests and to effect the return to the Company of such funds.

SECTION 4.6 NOTICE TO ACCOUNT DEBTORS. The Company hereby authorizes the Bank, upon the occurrence and during the continuance of an Event of Default, in accordance with the powers conferred upon the Bank pursuant to any applicable provision of this Agreement, to: (a) notify any or all Account Debtors that the Accounts Receivable have been assigned to the Bank, for the benefit of the Bank, and that the Bank has a security interest therein, and (b) direct such Account Debtors to make all payments due from them to the Company upon the Accounts Receivable directly to the Bank or to a Lockbox designed by the Bank; provided, however, that the Bank shall not exercise any of its rights under this sentence unless: (i) the Company has failed to so notify or direct any such Account Debtor following a request from the Bank to the Company for such notification or direction, or (ii) the Bank reasonably believes that the Company has failed to so notify or direct any such Account Debtor. The Bank shall promptly furnish the Company with a copy of any such notice sent. Any such notice, in the Bank's sole discretion, may be sent on the Company's stationery, in which event the Company shall co-sign such notice with the Bank.

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SECTION 4.7 APPOINTMENT OF ATTORNEY-IN-FACT. The Company hereby irrevocably appoints the Bank (and all persons designated by the Bank) as the Company's true and lawful attorney (and agent-in-fact) authorized, upon the occurrence and during the continuance of an Event of Default in the Company's or the Bank's name, to (i) demand payment of the Accounts Receivable, (ii) enforce payment of the Accounts Receivable, by legal proceedings or otherwise, (iii) exercise all of the Company's rights and remedies with respect to the collection of the Accounts and any other Collateral, (iv) settle, adjust, compromise, extend, or renew the Accounts Receivable, (v) settle, adjust, or compromise any legal proceedings brought to collect the Accounts Receivable, (vi) if permitted by applicable law, sell or assign the Accounts Receivable and other Collateral upon such terms, for such amounts, and at such time or times as the Bank deems advisable, (vii) discharge and release the Accounts Receivable and any other Collateral, (viii) take control, in any manner, of any item of payment or proceeds relating to any Collateral, (ix) prepare, file, and sign the Company's name on a proof of claim in bankruptcy or similar document against any Account Debtor, (x) prepare, file, and sign the Company's name on any notice of Lien, assignment, or satisfaction of Lien or similar document in connection with the Accounts Receivable, (xi) do all acts and things necessary, in the Bank's discretion, to fulfill the Company's obligations under this Agreement, (xii) endorse the name of the Company upon any of the items of payment or proceeds relating to any Collateral and deposit the same to the account of the Bank on account of the Obligations, (xiii) endorse the name of the Company upon any Chattel Paper, document, Instrument, invoice, freight bill, bill of lading, or similar document or agreement relating to the Accounts Receivable, Inventory and any other Collateral, (xiv) use the Company's stationery and sign the name of the Company to verifications of the Accounts Receivable and notices thereof to Account Debtors, (xv) use the information recorded on or contained in any data processing equipment and computer hardware and software relating to the Accounts Receivable, Inventory, and any other Collateral to which the Company has access, and (xvi) notify post office authorities to change the address for delivery of the Company's mail to an address designated by the Bank, receive and open all mail addressed to the Company, and, after removing all Collections and Remittances and other Proceeds of Collateral, forward the mail to the Company. The Company hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

ARTICLE V. SPECIFIC REPRESENTATIONS, WARRANTIES  
AND COVENANTS RELATING TO COLLATERAL

SECTION 5.1 DISPUTES AND CLAIMS REGARDING ACCOUNTS. The Company shall notify the Bank promptly of all material disputes and claims and settle or adjust them at no expense to the Bank, but no material discount, credit or allowance outside the ordinary course of business or material adverse extension, compromise or settlement shall be granted to any customer or Account Debtor in respect of an Account Receivable and no returns of merchandise outside the ordinary course of business shall be accepted by the Company in settlement or satisfaction of an Account Receivable which settlement or satisfaction would have a Material Adverse Effect, without the Bank's consent which consent shall not be unreasonably withheld.

SECTION 5.2 DEPOSIT ACCOUNTS. Other than: (a) the Blocked Accounts and the Cash Collateral Account, and (b) those other Deposit Accounts disclosed on the Schedule on Exhibit C

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hereto and consented to by the Bank, neither the Company nor any of its Subsidiaries maintains a Deposit Account or trust account for the purpose of collecting and depositing Collections and/or Remittances or otherwise holding

monies of the Company.

SECTION 5.3 COMPLIANCE WITH TERMS OF ACCOUNTS; GENERAL INTANGIBLES. The Company will perform and comply in all material respects with all obligations in respect of Accounts Receivable, Chattel Paper, General Intangibles and under all other contracts and agreements to which it is a party or by which it is bound relating to the Collateral where failure to so comply would result in any material impairment in the value of the Collateral, unless the validity thereof is being contested in good faith by appropriate proceedings and such proceedings do not involve the material danger of the sale, forfeiture or loss of the Collateral which is the subject of such proceedings or the priority of the lien in favor of the Bank thereon.

SECTION 5.4 NO WAIVERS, EXTENSIONS, AMENDMENTS. The Company will not, without the Bank's prior written consent, which consent shall not be unreasonably withheld or delayed, grant any extension of the time of payment of any of the Accounts, Chattel Paper or Instruments, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any person liable for the payment thereof, or allow any credit or discount whatsoever thereon, other than in the ordinary course of business.

SECTION 5.5 LOCATION OF COLLATERAL. All of the locations of the Company and its Subsidiaries and all locations of the Collateral are set forth in the Schedule attached hereto as Exhibit C. Other than as otherwise set forth in the Schedule on Exhibit C hereto, as amended or supplemented by written notice to the Bank: (a) the Company does not keep, and shall not keep, any Collateral owned by it on any property not owned in fee simple by the Company, and (b) each of the Subsidiaries of the Company does not keep, and shall not keep, any Collateral owned by it on any property not owned in fee simple by the Company except to the extent permitted by this Agreement.

SECTION 5.6 LIEN PRIORITY. From and after the date of this Agreement, by reason of the filing of financing statements and termination statements in all requisite government offices, this Agreement and the Loan Documents will create and constitute a valid and perfected first priority security interest (except as permitted by this Agreement and subject to Permitted Liens) in and Lien on that portion of the Collateral which can be perfected by such filing or delivery, which security interest will be enforceable against the Company and all third parties as security for payment of all Obligations.

SECTION 5.7 LIEN WAIVERS; LANDLORD, BAILEE AND CONSIGNEE WAIVERS, WAREHOUSE RECEIPTS. The Company will not create, permit or suffer to exist and will defend the Collateral against and take such other action as is necessary to remove, any Lien, claim or right, in or to the Collateral, other than the Permitted Liens. The Company shall defend the right, title and interest of the Bank in and to any of the Company's rights to the Collateral and in and to the Proceeds and products thereof against the claims and demands of all Persons. In the event any Collateral of the Company comprising personal property subject to the security interest or Lien in favor of the Bank is at any time located on any real property not owned by the Company, the Company will obtain and maintain in effect at all times while any such Collateral is so located valid and effective lien waivers,

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in form and substance reasonably satisfactory to the Bank whereby each owner, landlord, consignee, bailee and mortgagee having an interest in such real property shall disclaim any interest in such Collateral, as the case may be, and shall agree to allow the Bank reasonable access to such real property in connection with any enforcement of the security interest granted hereunder.

SECTION 5.8 MAINTENANCE OF INSURANCE. The Company will maintain with financially sound and reputable companies, insurance policies: (a) insuring the real property portion of the Collateral, the Equipment, the Inventory, and all equipment subject to any lease, against loss by fire, explosion, theft, flood (if any such properties are located in a federally designated flood hazard area) and such other casualties as are usually insured against by companies engaged in the same or similar businesses, and (b) insuring the Company and the Bank against liability for personal injury and property damage relating to such real property, Equipment, Inventory and equipment covered by any equipment lease, such policies to be in such form and in such amounts and coverage as may be reasonably satisfactory to the Bank, with losses payable to the Company and the Bank as their respective interests may appear. All insurance with respect to the real property, Equipment and Inventory shall: (i) provide that no cancellation, reduction in amount, change in coverage or expiration thereof, shall be effective until at least thirty (30) days after written notice to the Bank thereof. and (ii) be satisfactory in all respects to the Bank.

SECTION 5.9 MAINTENANCE OF EQUIPMENT. The Company will keep and maintain each item of Equipment necessary for the operation of the Company's business in good operating condition, ordinary wear and tear excepted, and the Company will provide all maintenance and service, and all repairs necessary for such purpose.

SECTION 5.10 LIMITATIONS ON DISPOSITIONS OF INVENTORY AND EQUIPMENT. The Company will not sell, transfer, lease or otherwise dispose of any of the Inventory or Equipment, or attempt, offer or contract to do so, except for (a) dispositions of Inventory in the ordinary course of business, and (b) so long as no Event of Default has occurred, the disposition of obsolete or worn out Equipment in the ordinary course of business and other dispositions of Equipment permitted by this Agreement.

SECTION 5.11 GENERAL APPOINTMENT AS ATTORNEY-IN-FACT. The Company hereby irrevocably constitutes and appoints the Bank and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Company and in the name of the Company or in its own name, from time to time following the occurrence of an Event of Default and for such time as such Event of Default is continuing, in the Bank's reasonable discretion, for the purpose of carrying out the terms of this Agreement, without notice (except as specifically provided herein) to or assent by the Company, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to effect the terms of this Agreement, including, without limiting the generality of the foregoing, the power and right, on behalf of the Company, to do the following, upon notice to the Company: (a) to pay or discharge taxes, liens, security interests or other encumbrances levied or placed on or threatened against the Collateral, to effect any repairs or any insurance, called for by the terms of this Agreement and to pay all or any part of the premiums therefor and the costs thereof, and otherwise to itself perform or comply with, or otherwise cause performance or

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compliance with, any of the covenants or other agreements of the Company contained in this Agreement which the Company has failed to perform or with which the Company has not complied, (b) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of component jurisdiction to collect the Collateral or any thereof and to enforce any other right in respect of any Collateral; (c) to defend any suit, action or proceeding brought against the Company with respect to any Collateral; (d) to settle, compromise or adjust any suit, action or proceeding described above and, in connection therewith, to give such discharges or releases as the Bank may deem appropriate; (e) to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Bank were the absolute owner thereof for all purposes; and (f) to do, at the Bank's option and the Company's expense, at any time, or from time to time, all acts and things which the Bank deems necessary, to protect, preserve or realize upon the Collateral and the Bank's security interest therein, in order to effect the intent of this Agreement, all as fully and effectively as the Company might do. This power of attorney is a power coupled with an interest and shall be irrevocable.

SECTION 5.12 BANK NOT LIABLE. The powers conferred on the Bank hereunder are solely to protect its interests in the Collateral and shall not impose any duty upon it to exercise any such powers. The Bank shall be accountable only for amounts that it actually receives as a result of the exercise of such powers and neither it nor any of its officers, directors, employees or agents shall be responsible to the Company for any act or failure to act, except for its own gross negligence or willful misconduct.

SECTION 5.13 AUTHORITY TO EXECUTE TRANSFERS. Without limitation of any authorization granted to the Bank hereunder, the Company also hereby authorizes the Bank, upon the occurrence of an Event of Default, to execute, in connection with the exercise by the Bank of its remedies hereunder, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

SECTION 5.14 PERFORMANCE BY BANK OF THE COMPANY'S OBLIGATIONS. If the Company fails to perform or comply with any of its agreements contained herein and the Bank shall itself perform or comply, or otherwise cause performance or compliance with, such agreement, the expenses of the Bank incurred in connection with such performance or compliance together with, interest thereon at the interest rate provided for in Section 2.5(c) hereof in effect from time to time, shall be payable by the Company to the Bank within five (5) Business Days following demand.

#### ARTICLE VI. GENERAL REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Bank (which representations and warranties will survive the delivery of the Notes and all extensions of credit under this Agreement) that:

##### SECTION 6.1 ORGANIZATION; CORPORATE POWER.

(a) The Company is a corporation duly organized, validly existing, and in good standing under the laws of the jurisdiction in which it is incorporated;

(b) The Company has the corporate power and authority to own its properties and assets and to carry on its business as now being conducted,

(c) The Company is qualified to do business in every jurisdiction in which the ownership or leasing of its property or the doing of business requires such qualification and the failure of such qualification would have a Material Adverse Effect: and

(d) The Company has the corporate power to execute, deliver, and perform its obligations under the Loan Documents and to borrow hereunder.

SECTION 6.2 AUTHORIZATION OF LOAN. The execution, delivery, and performance of the Loan Documents and the Loans by Company have been duly authorized by all requisite corporate action.

SECTION 6.3 NO CONFLICT. The execution, delivery, and performance of the Loan Documents will not (a) violate any provision of any law, rule or regulation, the Articles of Incorporation of Company, or By-Laws of Company, (b) violate any order of any court or other agency of any federal or state government or any provision of any material indenture, agreement, or other instrument to which Company is a party or by which it or any of its properties or assets are bound, (c) conflict with, result in a breach of, or constitute (with passage of time or delivery of notice, or both), a default under any such material indenture, agreement, or other instrument, or (d) result in the creation or imposition of any Lien, other than a Permitted Lien, or other encumbrance of any nature whatsoever upon any of the properties or assets of the Company except in favor of the Bank.

SECTION 6.4 EXECUTION OF LOAN DOCUMENTS. The Loan Documents have been duly executed and are valid and binding obligations of the Company fully enforceable in accordance with their respective terms.

SECTION 6.5 FINANCIAL CONDITION. The following information with respect to the Company has heretofore been furnished to the Bank:

(a) Audited annual financial statements of the Company for the periods ended December 31, 1996 and December 31, 1997;

(b) Unaudited, internally prepared financial statements of the Company for the ten-month period ending October 31, 1998; and

(c) Pro forma financial statements of the Company as of December 1, 1998, including a consolidated opening balance sheet and a consolidated statement of profit and loss of the Company, which pro forma financial statements reflect the Company's purchase of the Precision Machined Products assets and the liabilities incurred by the Company related to such purchase.

Each of the financial statements referred to above in this Section 6.5 was prepared in accordance with GAAP (subject in the case of interim statements, to the absence of footnotes and

normal year-end adjustments) applied on a consistent basis, except as stated therein. Each of the financial statements referred to above in this Section 6.5 fairly presents the financial condition or pro forma financial condition, as the case may be, of the Company and is complete and correct in all material respects and no Material Adverse Effect has occurred since the date thereof.

SECTION 6.6 LIABILITIES; LIENS. The Company has made no investment in, advance to, or guarantee of, the obligations of any Person nor are the Company's assets and properties subject to any claims, liabilities, Liens, or other encumbrances, except as disclosed in the financial statements and related notes thereto referred to in Section 6.5 hereof.

SECTION 6.7 LITIGATION. There is no action, suit, examination, review, or proceeding by or before any governmental instrumentality or agency now pending (including any claims alleging infringement of intellectual property rights of others) or, to the knowledge of the Company, threatened against the Company or against any property or rights of the Company, which, if adversely determined, would materially impair the right of the Company to carry on its business as now being conducted, would materially adversely affect the financial condition of the Company, or would draw into question the legal existence of the Company or the validity authorization or enforceability of any of the Loan Documents, except for the litigation, if any, described in the notes to the financial statements referred to in Section 6.5 hereof.

SECTION 6.8 PAYMENT OF TAXES. The Company has accurately prepared and timely filed, or caused to be filed, all Federal, state, local, and foreign tax

returns required to be filed, and has paid, or caused to be paid, all taxes as are shown on such returns, or on any assessment received by the Company, to the extent that such taxes become due, except as otherwise contested in good faith. The Company has set aside proper amounts on its books, determined in accordance with GAAP, for the payment of all taxes for the years that have not been audited by the respective tax authorities or for taxes being contested by the Company.

SECTION 6.9 ABSENCE OF ADVERSE AGREEMENTS. The Company is not a party to any indenture, loan or credit agreement or any lease or other agreement or instrument or subject to any corporate or partnership restriction which would be reasonably likely to have a Material Adverse Effect.

SECTION 6.10 REGULATORY STATUS. Neither the making nor the performance of this Agreement, nor any extension of credit hereunder, requires the consent or approval of any governmental instrumentality or political subdivision thereof, any other regulatory or administrative agency, or any court of competent jurisdiction.

SECTION 6.11 FEDERAL RESERVE REGULATIONS: USE OF LOAN PROCEEDS. The Company is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any Margin Stock. No part of the proceeds of the Loans will be used, directly or indirectly, for a purpose which violates any law, rule or regulation of any governmental body, including without limitation the provisions of Regulations G, U, or X of the Board of Governors of the Federal Reserve System, as amended. No part of the proceeds of the

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Loans will be used, directly or indirectly, to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock.

SECTION 6.12 SUBSIDIARIES. The Company has no Subsidiaries.

SECTION 6.13 ERISA. The Company and any Commonly Controlled Entity do not maintain or contribute to any Plan which is not in substantial compliance with ERISA. Neither the Company nor any Commonly Controlled Entity maintains, contributes to, or is required to make or accrue a contribution or has within any of the six preceding years maintained, contributed to or been required to make or accrue a contribution to any Plan subject to regulation under Title IV of ERISA, any Plan that is subject to the minimum funding requirements of Section 412 of the Code or Section 302 of ERISA, or any Multiemployer Plan.

SECTION 6.14 SOLVENCY. The Company has received consideration which is the reasonable equivalent value of the obligations and liabilities that the Company has incurred to the Bank. The Company is not insolvent as defined in any applicable state or federal statute, nor will the Company be rendered insolvent by the execution and delivery of this Agreement or the Notes. The Company is not engaged or about to engage in any business or transaction for which the assets retained by it shall be an unreasonably small capital, taking into consideration the obligations to Bank incurred hereunder. The Company does not intend to, nor does it believe that it will, incur debts beyond its ability to pay them as they mature.

SECTION 6.15 SCHEDULE ON EXHIBIT C. The Schedule on Exhibit C accurately and completely lists the location of all real property owned or leased by the Company. The Company enjoys quiet possession under all material leases of real property to which it is a party as a lessee, and all of such leases are valid, subsisting and, in full force and effect. Except as specified in the Schedule in Exhibit C hereto, none of the real property occupied by the Company is located within any federal, state or municipal flood plain zone. Except as set forth in the Schedule in Exhibit C, all of the material properties used in the conduct of the Company's business (i) are in good repair, working order and condition (reasonable wear and tear excepted) and reasonably suitable for use in the operation of the Company's business; and (ii) are currently operated and maintained, in all material respects, in accordance with the requirements of applicable governmental authorities.

SECTION 6.16 ACCURACY OF REPRESENTATIONS AND WARRANTIES. None of the Company's representations or warranties set forth in this Agreement or in any document or certificate furnished pursuant to this Agreement or in connection with the transactions contemplated hereby contains any untrue statement of a material fact or omits to state a material fact necessary to make any statement of fact contained herein or therein, in light of the circumstances under which it was made not misleading.

SECTION 6.17 NO INVESTMENT COMPANY. The Company is not an "investment company" or a Company "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended, which is required to register thereunder.

SECTION 6.18 APPROVALS. Except as set forth in the Schedule in Exhibit C hereto, all approvals required of the Company from all Persons including without limitation all governmental authorities with respect to the Loan Documents have been obtained.

SECTION 6.19 LICENSES, REGISTRATIONS, COMPLIANCE WITH LAWS, ETC. The Schedule in Exhibit C hereto accurately and completely describes all permits, governmental licenses, registrations and approvals, material to carrying out of the Company's businesses as presently conducted and required by law or the rules and regulations of any federal, foreign governmental, state, county or local association, corporation or governmental agency, body, instrumentality or commission having jurisdiction over the Company, including but not limited to the United States Environmental Protection Agency, the United States Department of Labor, the United States Occupational Safety and Health Administration, the United States Equal Employment Opportunity Commission, the Federal Trade Commission and the United States Department of Justice and analogous and related state and foreign agencies. All existing material authorizations, licenses and permits are in full force and effect, are duly issued in the name of, or validly assigned to the Company and the Company has full power and authority to operate thereunder. There is no material violation or material failure of compliance or, to the Company's knowledge, allegation of such violation or failure of compliance on the part of the Company with any of the foregoing permits, licenses, registrations, approvals, rules or regulations and there is no action, proceeding or investigation pending or to the knowledge of the Company threatened nor has the Company received any notice of such which might result in the termination or suspension of any such permit, license, registration or approval which in any case could have a Material Adverse Effect.

SECTION 6.20 COPYRIGHT. The Company has not violated any of the provisions of the Copyright Revision Act of 1976, 17 U.S.C. ss. 101, ET SEQ. Except as set forth on the Schedule on Exhibit C hereto, the Company has not filed any registration statements, notices and statements of account with the United States Copyright Office. The Schedule on Exhibit C hereto accurately and completely sets forth all registered copyrights held by the Company and contains exceptions to the representations contained in this Section 6.20. To the Company's knowledge no inquiries regarding any such filings have been received by the Copyright Office.

SECTION 6.21 ENVIRONMENTAL COMPLIANCE. Except as expressly set forth in the Schedule on Exhibit C hereto, neither the Company, nor, to the knowledge of management of the Company, any other Person has:

(a) ever caused, permitted, or suffered to exist any Hazardous Material to be spilled, placed, held, located or disposed of on, under, or about, any of the premises owned or leased by the Company (the "Premises"), or from the Premises into the atmosphere, any body of water, any wetlands, or on any other real property, nor does any Hazardous Material exist on, under or about the Premises, or in respect of Hazardous Material used or disposed of in compliance with law;

(b) ever used (whether by the Company or by any other Person) as a treatment, storage or disposal (whether permanent or temporary) site for any Hazardous Waste as defined in 42 U.S.C.A. ss. 6901, ET SEQ. (the Resource Recovery and Conservation Act); and

(c) any knowledge of any notice of violation, lien or other notice issued by any governmental agency with respect to the environmental condition of the Premises or any other property occupied by the Company.

The Company is in compliance with all Environmental Laws and all other applicable federal, state and local health and safety laws, regulations, ordinances or rules, except to the extent that any non-compliance will not, in the aggregate, have a Materially Adverse Effect on the Company or the ability of the Company to fulfill its obligations under this Agreement or the Notes.

SECTION 6.22 MATERIAL AGREEMENTS, ETC. The Schedule on Exhibit C hereto accurately and completely lists all Material Agreements, all of which are presently in effect. All of the Material Agreements are legally valid, binding, and to the Company's knowledge, in full force and effect and neither the Company nor, to the Company's knowledge, any other parties thereto are in material default thereunder.

SECTION 6.23 PATENTS, TRADEMARKS AND OTHER PROPERTY RIGHTS. The Schedule on Exhibit C hereto contains a complete and accurate schedule of all registered trademarks, registered copyrights and patents of the Company, and pending applications therefor, and all other intellectual property in which the Company has any rights other than "off-the-shelf" software which is generally available to the general public at retail. Except as set forth in the Schedule on Exhibit C hereto, the Company owns, possesses, or has licenses to use all the patents,

trademarks, service marks, trade names, copyrights and nongovernmental licenses, and all rights with respect to the foregoing, necessary for the conduct of its business as now conducted, without, to the Company's knowledge, any conflict with the rights or others with respect thereto.

#### ARTICLE VII. CONDITIONS OF LENDING

SECTION 7.1 FIRST LOAN. The obligation of the Bank to make the initial Loan or Loans shall be subject to satisfaction of the following conditions, unless waived in writing by the Bank: (a) all legal matters and Loan Documents incident to the transactions contemplated hereby shall be reasonably satisfactory, in form and substance, to Bank's counsel; (b) the Bank shall have received (i) certificates by an authorized officer of Company, upon which the Bank may conclusively rely until superseded by similar certificates delivered to the Bank, certifying (A) all requisite action taken in connection with the transactions contemplated hereby, and (B) the names, signatures, and authority of Company's authorized signers executing the Loan Documents, (ii) documentation satisfactory to the Bank evidencing the Acquisition, and (iii) such other documents as the Bank may reasonably require to be executed by, or delivered on behalf of Company; (c) the Bank shall have received the Notes, with all blanks appropriately completed, executed by an authorized signer of Company; (d) the Company shall have paid to the Bank the fee(s) then due and payable in accordance with ARTICLE II, of this Agreement; (e) the Bank shall have received the written opinion of legal counsel selected by Company and satisfactory to the Bank, dated the date of this Agreement, in form satisfactory to the Bank and covering such other matter(s) as the Bank may reasonably require; (f) the Bank shall have received a fixed asset appraisal, satisfactory to the Bank, of the Precision Machined Products Assets performed by KeyCorp Leasing; (g) the Bank shall have received documentation identifying assets of the Company which are pledged to support the Letter

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of Credit Loan; (h) the Bank shall have received an initial Borrowing Base Certificate and loan covenant compliance certificate; and (i) the Company shall have entered into one or more interest rate swap contracts with Key Capital Markets, Inc. fixing interest rates on a minimum of \$5,000,000 in principal amount of the Acquisition Line.

SECTION 7.2 EACH LOAN. The obligation of the Bank to make each Loan shall be subject to satisfaction of the following additional conditions that at the date of making such Loan, and after giving effect thereto: (a) no Event of Default shall have occurred and be then continuing, (b) each representation and warranty set forth in this Agreement and in each of the other Loan Documents is true and correct as if then made, and (c) no event shall have occurred or failed to occur which has or is reasonably likely to have a Material Adverse Effect.

#### ARTICLE VIII. COVENANTS

As long as credit is available hereunder or until all principal of and interest on the Notes have been paid in full:

SECTION 8.1 ACCOUNTING: FINANCIAL STATEMENTS AND OTHER INFORMATION. The Company will maintain a standard system of accounting, established and administered in accordance with GAAP consistently followed throughout the periods involved, and will set aside on its books for each fiscal month the proper amounts or accruals for depreciation, obsolescence, amortization, bad debts, current and deferred taxes, prepaid expenses, and for other purposes as shall be required by GAAP. The Company will deliver to the Bank:

(a) As soon as practicable after the end of each calendar month in each year and in any event within thirty (30) days thereafter, a consolidated and consolidating balance sheet of the Company as of the end of such month, and statements of income, changes in financial position, and shareholders' equity of the Company for such month, certified as complete and correct by the principal financial officer of the Company, subject to changes resulting from year-end adjustments,

(b) As soon as practicable after the end of each fiscal year, and in any event within ninety (90) days thereafter, a consolidated and consolidating balance sheet of the Company as of the end of such year, and statements of income, changes in financial position, and shareholders' equity of the Company for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and accompanied by a report and an unqualified opinion of independent certified public accountants of recognized standing, selected by the Company and satisfactory to the Bank, which report and opinion shall be prepared in accordance with generally accepted auditing standards, together with a certificate by such accountants (i) briefly setting forth the scope of their examination (which shall include a review of the relevant provisions of this Agreement and stating that in their judgment such examination is sufficient to enable them to give the certificate, and (ii) stating whether their examination has disclosed the existence of any condition or event which constitutes an Event of Default under this Agreement, and, if

their examination has disclosed such a condition or event, specifying the nature and period of existence thereof;

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(c) promptly after the filing thereof, copies of the state and federal tax returns of the Company and all schedules thereto;

(d) promptly upon their distribution, copies of all financial statements, reports and proxy statements which the Company shall have sent to its stockholders, and promptly after the sending or filing thereof, copies of all regular and periodic reports which the Company shall file with the Securities and Exchange Commission or any national securities exchange;

(e) As soon as practicable, and in any event within thirty (30) days of the end of each calendar month in each year, a certificate by the Company and all relevant facts in reasonable detail to evidence, and the computations as to, whether or not the Company is in compliance with the financial covenants set forth in Sections 8.15 through 8.19 hereof; and

(f) With reasonable promptness, such other data and information as from time to time may be reasonably requested by the Bank.

SECTION 8.2 INSURANCE; MAINTENANCE OF PROPERTIES. The Company will maintain with financially sound and reputable insurers, insurance with coverage and limits as may be required by law or as may be reasonably required by the Bank. The Company will, upon request from time to time, furnish to the Bank a schedule of all insurance carried by it, setting forth in detail the amount and type of such insurance. The Company will maintain in good repair, working order, and condition, all properties used or useful in the business of the Company.

SECTION 8.3 EXISTENCE; BUSINESS. The Company will cause to be done all things necessary to preserve and keep in full force and effect its existence and rights, to conduct its business in a prudent manner, to maintain in full force and effect, and renew from time to time, its franchises, permits, licenses, patents, and trademarks that are necessary to operate its business. The Company will comply in all material respects with all valid laws and regulations now in effect or hereafter promulgated by any properly constituted governmental authority having jurisdiction; PROVIDED, HOWEVER, that the Company shall not be required to comply with any law or regulation which it is contesting in good faith by appropriate proceedings as long as either the effect of such law or regulation is stayed pending the resolution of such proceedings or the effect of not complying with such law or regulation is not to jeopardize any franchise, license, permit patent, or trademark necessary to conduct the Company's business.

SECTION 8.4 PAYMENT OF TAXES. The Company will pay all taxes, assessments, and other governmental charges levied upon any of its properties or assets or in respect of its franchises, business, income, or profits before the same become delinquent, except that no such taxes, assessments, or other charges need be paid if contested by the Company in good faith and by appropriate proceedings promptly initiated and diligently conducted and if the Company has set aside proper amounts, determined in accordance with GAAP, for the payment of all such taxes, changes, and assessments.

SECTION 8.5 LITIGATION; ADVERSE CHANGES. The Company will promptly notify the Bank in writing of (a) any future event which, if it had existed on the date of this Agreement, would have

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required qualification of any of the representations and warranties set forth in this Agreement or any of the other Loan Documents, and (b) any Material Adverse Effect.

SECTION 8.6 NOTICE OF DEFAULT. The Company will promptly notify the Bank of any Event of Default hereunder and any demands made upon the Company by any Person for the acceleration and immediate payment of any Indebtedness owed to such Person.

SECTION 8.7 INSPECTION. The Company will make available for inspection by duly authorized representatives of the Bank, or its designated agent, the Company's books, records, and properties when reasonably requested to do so, and will furnish the Bank such information regarding its business affairs and financial condition within a reasonable time after written request therefor.

SECTION 8.8 ENVIRONMENTAL MATTERS. The Company:

(a) Shall comply with all Environmental Laws, and

(b) Shall deliver promptly to Bank (i) copies of any documents received

from the United States Environmental Protection Agency or any state, county or municipal environmental or health agency, and (ii) copies of any documents submitted by Company to the United States Environmental Protection Agency or any state, county or municipal environmental or health agency concerning its operations.

SECTION 8.9 SALE OF ASSETS. The Company will not, directly or indirectly sell, lease, transfer, or otherwise dispose of any plant or any manufacturing facility or other assets (i) without receipt of full and adequate consideration therefor, or (ii) involving amounts exceeding \$250,000 in any single transaction without making the prepayment required by Section 2.8(d) hereof.

SECTION 8.10 LIENS. The Company will not, directly or indirectly, create, incur, assume, or permit to exist any Lien with respect to any property or asset of the Company now owned or hereafter acquired other than Permitted Liens.

SECTION 8.11 INDEBTEDNESS. The Company will not, directly or indirectly, create, incur, or assume Indebtedness, or otherwise become liable with respect to, any Indebtedness other than:

(a) Indebtedness now or hereafter payable, directly or indirectly, by the Company to the Bank or any Affiliate of the Bank;

(b) Subordinated Debt of the Company;

(c) To the extent permitted by this Agreement, Indebtedness for the lease or purchase price of any real or personal property, which is secured only by a Permitted Lien;

(d) Unsecured Indebtedness and deferred liabilities incurred in the ordinary course of business;

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(e) Indebtedness for taxes, assessments, governmental charges, liens, or similar claims to the extent not yet due and payable;

(f) Indebtedness of the Company existing as of the date of this Agreement, which is expressly disclosed on the Schedule on Exhibit C hereto;

(g) Other Indebtedness of the Company not covered under subparts (a) through (f) of this Section 8.11 not exceeding \$100,000 in the aggregate outstanding at any time; and

(h) Extensions, renewals, refundings, refinancings, modifications, amendments and restatements of any of the items listed in items (b) through (g) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon the Company.

SECTION 8.12 INVESTMENTS; LOANS. Except for Permitted Investments, the Company will not, directly or indirectly, (a) purchase or otherwise acquire or own any stock or other securities of any other Person, or (b) make or permit to be outstanding any loan or advance (other than trade advances in the ordinary course of business) or enter into any arrangement to provide funds or credit, to any other Person.

SECTION 8.13 GUARANTIES. The Company will not guarantee, directly or indirectly, or otherwise become surety (including, without limitation, liability by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to, or otherwise invest in, any Person, or enter into any working capital maintenance or similar agreement) in respect of any obligation or Indebtedness of any other Person, except guaranties by endorsement of negotiable instruments for deposit, collection, or similar transactions in the ordinary course of business.

SECTION 8.14 MERGERS: CONSOLIDATION. The Company will not merge into or consolidate with any other Person or permit any other Person to merge into or consolidate with it, or sell all or substantially all of its assets; EXCEPT that the Company may permit any other Person to merge into or consolidate with it if (i) the Company shall be the corporation which survives such merger or results from such consolidation, (ii) immediately after the consummation of the transaction, and after giving effect thereto, the Company would be permitted by the provisions of this ARTICLE VIII to incur additional Indebtedness, and (iii) before and immediately after the consummation of the transaction, and after giving effect thereto, no Event of Default, or event which with notice or lapse of time or both would become an Event of Default, exists or would exist.

SECTION 8.15 CURRENT RATIO. On the last day of each month during the term of this Agreement, the Company will have a ratio of Current Assets to Current Liabilities (calculated without regard to current maturities of Funded Debt) that is not less than 2.00 to 1.00.

SECTION 8.16 DEBT SERVICE COVERAGE RATIO. The Company shall maintain its

Debt Service Coverage Ratio, as measured on the last day of each calendar quarter during the term of this Agreement for the twelve-month period ending on such date of calculation, at a ratio of not less than 1.25 to 1.00.

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SECTION 8.17 DEBT TO TANGIBLE NET WORTH. The Company shall maintain the ratio of its Total Indebtedness to its Tangible Net Worth, as measured on the last day of each month during each period set forth below, at a ratio that is less than the ratio set forth opposite such period:

PERIOD	RATIO
Date hereof to and including December 31, 1999	4.00 to 1.00
January 1, 2000 to and including December 31, 2000	3.25 to 1.00
January 1, 2001 and thereafter	3.00 to 1.00

SECTION 8.18 FUNDED DEBT TO EBITDA. During each period set forth below, the Company shall maintain the ratio of its Funded Debt to its EBITDA, as measured on the last day of each calendar quarter for the twelve-month period ending on the date of calculation, at a ratio that is less than the ratio set forth opposite such period:

PERIOD	RATIO
Date hereof to and including December 31, 2000	3.50 to 1.00
January 1, 2001 and thereafter	3.00 to 1.00

SECTION 8.19 CAPITAL EXPENDITURES. The Company will not make Capital Expenditures in an aggregate amount in excess of \$1,000,000 in any fiscal year without thirty (30) days' prior written notification to the Bank. Notwithstanding the foregoing, the Capital Expenditure limitation set forth herein shall not include expenditures relating to the Acquisition.

SECTION 8.20 SUBORDINATED DEBT. The Company will not make any payment upon any outstanding Subordinated Debt, except in such manner and amounts as may be expressly authorized in any subordination agreement presently or hereafter held by the Bank.

SECTION 8.21 SENIOR MANAGEMENT. The Company will not replace its President, Chief Executive Officer or Chief Financial Officer without sixty (60) days prior written notice to the Bank and will not accept the resignation of its President, Chief Executive Officer or Chief Financial Officer without providing written notice to the Bank, which notice will be given to the Bank as soon as reasonably possible after the Company has knowledge of the same, but in no event more than three (3) days following the date that the Company obtains such knowledge.

SECTION 8.22 COMPLIANCE WITH ERISA. With respect to the Company and any Commonly Controlled Entity, the Company will not permit the occurrence of any of the following events to the extent that any such events would result in a material Adverse Effect on the Company, (a) withdraw from or cease to have an obligation to contribute to, any Multiemployer Plan, (b) engage in any

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"prohibited transaction" (as defined in Section 4975 of the Code) involving any Plan, (c) except for any deficiency caused by a waiver of the minimum funding requirement under Section 412 of the Code, as described above, incur or suffer to exist any material "accumulated funding deficiency" (as defined in Section 302 of ERISA and Section 412 of the Code) of the Company or any Commonly Controlled Entity, whether or not waived, involving any Single Employer Plan, (d) incur or suffer to exist any Reportable Event or the appointment of a trustee or institution of proceedings for appointment of a trustee for any Single Employer Plan if, in the case of a Reportable Event, such event continues unremedied for ten (10) days after notice of such Reportable Event pursuant to Sections 4043(a), (c) or (d) of ERISA is given, if in the reasonable opinion of the Bank any of the foregoing is likely to result in a Material Adverse Effect, (e) allow or suffer to exist any event or condition, which presents a material risk of incurring a material liability of the Company or any Commonly Controlled Entity to PBGC by reason of termination of any such Plan or (f) cause or permit any Plan maintained by the Company and/or any Commonly Controlled Entity to be out of compliance with ERISA.

#### ARTICLE IX. EVENTS OF DEFAULT

The occurrence of any one or more of the following events shall constitute an Event of Default under this Agreement:

SECTION 9.1 PRINCIPAL OR INTEREST. If the Company fails to pay any installment of principal of or interest on any Note, or any other sums of money when due and payable under this Agreement and such failure continues for forty-eight (48) hours; or

SECTION 9.2 MISREPRESENTATION. If any representation or warranty made herein by Company or in any written statement, certificate, report, or financial statement at any time furnished by, or on behalf of, Company in connection herewith, is incorrect or misleading in any material respect when made; or

SECTION 9.3 FAILURE OF PERFORMANCE OF THIS AGREEMENT. Except as otherwise provided herein, if the Company fails to perform or observe any covenant or agreement contained in this Agreement or any of the other Loan Documents, and such failure remains unremedied for thirty (30) calendar days after the Bank shall have given written notice thereof to the Company; or

SECTION 9.4 CROSS-DEFAULT. If the Company (a) fails to pay any indebtedness or any other sums of money when due and payable under the Letter of Credit Loan or under any other transaction or document evidencing Indebtedness of the Company to the Bank, and such failure continues for forty-eight (48) hours, whether at maturity, by acceleration, or otherwise, or (b) fails to perform any term, covenant, or agreement on its part to be performed under any agreement or instrument (other than the Loan Documents) evidencing, securing, or relating to the Letter of Credit Loan or any other transaction or document evidencing Indebtedness of the Company to the Bank, and such failure remains unremedied for thirty (30) calendar days after the Bank shall have given written notice thereof to the Company, or is otherwise in default thereunder.

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SECTION 9.5 INSOLVENCY. If the Company shall discontinue business or (a) is adjudicated a bankrupt or insolvent under any law of any existing jurisdiction, domestic or foreign, or ceases, is unable, or admits in writing its inability to pay its debts generally as they mature, or makes a general assignment for the benefit of creditors, (b) applies for, or consents to, the appointment of any receiver, trustee, or similar officer for it or for any substantial part of its property, or any such, receiver, trustee, or similar officer is appointed without the application or consent of the Company, and such appointment continues thereafter undischarged for a period of thirty (30) days, (c) institutes, or consents to the institution of any bankruptcy, insolvency, reorganization, arrangement, readjustment or debt, dissolution, liquidation, or similar proceeding relating to it under the laws of any jurisdiction, (d) any such proceeding is instituted against the Company and remains thereafter undismissed for a period of thirty (30) days, or (e) any judgment, writ, warrant of attachment or execution, or similar process is issued or levied against a substantial part of the property of the Company or any Subsidiary and such judgment, writ, or similar process is not effectively stayed within thirty (30) days after its issue or levy.

#### ARTICLE X. REMEDIES UPON DEFAULT

SECTION 10.1 OPTIONAL ACCELERATION. In the event that one or more of the Events of Default set forth in Sections 9.1 through 9.5 above occurs and continues and is not waived by the Bank, then, in any such event, and at any time thereafter, the Bank may, at its option, terminate its commitment to make any Loan and declare the unpaid principal of, and all accrued interest on any Note, including any notes executed in connection with the Letter of Credit Loan, and any other liabilities hereunder, and all other indebtedness of Company to the Bank forthwith due and payable, whereupon the same will forthwith become due and payable without presentment, demand, protest, or other notice of any kind, all of which Company hereby expressly waives, anything contained herein or in any Note to the contrary notwithstanding.

SECTION 10.2 AUTOMATIC ACCELERATION. Intentionally Deleted.

SECTION 10.3 REMEDIES. The Bank shall have the rights and remedies of a secured party under the Uniform Commercial Code in addition to the rights and remedies of a secured party provided elsewhere within the Agreement, the Letter of Credit Loan or in any other writing executed by the Company. The Bank may require the Company to assemble the Collateral and make it available to the Bank at a reasonably convenient place to be designated by the Bank. Unless the Collateral is perishable, threatens to decline speedily in value, or is of a type customarily sold on a recognized market, the Bank will give the Company reasonable notice of the time and place of any public sale of the Collateral or of the time after which any private sale or other intended disposition thereof is to be made. The requirement of reasonable notice shall be met if such notice is mailed (deposited for delivery, postage prepaid, by U.S. mail) to either, at the Bank's option (i) the principal office of the Company as set forth in this Agreement (or as modified by any change therein which the Company has supplied in writing to the Bank), or (ii) the Company's address at which the Bank customarily communicates with the Company, at least ten (10) days before the time of the public sale or the time after which any private sale or other

intended disposition thereof is to be made. At any such public or private sale, the Bank may purchase the Collateral. After deduction for the Bank's Related Expenses, the residue of any such sale or other disposition shall be applied in satisfaction

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of the Obligations in such order of preference as the Bank may determine. Any excess, to the extent permitted by law, shall be paid to the Company, and the Company shall remain liable for any deficiency.

SECTION 10.4 NO WAIVER. The remedies in this ARTICLE X are in addition to, not in limitation of, any other right, power, privilege, or remedy, either in law, in equity, or otherwise, to which the Bank may be entitled. No failure or delay on the part of the Bank in exercising any right, power, or remedy will operate as a waiver thereof, nor will any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right hereunder.

#### ARTICLE XI. MISCELLANEOUS

SECTION 11.1 AMENDMENTS. No waiver of any provision of this Agreement, the Notes, or consent to departure therefrom, is effective unless in writing and signed by the Bank. No such consent or waiver extends beyond the particular case and purpose involved. No amendment to this Agreement is effective unless in writing, and signed by the Company and the Bank.

SECTION 11.2 EXPENSES; DOCUMENTARY TAXES. The Company shall pay (a) all out-of-pocket expenses of the Bank, including fees and disbursements of special counsel for the Bank in connection with the preparation of this Agreement, any waiver or consent hereunder or any amendment hereof or any Event of Default hereunder, and (b) if an Event of Default occurs, all out-of-pocket expenses incurred by the Bank, including reasonable fees and disbursements of counsel, in connection with such Event of Default and collection and other enforcement proceedings resulting therefrom. The Company shall reimburse the Bank for its payment of all transfer taxes, documentary taxes, assessments, or charges made by any governmental authority by reason of the execution and delivery of this Agreement or the Notes.

SECTION 11.3 INDEMNIFICATION. The Company shall indemnify and hold the Bank harmless against any and all liabilities, losses, damages, costs, and expenses of any kind (including, without limitation, the reasonable fees and disbursements of counsel in connection with any investigative, administrative or judicial proceeding, whether or not the Bank shall be designated a party thereto) which may be incurred by the Bank relating to or arising out of this Agreement or any actual or proposed use of proceeds of any Loan hereunder; PROVIDED, HOWEVER, that the Bank shall have no right to be indemnified hereunder for its own negligence, bad faith or willful misconduct as determined by a court of competent jurisdiction. The Company further agrees to indemnify the Bank against any loss or expense which the Bank may sustain or incur as a consequence of any default by the Company in payment when due of any amount due hereunder in respect of any LIBOR Rate Loan, including, but not limited to, any loss of profit, premium, or penalty incurred by the Bank in respect of funds borrowed by it for the purpose of making or maintaining any such Loan, as determined by the Bank in the exercise of its sole but reasonable discretion. A certificate as to any such loss or expense shall be promptly submitted by the Bank to the Company and shall, in the absence of manifest error, be conclusive and binding as to the amount thereof.

SECTION 11.4 CONSTRUCTION. This Agreement and the Notes will be governed by and construed in accordance with the laws of the State of Colorado, without regard to principles of

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conflict of laws. The several captions to different Sections of this Agreement are inserted for convenience only and shall be ignored in interpreting the provisions hereof.

SECTION 11.5 EXTENSION OF TIME. Whenever any payment hereunder or under any Note becomes due on a date which the Bank is not open for the transaction of business, such payment will be due on the next succeeding Business Day and such extension of time will be included in computing interest in connection with such payment.

SECTION 11.6 NOTICES. All written notices, requests, or other communications herein provided for must be addressed:

to the Company as follows:

Dynamic Materials Corporation

551 Aspen Ridge Dr.  
Lafayette, Colorado 80026  
Attn: Richard A. Santa, Vice President of Finance and Chief  
Financial Officer

to the Bank as follows:

KeyBank National Association  
600 S. Cherry Street, Suite 1000  
Denver, Colorado 80246  
Attn: Scot Wetzel, Corporate Banking

or at such other address as either party may designate to the other in writing. Such communication will be effective (i) if by telex, when such telex is transmitted and the appropriate answer back is received, (ii) if given by mail, 72 hours after such communication is deposited in the U.S. mail certified mail return receipt requested, or (iii) if given by other means, when delivered at the address specified in this Section 11.6.

SECTION 11.7 SURVIVAL OF AGREEMENTS, RELATIONSHIP. All agreements, representations, and warranties made in this Agreement will survive the making of the extension of credit hereunder, and will bind and inure to the benefit of the Company and the Bank, and their respective successors and assigns; PROVIDED, HOWEVER, that no subsequent holder of any Note shall by reason of acquiring that Note, as the case may be, become obligated to make any Loan hereunder and no successor to or assignee of the Company may borrow hereunder without the Bank's written consent. The relationship between the Company and the Bank with respect to this Agreement, the Notes, and any other Loan Document is and shall be solely that of debtor and creditor, and the Bank has no fiduciary obligation toward the Company with respect to any such document or the transactions contemplated thereby.

SECTION 11.8 SEVERABILITY. If any provision of this Agreement or any Note, or any action taken hereunder or thereunder, or any application thereof, is for any reason held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Agreement or the

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Notes, all of which shall be construed and enforced without reference to such illegal or invalid portion and shall be deemed to be effective or taken in the manner and to the full extent permitted by law.

SECTION 11.9 ENTIRE AGREEMENT. This Agreement, the Notes, and any other Loan Document integrate all the terms and conditions mentioned herein or incidental hereto and supersede all oral representations and negotiations and prior writings with respect to the subject matter hereof.

SECTION 11.1 JURY TRIAL WAIVER. THE COMPANY AND THE BANK EACH WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, BETWEEN THE BANK' AND THE COMPANY ARISING OUT OF, IN CONNECTION WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THIS AGREEMENT OR ANY NOTE OR OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED THERETO.

IN WITNESS WHEREOF, the Company and the Bank have each caused this Agreement to be executed by their duly authorized officers as of the 30th day of November, 1998.

REMAINDER OF PAGE INTENTIONALLY DELETED

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COMPANY: DYNAMIC MATERIALS CORPORATION

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

BANK: KEYBANK NATIONAL ASSOCIATION

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

EXHIBIT A  
ACQUISITION NOTE

\$8,000,000.00

November 30, 1998

For value received, DYNAMIC MATERIALS CORPORATION, a Delaware corporation (the "Company") promises to pay to the order of KEYBANK NATIONAL ASSOCIATION (the "Bank"), its successor and assigns, at its main office, on the date or dates and in the manner specified in Article II of the Credit Agreement (as defined below), the aggregate principal amount of the Loans outstanding under the Acquisition Line, as shown on any ledger or other record of the Bank, which shall be rebuttably presumptive evidence of the principal amount owing and unpaid on this Note.

The Company promises to pay to the order of the Bank interest on the unpaid principal amount of each Loan evidenced by this Note from the date of such Loan until such principal amount is paid in full at such interest rate(s) and at such times as are specified in Article II of the Credit Agreement.

This Note is the Acquisition Note referred to in, and is entitled to the benefits of, the Amended and Restated Credit Facility and Security Agreement ("Credit Agreement") by and between the Bank and the Company dated November 30, 1998, as the same may be hereafter amended from time to time. This Note may be declared forthwith due and payable in the manner and with the effect provided in the Credit Agreement, which contains provisions for acceleration of the maturity hereof upon the happening of any Event of Default and also for prepayment on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

Each defined term used in this Note shall have the meaning ascribed thereto in Section 1.2 of the Credit Agreement.

The Company expressly waives presentment, demand, protest, and notice of dishonor.

The Company acknowledges that this Note was signed in the City of Denver, in the State of Colorado.

COMPANY: DYNAMIC MATERIALS CORPORATION

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

EXHIBIT B  
WORKING CAPITAL NOTE

\$6,000,000.00

November 30, 1998

For value received, DYNAMIC MATERIALS CORPORATION, a Delaware corporation (the "Company") promises to pay to the order of KEYBANK NATIONAL ASSOCIATION, (the "Bank"), its successor and assigns, at its main office, on the date or dates and in the manner specified in Article II of the Credit Agreement (as defined below), the aggregate principal amount of the Loans outstanding under the Working Capital Line, as shown on any ledger or other record of the Bank, which shall be rebuttably presumptive evidence of the principal amount owing and unpaid on this Note.

The Company promises to pay to the order of the Bank interest on the unpaid principal amount of each Loan evidenced by this Note from the date of such Loan until such principal amount is paid in full at such interest rate(s) and at such times as are specified in Article II of the Credit Agreement.

This Note is the Working Capital Note referred to in, and is entitled to the benefits of, the Amended and Restated Credit Facility and Security Agreement ("Credit Agreement") by and between the Bank and the Company dated November 30, 1998, as the same may be hereafter amended from time to time. This Note may be declared forthwith due and payable in the manner and with the effect provided in the Credit Agreement, which contains provisions for acceleration of the maturity hereof upon the happening of any Event of Default and also for prepayment on account of principal hereof prior to the maturity hereof upon the terms and

conditions therein specified.

Each defined term used in this Note shall have the meaning ascribed thereto in Section 1.2 of the Credit Agreement.

The Company expressly waives presentment, demand, protest, and notice of dishonor.

The Company acknowledges that this Note was signed in the City of Denver, in the State of Colorado.

COMPANY: DYNAMIC MATERIALS CORPORATION

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

EXHIBIT C

SCHEDULE OF COMPANY

[See Attached]

EXHIBIT D

BORROWING BASE CERTIFICATE  
DYNAMIC MATERIALS CORPORATION  
BORROWING BASE CERTIFICATE  
AS OF \_\_\_\_\_

The undersigned officer of Dynamic Materials Corporation, hereby certifies that the following is a true and accurate calculation of the Borrowing Base as of the date specified above, determined in accordance with the requirements of the Amended and Restated Credit Facility and Security Agreement dated November \_\_, 1998 between Dynamic Materials Corporation, a Delaware corporation ("Borrower") and KeyBank National Association ("Lender").

Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

Accounts Receivable Aging Schedule:

1-30 Day	31-61 Day	61-90 Day	90+Day	Total
-----	-----	-----	-----	-----

BORROWING BASE CALCULATION:

ACCOUNTS RECEIVABLE PORTION:

Accounts Receivable/1/

Less:

- (a) Accounts Receivable to which Borrower does not have valid tit \_\_\_\_\_
- (b) Accounts Receivable which are not the binding obligation of the account debtor \_\_\_\_\_

/1/Reference is made to the definitions of "Eligible Accounts Receivable" in Section 1.2 of the Credit Agreement. Information must be provided in accordance with such definitions. Captions set forth below are for reference purposes only and may not reflect the actual definition in the Credit Agreement.

(c) Accounts Receivable arising from services provided by Borrower to an Affiliate of Borrower \_\_\_\_\_

- (d) Accounts Receivable which are unpaid more than the earlier of ninety (90) days after the original invoice date or one hundred five (105) days after the services were provided \_\_\_\_\_
  - (e) Accounts Receivable which, when aggregated with all other Accounts Receivable of the same account debtor or Affiliate, exceed 50% in face value of all Accounts Receivable of Borrower \_\_\_\_\_
  - (f) Accounts Receivable (i) wherein the account debtor is also a creditor of the Borrower, (ii) which are subject to dispute or (iii) which are or are likely to become subject to any right of setoff or other claim or defense \_\_\_\_\_
  - (g) Accounts Receivable wherein the debtor has commenced a voluntary case under applicable bankruptcy laws, or made an assignment for the benefit of creditors, or a decree has been entered in respect of the debtor in an involuntary case under federal bankruptcy laws \_\_\_\_\_
  - (h) Accounts Receivable in which the Lender does not have a valid perfected first priority security interest \_\_\_\_\_
  - (i) Accounts Receivable for which the sale to the account debtor is on a consignment, bill-and hold, sale on approval, guaranteed sale or sale-and-return basis \_\_\_\_\_
  - (j) Accounts Receivable from the same account debtor in which 50% or more of the other Account Receivables from such account debtor are unpaid within the applicable period of time set forth above \_\_\_\_\_
  - (k) Accounts Receivable for which 75% or more of other Accounts Receivable from the same account debtor are not deemed Eligible Accounts Receivable \_\_\_\_\_
  - (l) Accounts Receivable which have not been shipped and delivered to and accepted or the services giving rise to such Account Receivable have not been performed or the Account Receivable otherwise does not represent a final sale \_\_\_\_\_
  - (m) Accounts Receivable for which the principal place of business of the debtor is located outside of the United States \_\_\_\_\_
  - (n) Accounts Receivable which do not comply in all material respects with all applicable legal requirements \_\_\_\_\_
  - (o) Accounts Receivable arising out of unbilled cooperative advertising activities \_\_\_\_\_
- Eligible Accounts Receivable  
=====

BORROWING BASE:

80% of Eligible Accounts Receivable \_\_\_\_\_  
Revolving Credit Availability \_\_\_\_\_  
=====

INVENTORY PORTION:

Eligible Inventory/2/ \_\_\_\_\_  
=====

BORROWING BASE:

50% of Eligible Inventory consisting of raw materials \_\_\_\_\_

50% of Eligible Inventory consisting of  
work-in-process purchased by the Company from  
Spin Forge LLC or Precision Machined Products \_\_\_\_\_

30% of Eligible Inventory consisting of  
work-in-process other than work-in-process  
referred to in the immediately preceding category \_\_\_\_\_

50% of Eligible Inventory consisting of finished  
product \_\_\_\_\_

- - - - -

/2/ Reference is made to the definition of "Eligible Inventory" in Section 1.2 of the Credit Agreement. Information must be provided in accordance with such definition.

Revolving Credit Availability \_\_\_\_\_  
=====

EQUIPMENT PORTION:

Eligible Equipment/3/ \_\_\_\_\_  
=====

BORROWING BASE:

the LESSER of:

50% of net book value of Eligible Equipment; or \_\_\_\_\_

70% of orderly liquidation value of Eligible  
Equipment; or \_\_\_\_\_

80% of forced sale value of Eligible Equipment \_\_\_\_\_

Revolving Credit Availability \_\_\_\_\_  
=====

REAL ESTATE PORTION:

Acceptable Real Estate/4/ \_\_\_\_\_  
=====

BORROWING BASE:

75% of Acceptable Real Estate \_\_\_\_\_

Revolving Credit Availability \_\_\_\_\_  
=====

AGGREGATE REVOLVING CREDIT  
AVAILABILITY \_\_\_\_\_  
=====

- - - - -

/3/ Reference is made to the definition of "Eligible Equipment" in Section 1.2 of the Credit Agreement. Information must be provided in accordance with such definition.

/4/ Reference is made to the definition of "Acceptable Real Estate" in Section 1.2 of the Credit Agreement. Information must be provided in accordance with such definition.

AMENDED AND RESTATED  
CREDIT FACILITY AND  
SECURITY AGREEMENT

THIS AGREEMENT is made by and between the Company (as herein defined) and the Bank (as herein defined).

WHEREAS, the Company and the Bank entered into a Credit Facility and Security Agreement dated as of July 19, 1996, (the "Receivables Line") which, as amended, provided for loans up to five million dollars (\$5,000,000) to be supported by the Company's eligible accounts receivable and inventory; and

WHEREAS, the Company and the Bank entered into a Credit Facility and Security Agreement dated as of March 18, 1998, (the "Reducing Revolving Credit") which, as amended, provided for loans of up to four million dollars (\$4,000,000); and

WHEREAS, the Company has entered into an Asset Purchase Agreement dated as of November 18, 1998 which contemplates the acquisition (the "Acquisition") by the Company of certain of the assets of Precision Machined Products, a Colorado corporation, and the Company has requested that the Bank restructure the Receivables Line and the Reducing Revolving Credit to provide financing for the Acquisition and a working line of capital; and

WHEREAS, the Bank is willing to restructure the above-referenced credit facilities on the terms and subject to the conditions set forth herein.

NOW THEREFORE, in consideration of the covenants and agreements contained herein, the Company and the Bank hereby mutually agree that the Receivables Line and the Reducing Revolving Credit are amended and restated in their entirety as follows:

ARTICLE I. DEFINITIONS

SECTION 1.1 GENERAL. Any accounting term used but not specifically defined herein shall be construed in accordance with GAAP. The definition of each agreement, document, and instrument set forth in Section 1.2 hereof shall be deemed to mean and include such agreement, document, or instrument as amended, restated, or modified from time to time.

SECTION 1.2 DEFINED TERMS. As used in this Agreement:

"ACCEPTABLE REAL ESTATE" shall mean only such real property of the Company, valued at the lower of cost or fair market value, as the Bank in its reasonable discretion, shall from time to time consider eligible to support advances under the Acquisition Line or the Working Capital Line.

"ACCOUNT" shall mean (a) any account as defined in the UCC, and (b) any right to payment for Goods sold or leased or for services rendered which is not evidenced by an Instrument or Chattel Paper, whether or not it has been earned.

"ACCOUNT DEBTOR" shall mean the Person who is obligated on an Account Receivable.

"ACCOUNT RECEIVABLE" shall mean:

(a) any account receivable, Account, Chattel Paper, Contract Right, General Intangible Document, or Instrument owned, acquired, or received by a Person,

(b) any other indebtedness owed to or receivable owned, acquired, or received by a Person of whatever kind and however evidenced, and

(c) any right, title, and interest in a Person's Goods which were sold, leased, or furnished by that Person and gave rise to either (a) or (b) above, or both of them, including, without limitation (i) any rights of stoppage in transit of a Person's sold, leased, or furnished Goods, (ii) any rights to reclaim a Person's sold, leased, or furnished Goods, and (iii) any rights a Person has in such sold, leased, or furnished Goods that have been returned.

"AFFILIATE" shall mean, with respect to a specified Person, any other Person: (a) which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with such Person, (b) which beneficially owns or holds with power to vote five percent (5 %) or more of any class of the voting stock of such Person, (c) five percent (5 %) or more of the voting stock of which other Person is beneficially owned or held by such Person, or (d) who is an officer or director of such Person.

"ACQUISITION" shall have the meaning set forth in the recitals hereto.

"ACQUISITION LINE" shall mean the line of credit provided by the Bank pursuant to Section 2.1(a) hereof.

"ACQUISITION LINE CREDIT LIMIT" shall mean \$8,000,000 less any permanent reductions to such amount resulting from (i) conversion of Credit Loans to Term Loans pursuant to Section 2.2 hereof, (ii) principal payments required to be made under Section 2.7(a) hereof and (iii) Free Cash Flow recapture payments made under Section 2.8(c) hereof.

"ACQUISITION LINE MATURITY DATE" shall mean the last day of the sixth (6th) Contract Year.

"ACQUISITION NOTE" shall mean the promissory note of the Company in substantially the form of Exhibit A hereto, evidencing amounts advanced by the Bank pursuant to Section 2.1(a) hereof.

"BANK" shall mean KeyBank National Association, a national banking association, and its successors and assigns.

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"BORROWING BASE" shall mean an amount equal to the sum of:

(a) the lesser of (i) 50% of the net book value of all Eligible Equipment of the Company, or (ii) 70% of the orderly liquidation value of all Eligible Equipment of the Company, or (iii) 80% of the forced sale value of all Eligible Equipment of the Company, each as determined in accordance with an appraisal performed prior to the inclusion of such Equipment in the Borrowing Base by a licensed appraiser satisfactory to the Bank, in its reasonable discretion; plus

(b) 75% of Acceptable Real Estate; plus

(c) 80% of Eligible Accounts Receivable; plus

(d) the sum of (i) 50% of Eligible Inventory consisting of raw materials and Eligible Inventory consisting of work-in-process previously purchased by the Company from Spin Forge LLC or purchased from Precision Machined Products pursuant to the Acquisition, plus (ii) 30% of Eligible Inventory consisting of work-in-process other than work-in-process previously purchased by the Company from Spin Forge LLC or purchased from Precision Machined Products pursuant to the Acquisition, plus (iii) 50% of Eligible Inventory consisting of finished product.

Each dollar of Borrowing Base availability shall support one dollar of Loans under either the Acquisition Line or the Working Capital Line, and the Borrowing Base shall be utilized to support borrowings under the Acquisition Line and the Working Capital Line in such amounts and in such proportions as the Bank and the Company shall agree.

"BORROWING BASE CERTIFICATE" shall mean the Borrowing Base Certificate in the form of Exhibit D attached hereto.

"BUSINESS CONDITION" shall mean the financial condition, business and assets of a Person.

"BUSINESS DAY" shall mean a day of the year on which banks are not required or authorized to close in Denver, Colorado and, if the applicable Business Day relates to any LIBOR Rate Loan, on which dealings are carried on in the London interbank eurodollar market.

"CAPITAL EXPENDITURES" shall mean any and all amounts invested, expended or incurred by a Person in respect of the purchase, improvement, renovation or expansion of any land and depreciable or amortizable property of such Person (including expenditures required to be capitalized in accordance with GAAP but excluding expenditures relating to the Company's Pennsylvania Industrial Development Revenue Bond Project).

"CASH COLLATERAL ACCOUNT" shall mean a commercial Deposit Account designated "cash collateral account" and maintained by the Company with Bank, without liability by Bank to pay interest thereon, from which account Bank shall have the exclusive right to withdraw funds until all Obligations are paid, performed, satisfied, enforced, and observed in full.

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"CASH SECURITY" shall mean all cash, Instruments, Deposit Accounts, and other cash equivalents, whether matured or unmatured, whether collected or in the process of collection, upon which Company presently has or may hereafter have any claim, that are presently or may hereafter be existing or maintained with, issued by, drawn upon, or in the possession of Bank.

"CHATTEL PAPER" shall mean "chattel paper" as defined in the UCC.

"CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"COLLATERAL" shall have the meaning described in Section 3.1 hereof

"COLLECTIONS" shall have the meaning described in Section 4.1 hereof.

"COMMONLY CONTROLLED ENTITY" shall mean a Person, whether or not incorporated, which is under common control with the Company within the meaning of Section 414(b) or (c) of the Code.

"COMPANY" shall mean Dynamic Materials Corporation, a Delaware corporation, with its principal office located at 551 Aspen Ridge Dr., Lafayette, Colorado 80026, and its successors.

"CONTRACT RIGHT" shall mean (a) any contract right, and (b) any right to payment under a contract not yet earned by performance and not evidenced by an Instrument or Chattel Paper.

"CONTRACT YEAR" shall mean the each twelve (12) month period which commences on the date hereof and on each anniversary of the date of execution of the Agreement.

"CREDIT LOAN" shall mean a revolving Loan described in Section 2.1 of this Agreement.

"CURRENT ASSETS" and "CURRENT LIABILITIES" shall mean the amounts as determined in accordance with GAAP not inconsistent with present accounting procedures.

"DEBT SERVICE COVERAGE RATIO" shall mean the ratio of (i) the sum of (A) net income after taxes, exclusive of extraordinary gains and gains on the sale of assets, plus (B) depreciation and amortization, plus (C) interest expense (including the portion of any capitalized lease obligation allocable to interest expense), to (ii) the sum of (A) current maturities of long-term debt and capitalized leases, plus (B) interest expense (including the portion of any capitalized lease obligation allocable to interest expense), plus (C) dividends and distributions, plus (D) unfinanced Capital Expenditures.

"DEPOSIT ACCOUNT" shall mean (a) any deposit account, and (b) any demand, time, savings, passbook, or a similar account maintained with a bank, savings and loan association, credit union, or similar organization, other than an account evidenced by a certificate of deposit.

"DOCUMENT" shall mean (a) any document, (b) any document of title, including a bill of lading, dock warrant, dock receipt, warehouse receipt or order for the delivery of Goods, and any other document which in the regular course of business or financing is treated as adequately

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evidencing that the Person in possession of it is entitled to receive, hold, and dispose of the document and the Goods it covers, and (c) any receipt covering Goods stored under a statute requiring a bond against withdrawal or a license for the issuance of receipts in the nature of warehouse receipts even though issued by a Person who is the owner of the Goods and is not a warehouseman.

"EBITDA" of the Company for any period shall mean the Company's earnings (including one-time or extraordinary adjustments relating to the Paul Lange Separation Agreement and one-time start-up costs associated with the Company's Pennsylvania Industrial Development Revenue Bond- backed project) plus interest, taxes, depreciation and amortization, each as calculated for such period in accordance with GAAP.

"ELIGIBLE ACCOUNTS RECEIVABLE" means, as at any applicable date of determination, the aggregate face amount of the Accounts Receivable included in the definition of Accounts Receivable hereunder without duplication, in each case less (without duplication) the aggregate amount of all reserves, limitations and deductions with respect to such Accounts Receivable set forth below or as otherwise provided in this Agreement and less the aggregate amount of all returns, discounts, claims, credits, charges and allowances of any nature with respect to such Accounts Receivable (whether issued, owing, granted or outstanding). Unless otherwise approved in writing by the Bank in its sole discretion, no individual Account Receivable shall be deemed to be an Eligible Account Receivable if:

(a) the Company does not have legal and valid title to the Account Receivable; or

(b) the Account Receivable is not the valid, binding and legally

enforceable obligation of the Account Debtor subject, as to enforceability, only to (i) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws at the time in effect affecting the enforceability of creditors' rights generally and (ii) judicial discretion in connection with the remedy of specific performance and other equitable remedies; or

(c) the Account Receivable arises out of sale made to any Affiliate of the Company; or

(d) the Account Receivable or any portion thereof is unpaid more than the earlier of (i) 90 days after the original invoice date, or (ii) 105 days after the services were provided, or goods sold, which gave rise to such Account Receivable; or

(e) the Account Receivable, when aggregated with all other Accounts Receivable of the same Account Debtor (or any Affiliate thereof), exceeds fifty percent (50%) in face value of all Accounts Receivable of the Company then outstanding, to the extent of such excess;

(f) (i) the Account Debtor is also a creditor of the Company, to the extent of the amount owed by the Company to the Account Debtor, (ii) the Account Receivable is subject to any claim on the part of the Account Debtor disputing liability under such Account Receivable in whole or in part, to the extent of the amount of such dispute or (iii) the Account Receivable otherwise is or is

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reasonably likely to become subject to any right or setoff or any counterclaim, claim or defense by the Account Debtor, to the extent of the amount of such setoff or counterclaim, claim or defense; or

(g) the Account Debtor has commenced a voluntary case under applicable bankruptcy laws, as now constituted or hereafter amended, or made an assignment for the benefit of creditors or if a decree or order for relief has been entered by a court having jurisdiction in the premises in respect of the Account Debtor in an involuntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or if any other petition or other application for relief under the Account Debtor, or if the Account Debtor has failed, suspended business, ceased to be solvent, or consented to or suffered a receiver, trustee, liquidator or custodian to be appointed for it or for all or a significant portion of its assets or affairs; or

(h) the Bank does not have a valid and perfected first priority security interest in such Account Receivable; or

(i) the sale to the Account Debtor is on a consignment, bill-and-hold, sale on approval, guaranteed sale or sale-and-return basis or pursuant to any written agreement providing for repurchase or return; or

(j) it is from the same Account Debtor (or any Affiliate thereof) and fifty percent (50%) or more, in face amount, of other Accounts Receivable from either such Account Debtor or any Affiliate thereof are ineligible pursuant to paragraph (d) above; or

(k) seventy-five percent (75%) or more, in face amount, of other Accounts Receivable from the same Account Debtor are not deemed Eligible Accounts Receivable hereunder; or

(l) the Goods giving rise to such Account have not been shipped and delivered to and accepted by the Account Debtor or the services giving rise to such Account have not been performed by the Borrower and accepted by the Account Debtor or the Account otherwise does not represent a final sale;

(m) the principal place of business of the Account Debtor is located outside of the United States, unless the Account Receivable is (i) backed by a bank letter of credit naming the Bank as beneficiary or assigned to the Bank, in the Bank's possession and acceptable to the Bank in all respects, in its sole discretion, or (ii) covered by a foreign receivables insurance policy acceptable to the Bank in its sole discretion;

(n) the Account Receivable does not comply in all material respects with all applicable legal requirements, including where applicable, the Federal Consumer Credit Protection Act, the Federal Truth in Lending Act and Regulation Z of the Board of Governors of the Federal Reserve System, in each case as amended; or

(o) the Account Receivable arises out of unbilled cooperative advertising activities.

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"ELIGIBLE EQUIPMENT" shall mean only such Equipment of the Company, valued at the lower of (i) cost (on a first in, first out basis), or (ii) fair market value, as the Bank, in its sole discretion, shall from time to time consider to be Eligible Equipment.

"ELIGIBLE INVENTORY" shall mean only such Inventory of the Company, valued at the lower of (i) cost (on a first in, first out basis), or (ii) fair market value, as the Bank, in its sole discretion, shall from time to time consider to be Eligible Inventory.

"ENVIRONMENTAL LAW" shall mean any federal, state, or local statute, law, ordinance, code, rule, regulation, order or decree regulating, relating to, or imposing liability upon a Person in connection with the use, release or disposal of any hazardous toxic or dangerous substance, waste or material.

"EQUIPMENT" shall mean "equipment" (as defined in the UCC) and fixtures (as defined in the UCC) including, without limitation, all machinery, equipment, furniture, furnishings, fixtures, and packaging production equipment, parts, material handling, supplies, and motor vehicles (titled or untitled) of every kind and description, now or hereafter owned by the Company.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

"EVENT OF DEFAULT" shall mean any one or more of the occurrences described in ARTICLE IX hereof.

"FEDERAL FUNDS EFFECTIVE RATE" shall mean, during any period, a fluctuating interest rate per annum for each day during such period, that is the rate determined by Bank to be the opening rate per annum paid or payable by it on the day in question in its region market for federal funds purchased overnight from other banking institutions.

"FEDERAL FUNDS EFFECTIVE RATE LOAN" shall mean any Loan that bears interest with reference to the Federal Funds Effective Rate.

"FREE CASH FLOW" of the Company shall mean the difference between (i) the sum of the Company's net income plus depreciation and amortization, and (ii) the sum of (A) current maturities of long-term debt and capitalized leases of the Company, and (B) unfinanced Capital Expenditures.

"FUNDED DEBT" of the Company shall mean the sum of (i) all outstanding senior bank Indebtedness of the Company, (ii) all Indebtedness of the Company relating to any bonds or other debt securities issued by the Company, (iii) all Indebtedness in respect of the Letter of Credit Loan, and (iv) all Subordinated Debt of the Company.

"GAAP" shall mean generally accepted accounting principles as then in effect, which shall include the official interpretations thereof by the Financial Accounting Standards Board, consistently applied.

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"GENERAL INTANGIBLE" shall mean (a) any "general intangible" (as defined in the UCC), and (b) any personal property (including things in action) other than Goods, Accounts, Contract Rights, Chattel Paper, Documents, Instruments, and money.

"GOODS" shall mean (a) any "goods" (as defined in the UCC), and (b) all things which are movable at the time the security interest granted Bank under the Agreement attaches or which are fixtures but does not include money, Instruments, Documents, Accounts, Chattel Paper, General Intangibles, or Contract Rights.

"HAZARDOUS MATERIALS" shall mean any substance or material defined or designated as a hazardous or toxic waste, hazardous or toxic material, hazardous or toxic substance, or other similar term, by any United States federal, state or local environmental statute, regulation or ordinance.

"INDEBTEDNESS" shall mean for any Person (i) all obligations to repay borrowed money, direct or indirect, incurred, assumed, or guaranteed, (ii) all obligations for the deferred purchase price of capital assets excluding trade payables, (iii) all obligations under conditional sales or other title retention agreements, and (iv) all lease obligations which have been or should be capitalized on the books of such Person.

"INSTRUMENT" shall mean "instruments" (as defined in the UCC).

"INTEREST PERIOD" means, with respect to any LIBOR Rate Loan, the period commencing on the date such Loan is made, continued, or converted and ending on the last day of such period as selected by the Company pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of

such period as selected by the Company pursuant to the provisions below. The duration for any LIBOR Rate Loan which is a Credit Loan shall be 1 month, 2 months, or 3 months, as selected by the Company; and the duration for any LIBOR Rate Loan which is a Term Loan shall be 3 months; provided, however, that whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall occur on the next succeeding Business Day, and; provided, further, however, that if such extension of time would cause the last day of such Interest Period for a LIBOR Rate Loan to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day.

"INVENTORY" shall mean all "inventory" (as defined in the UCC) now owned or hereafter acquired by the Company, including, without limitation, all Goods, merchandise, work-in-process, raw materials, finished Goods, and inventory held for lease to other Persons; all other materials, supplies, and tangible personal property of any kind, nature, or description held for sale or lease or for display or demonstration; and all documents of title or other Documents pertaining thereto, and all proceeds of the foregoing.

"LETTER OF CREDIT LOAN" shall mean the \$7,000,000 loan to Company from Bank, evidenced by the issuance of a Letter of Credit to provide a credit enhancement for bond financing and which loan shall be secured by a lien on certain property, plant and equipment of the Company located in Mount Braddock, Pennsylvania.

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"LIBOR RATE" shall mean, for any Interest Period for any LIBOR Rate Loan, an interest rate per annum (rounded upwards to the next higher whole multiple of 1/16% if such rate is not such a multiple) equal at all times during such Interest Period to the quotient of (a) the rate per annum (rounded upwards to the next higher whole multiple of 1/16 % if such rate is not such a multiple) at which deposits in United States dollars are offered at 11:00 a.m. (London, England time) (or as soon thereafter as is reasonably practicable) by prime banks in the London interbank eurodollar market two Business Days prior to the first day of such Interest Period in an amount and maturity of such LIBOR Rate Loan, divided by (b) a number equal to 1.00 minus the aggregate (without duplication) of the rates (expressed as a decimal fraction) of the LIBOR Reserve Requirements current on the date two Business Days prior to the first day of such Interest Period.

"LIBOR RATE LOAN" shall mean any Loan that bears interest with reference to the LIBOR Rate.

"LIBOR RATE MARGIN" shall mean: (i) during the period prior to the first Margin Adjustment Date, 200 basis points, and (ii) thereafter, the number of basis points determined pursuant to Section 2.5(b)(ii) hereof.

"LIBOR RESERVE REQUIREMENTS" means, for any Interest Period for any LIBOR Rate Loan, the maximum reserves (whether basic, supplemental, marginal, emergency, or otherwise) prescribed by the Board of Governors of the Federal Reserve System (or any successor) with respect to liabilities or assets consisting of or including "Eurocurrency liabilities" (as defined in Regulation D of the Board of Governors of the Federal Reserve System) having a term equal to such Interest Period.

"LIEN" shall mean any mortgage, security interest, lien, charge, encumbrance on, pledge or deposit of, or conditional sale or other title retention agreement with respect to any property or asset.

"LOAN" or "LOANS" shall mean any of the loan advances to the Company extended by the Bank in accordance with ARTICLE II hereof.

"LOAN DOCUMENTS" shall mean this Agreement, the Notes and any other documents relating thereto.

"LOCKBOX" shall have the meaning specified in Section 4.1 of this Agreement.

"MARGIN ADJUSTMENT DATE" shall have the meaning specified in Section 2.5(b)(i) hereof.

"MARGIN STOCK" shall have the meaning given to it under Regulation U of the Board of Governors of the Federal Reserve System, as amended from time to time.

"MATERIAL ADVERSE EFFECT" shall mean material adverse effect on (i) the ability of the Company and any Subsidiaries taken as a whole to fulfill their obligations under any of the Loan Documents or (ii) the Business Condition of the Company and any Subsidiaries taken as a whole.

"MATERIAL AGREEMENTS" shall mean (a) any agreement to which the Company is a party which provides for the receipt or expenditure by the Company or any Subsidiary of more than \$500,000.00 in any 12-month period other than sales orders in the ordinary course of business, and (b) any other agreement to which the Company is a party which is material to the business of the Company.

"MULTIEMPLOYER PLAN" shall mean a Plan described in ERISA which covers employees of the Company and employees of any other Person, which together would be treated as a single employer for purposes of ERISA.

"NOTE" shall mean the Acquisition Note or the Working Capital Note;  
 "NOTES" shall mean the Acquisition Note and the Working Capital Note.

"OBLIGATIONS" shall mean any and all indebtedness, obligations, liabilities, contracts, indentures, agreements, warranties, covenants, guaranties, representations, provisions, terms, and conditions of whatever kind, now existing or hereafter arising, and however evidenced, that are now or hereafter owed, incurred, or executed by Company to, in favor of, or with Bank or any Affiliate of the Bank.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to subtitle A of Title IV or ERISA.

"PERMITTED INVESTMENT" shall mean the Company's:

(a) investments existing on the date hereof as disclosed in the Schedule on Exhibit C hereto;

(b) extensions of credit in the nature of Accounts Receivable, or notes receivable arising from the Company's sale or lease of goods or services in the ordinary course of business;

(c) investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business;

(d) investments (excluding debt obligations) received in connection with the bankruptcy or reorganization of the Company's customers or suppliers and in settlement of delinquent obligations of, and other disputes with, such customers or suppliers arising, from transactions in the ordinary course of business;

(e) investments consisting of (i) compensation of Company employees, officers or directors so long as the Company's Board of Directors lawfully determines that such compensation is in the Company's best interest, (ii) travel advances, employee relocation loans and other employee loans and advances lawfully made in the ordinary course of business, and (iii) loans lawfully made to Company's employees, officers or directors relating to the purchase of equity securities of Company;

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(f) investments in marketable U.S. Treasury and Agency obligations;

(g) investments in certificates of deposit and bankers' acceptances issued or created by any domestic commercial bank;

(h) investments in instruments issued or enhanced by a member bank of the Federal Reserve System;

(i) investments in debt obligations issued by a corporation, or state or municipal entity rated Bb or better in accordance with a rating system employed by either Moody's Investor's Service, Inc. or Standard & Poor's Corporation; or

(j) investments of types not enumerated in subparts (a) through (i) aggregating not in excess of \$100,000.

"PERMITTED LIEN" shall mean the following:

(a) Liens existing as of the date of this Agreement and disclosed in the Schedule on Exhibit C hereto;

(b) Liens for taxes or governmental assessments, charges, or levies the payment of which is not at the time required by any provision of this Agreement or any other Loan Document unless such Liens are not delinquent or are being contested in good faith by appropriate proceedings;

(c) Liens that secure the Company's Indebtedness for the purchase price of any real or personal property and that only encumber the property purchased, improvements or accessions thereto, and proceeds thereof;

(d) Liens securing capital lease obligations;

(e) Liens on Equipment leased by the Company pursuant to an operating lease in the ordinary course of business (including proceeds thereof and accessions thereto) incurred solely for the purpose of financing the lease of such Equipment (including Liens arising from UCC financing statements regarding leases permitted by this provision);

(f) Easements, reservations, rights-of-way, restrictions, minor defects or irregularities in title and other similar Liens affecting real property not interfering in any material respect with the ordinary conduct of the business of the Company;

(g) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of Goods;

(h) Liens imposed by law, such as Liens of landlords, carriers, warehousemen, mechanics, and materialmen arising in the ordinary course of business for sums not yet due or being contested by appropriate proceedings promptly initiated and diligently conducted, provided the

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Company has set aside proper amounts, determined in accordance with GAAP, for the payment of all such Liens;

(i) Liens incurred or deposits made in the ordinary course of business in conjunction with worker's compensation, unemployment insurance, and other types of social security, or to secure the performance of tenders, statutory obligations, and surety and appeal bonds, or to secure the performance and return of money bonds and other similar obligations, but excluding Indebtedness;

(j) Liens in respect of judgments or awards with respect to which the Company shall, in good faith, be prosecuting an appeal or proceeding for review and with respect to which a stay of execution upon such appeal or proceeding for review shall have been obtained;

(k) Liens in favor of the Bank or any Affiliate of the Bank; and

(l) Liens incurred in connection with the extension, renewal, refunding, refinancing, modification, amendment or restatement of Indebtedness secured by Liens of the type described in clauses (a), (c), (d) and (k) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase.

"PERSON" shall mean any natural person, corporation (which shall be deemed to include business trust), association, limited liability company, partnership, joint venture, political entity, or political subdivision thereof.

"PLAN" shall mean any plan (other than a Multiemployer Plan) defined in ERISA in which the Company or any Subsidiary is, or has been at any time during the preceding two (2) years, an "employer" or a "substantial employer" as such terms are defined in ERISA.

"PROCEEDS" means any "proceeds" (as defined in the UCC).

"RELATED EXPENSES" means any and all reasonable costs, liabilities, and expenses (including without limitation, losses, damages, penalties, claims, actions, reasonable attorney's fees, legal expenses, judgments, suits, and disbursements) incurred by, imposed upon, or asserted against, Bank in any attempt by Bank:

(a) to obtain, preserve, perfect, or enforce any security interest evidenced by (i) the Agreement, or (ii) any other pledge agreement, mortgage deed, deed of trust, hypothecation agreement, guaranty, security agreement, assignment, or security instrument executed or given by Company to or in favor of Bank;

(b) to obtain payment, performance, and observance of any and all of the Obligations;

(c) to maintain, insure, audit, collect, preserve, repossess, and dispose of any of the Collateral; or

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(d) incidental or related to subparts (a) through (c) above.

"REMITTANCES" shall have the meaning described in Section 4.1 of this Agreement.

"REPORTABLE EVENT" shall have the meaning assigned to that term in Section 4043 of ERISA for which the requirement of 30 days' notice to the PBGC has not been waived by the PBGC.

"SINGLE EMPLOYER PLAN" shall mean any Plan as defined in Section 4001(a) (15) of ERISA.

"SUBORDINATED DEBT" shall mean Indebtedness of a Person which is subordinated, in a manner satisfactory to the Bank, to the Obligations.

"SUBSIDIARY" shall mean any Person of which more than fifty percent (50%) of (i) the voting stock entitling the holders thereof to elect a majority of the Board of Directors, managers, or trustees thereof, or (ii) the interest in the capital or profits of such Person, which at the time is owned or controlled, directly or indirectly, by the Company or one or more other Subsidiaries.

"TANGIBLE NET WORTH" of the Company shall mean its net worth plus Subordinated Debt, MINUS intangible assets and any notes, Accounts Receivable or other obligations owed to the Company by any Affiliate or officer of the Company.

"TERM LOAN" shall mean any of the term loans described in Section 2.2 of this Agreement.

"TOTAL INDEBTEDNESS" of the Company shall mean the Company's aggregate Indebtedness (including any Indebtedness in respect of the Letter of Credit Loan) minus any Subordinated Debt of the Company.

"UCC" shall mean the Uniform Commercial Code in effect in the State of Colorado from time to time.

"UNUSED AMOUNT" shall mean the difference between (i) the Working Capital Line Credit Limit, and (ii) the aggregate amount of all outstanding Credit Loans under the Working Capital Line.

"UNUSED LINE RATE" shall mean: (i) during the period prior to the first Margin Adjustment Date, a rate of interest per annum equal to 37.5 basis points, and (ii) thereafter, a rate of interest per annum, to be redetermined on each Margin Adjustment Date, equal to the number of basis points indicated on the following table corresponding to the ratio of the Company's Indebtedness to its Tangible Net Worth:

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RATIO	UNUSED LINE RATE
<1.00 to 1.00	12.5 Basis Points
>=1.00 to 1.00 but <2.00 to 1.00	25.0 Basis Points
>=2.00 to 1.00 but <3.00 to 1.00	25.0 Basis Points
>=3.00 to 1.00	37.5 Basis Points

"WORKING CAPITAL LINE" shall mean the line of credit provided by the Bank pursuant to Section 2.1(b) hereof.

"WORKING CAPITAL LINE CREDIT LIMIT" shall mean \$6,000,000 less any permanent reductions to such amount resulting from (i) conversion of Credit Loans to Term Loans pursuant to Section 2.2 hereof and (ii) principal payments required to be made under Section 2.7(b) hereof.

"WORKING CAPITAL LINE MATURITY DATE" shall mean the last day of the second (2nd) Contract Year.

"WORKING CAPITAL NOTE" shall mean the promissory note of the Company in substantially the form of Exhibit B hereto, evidencing amounts advanced by the Bank pursuant to Section 2.1(b) hereof.

The foregoing definitions shall be applicable to the singulars and plurals of the foregoing defined terms. All accounting and financial terms used in this Section and in this Agreement and not otherwise defined shall be determined in accordance with GAAP consistently applied.

## ARTICLE II. CREDIT FACILITIES

### SECTION 2.1 AMOUNT AND TERMS OF THE CREDIT FACILITIES.

(a) ACQUISITION LINE. The Bank hereby agrees, subject to the terms and conditions of this Agreement, to make a Credit Loan or Credit Loans available to the Company from time to time on and after the date of this Agreement through and including the Acquisition Line Maturity Date, in an aggregate principal

amount not to exceed the lesser of (i) the Acquisition Line Credit Limit and (ii) that portion of the Borrowing Base which is utilized to support advances under the Acquisition Line (which amount shall not be greater than the difference between (i) the Borrowing Base, and (ii) the aggregate principal amount outstanding under the Working Capital Line). Until the Acquisition Line Maturity Date, the Company may borrow, repay, and reborrow such Credit Loan up to the maximum amount thereof, subject to the mandatory principal reductions set forth in Sections 2.7(a) and 2.8(b) hereof and sufficient Borrowing Base availability.

(b) WORKING CAPITAL LINE. The Bank hereby agrees, subject to the terms and conditions of this Agreement, to make a Credit Loan or Credit Loans available to the Company from time to time on and after the date of this Agreement through and including the Working Capital Line Maturity Date, in an aggregate principal amount not to exceed the lesser of (i) the Working Capital

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Line Credit Limit and (ii) that portion of the Borrowing Base which is utilized to support advances under the Working Capital Line (which amount shall not be greater than the difference between (i) the Borrowing Base, and (ii) the aggregate principal amount outstanding under the Acquisition Line). Until the Working Capital Line Maturity Date, the Company may borrow, repay, and reborrow such Credit Loan up to the maximum amount thereof, subject to the mandatory principal reductions set forth in Section 2.7(b) hereof and sufficient Borrowing Base availability.

#### SECTION 2.2 CONVERSION OF CREDIT LOANS.

(a) If no Event of Default shall have occurred and be continuing, the Company may elect to convert all or a portion of any Credit Loan made pursuant to Section 2.1(a) or 2.1(b) hereof to a Term Loan, whereupon the aggregate amount of Credit Loans available to be borrowed under the Acquisition Line and the Working Capital Line, as applicable, shall be permanently and automatically reduced. The Company shall make such election by written notice delivered to the Bank not less than fifteen (15) days prior to the effective date of the Term Loan, specifying the principal amount of the Term Loan and the initial interest rate applicable thereto (i.e. whether the Term Loan is to be a LIBOR Rate Loan or a Federal Funds Effective Rate Loan). Each Term Loan shall be in an amount of \$50,000.00 or an integral multiple thereof. The Company shall repay each Term Loan on a fully amortized basis over a period commencing on the date of each Term Loan and ending on a date not later than the Acquisition Line Maturity Date, in the case of Term Loans made pursuant to Section 2.1(a) hereof, or the Working Capital Line Maturity Date, in the case of Term Loans made pursuant to Section 2.1(b) hereof. The principal amount of each Term Loan shall be payable in consecutive and equal quarterly installments on the last day of each March, June, September and December (commencing with the first such date following the fixing of the Term Loan) until the maturity date of such Term Loan or the earlier acceleration of the maturity of the Term Loan in accordance with ARTICLE XI hereof, when any remaining principal balance shall be due and payable in full. Each principal installment shall be an amount equal to the remaining principal amount of such Term Loan divided by the number of remaining payments (including the payment to be made at maturity).

SECTION 2.3 LIBOR AND FEDERAL FUNDS EFFECTIVE RATE LOANS. Each Credit Loan or Term Loan shall be either a LIBOR Rate Loan or a Federal Funds Effective Rate Loan, subject to the following conditions:

(a) Each Loan that is made or continued as or converted into a LIBOR Rate Loan shall be made, continued, or converted on such Business Day, in such amount (equal to \$10,000 or an integral multiple thereto), and with such an Interest Period as the Company shall request by written notice given to the Bank no later than 11:00 a.m. (Denver, Colorado time) on the third Business Day prior to the date of disbursement or continuation of or conversion into the requested LIBOR Rate Loan. Each written notice of any LIBOR Rate Loan shall be irrevocable and binding on the Company and the Company shall indemnify the Bank against any loss or expense incurred by the Bank as a result of any failure by the Company to consummate such LIBOR Rate Loan, including, without limitation, any loss (including loss of anticipated profits) or expense incurred by reason of liquidation or reemployment of deposits or other funds acquired by the Bank to fund the LIBOR Rate Loan. A certificate as to the amount of such loss or expense submitted by the Bank to the Company

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shall be conclusive and binding for all purposes, absent manifest error. In the event that the Company fails to provide the Bank with the required written notice, the Company shall be deemed to have given a written notice that such LIBOR Rate Loan shall be converted to a Federal Funds Effective Rate Loan on the last day of the applicable Interest Period. In no event shall the Company be permitted to select a LIBOR Rate Loan having an Interest Period ending after the

maturity date of the credit facility under which such Loan is requested.

(b) Each Loan that is made as or converted into a Federal Funds Effective Rate Loan shall be made or converted on such Business Day and in such amount (equal to \$10,000 or any integral multiple thereof) as the Company shall request by written notice given to the Bank no later than 11:00 a.m. (Denver, Colorado time) on the date of disbursement of or conversion into the requested Federal Funds Effective Loan;

(c) Each LIBOR Rate Loan that is a Term Loan shall have an Interest Period of three (3) months.

SECTION 2.4 LOAN EVIDENCED BY NOTES. All Loans made under the Acquisition Line shall be evidenced by the Acquisition Note, and all Loans made under the Working Capital Line shall be evidenced by the Working Capital Note. The Notes shall be master notes, and the principal amount of all Loans outstanding under each Note shall be evidenced by such Note or any ledger or other record of the Bank, which shall be presumptive evidence of the principal owing and unpaid on such Note.

SECTION 2.5 INTEREST RATES. The Company shall pay interest on the unpaid principal amount of each Credit Loan and Term Loan made by the Bank from the date of such Credit Loan or Term Loan, as the case may be, until such principal amount shall be paid in full as follows:

(a) During such periods as any LIBOR Rate Loan comprising a Credit Loan or Term Loan is outstanding, at a rate per annum equal to the sum of the LIBOR Rate and the LIBOR Rate Margin (as described in subpart (b) below) in effect from time to time from and after each Margin Adjustment Date occurring, on or prior to the date of the making, the conversion or the continuation of such Loan, as the case may be, in accordance with this Agreement, and (ii) during such periods as any Federal Funds Effective Rate Loan comprising a Credit Loan or Term Loan is outstanding, at a rate per annum equal to all times to the sum of the Federal Funds Effective Rate plus two hundred (200) basis points.

(b) (i) Except as otherwise provided herein, the LIBOR Rate Margin in effect shall be adjusted as of the first day of each calendar quarter, beginning with January 1, 1999 (each a "Margin Adjustment Date"), in accordance with Section 2.5(b)(ii) below. The LIBOR Rate Margin in effect shall be applicable to new advances for Credit or Term Loans as of the date of such advances, and to a converted or continued Loan as of the date of conversion or continuation, occurring within the calendar quarter in which such LIBOR Rate Margin is in effect. With respect to any LIBOR Rate Loan for which the last day of the Interest Period is a date subsequent to the Margin Adjustment Date, such LIBOR Rate Margin shall not be applicable until the continuation date of such LIBOR Rate Loan, if applicable, subsequent to the Margin Adjustment Date.

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(ii) As of any Margin Adjustment Date, the LIBOR Rate Margin shall be adjusted to be the percentage indicated in the following table corresponding to the ratio of the Company's Indebtedness to its Tangible Net Worth, which shall be calculated from the quarterly balance sheet most recently provided by the Company to the Bank under Section 8.1(a) hereof:

RATIO	LIBOR RATE MARGIN
<1.00 to 1.00	100 Basis Points
>=1.00 to 1.00 but <2.00 to 1.00	125 Basis Points
>=2.00 to 1.00 but <3.00 to 1.00	150 Basis Points
>=3.00 to 1.00	200 Basis Points

(iii) Any such adjustment to the LIBOR Rate Margin shall only remain effective until the earlier of the next Margin Adjustment Date or the date on which an Event of Default shall occur. The LIBOR Rate Margin to be effective from such earlier date and from time to time thereafter shall be the LIBOR Rate Margin as adjusted pursuant to this Agreement, PROVIDED, HOWEVER, that: (i) if the Company shall not deliver its financial statements in accordance with Section 8.1 of this Agreement, the LIBOR Rate Margin shall be two hundred (200) basis points per annum and (ii) if an Event of Default shall occur which has not been waived in writing by the Bank, the interest rate shall be the interest rate applicable pursuant to subsection (c) below.

(c) Upon the occurrence of any Event of Default and so long as such Event of Default is continuing (excepting therefrom an Event of Default created by the Company's failure to deliver its financial statements in accordance with Section 8.1 of this Agreement), the unpaid principal amount of the Loan, and accrued interest thereon, or any fees or any other sum payable hereunder, shall thereafter until paid in full bear interest at a rate per annum equal to six hundred (600) basis points in excess of the Federal Funds Effective Rate in effect from time to time.

SECTION 2.6 INTEREST PAYMENTS. The Company shall pay to the Bank interest on the unpaid principal balance of each Federal Funds Effective Rate Loan on either (i) the date such Loan is converted to a LIBOR Rate Loan, or (ii) the last date of each March, June, September and December. The Company shall pay to the Bank interest on the unpaid principal balance of each LIBOR Rate Loan on (i) the date such Loan is converted to a Federal Funds Effective Rate Loan, or (ii) the last day of the applicable Interest Period of such Loan, whichever is earlier.

SECTION 2.7 PRINCIPAL PAYMENTS.

(a) Commencing September 30, 1999, and on the last day of each calendar quarter thereafter, the aggregate principal amount available under the Acquisition Line shall be permanently reduced by the amount of \$363,637.00, and the Company shall immediately pay to the Bank the amount, if any, by which the aggregate principal amount outstanding under the Acquisition Line exceeds such reduced commitment of the Bank at that time. If, after giving effect to any such

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payment any LIBOR Rate Loan would be prepaid prior to the end of its applicable Interest Period, the Company shall pay the Bank the breakage fee required under Section 2.11(c) hereof.

(b) The aggregate principal amount available under the Working Capital Line shall be permanently reduced by the amount of \$1,000,000 on the last day of the first Credit Year, and the Company shall immediately pay to the Bank the amount, if any, by which the aggregate principal amount outstanding under the Working Capital Line exceeds such reduced commitment of the Bank at that time. If, after giving effect to any such payment any LIBOR Rate Loan would be prepaid prior to the end of its applicable Interest Period, the Company shall pay the Bank the breakage fee required under Section 2.11(c) hereof.

(c) On the Acquisition Line Maturity Date, in the case of the Acquisition Line, and on the Working Capital Line Maturity Date, in the case of the Working Capital Line, all amounts outstanding under the Acquisition Line and the Working Capital Line, respectively, shall be immediately due and payable. If payment of the outstanding Loans at maturity causes any LIBOR Rate Loan to be prepaid prior to the end of its applicable Interest Period, the Company shall pay the Bank the breakage fee required under Section 2.11(c) hereof.

SECTION 2.8 PREPAYMENT.

(a) VOLUNTARY PREPAYMENT. The Company may prepay any Federal Funds Effective Rate Loan in whole, or in part, at any time or times. The Company may prepay any LIBOR Rate Loan, in whole or in part, only on the last day of the Interest Period applicable to such LIBOR Rate Loan upon not less than three (3) Business Days' prior written notice given to the Bank. Each prepayment of a Term Loan shall be applied to the principal installments in the inverse order of their respective maturities.

(b) MANDATORY PREPAYMENT. Without notice or demand, if the sum of the outstanding principal balance of Loans made under Sections 2.1(a) and 2.1(b) hereof shall at any time exceed the Borrowing Base, the Company shall immediately prepay the Loans to the extent necessary to eliminate such excess. Any payment received by the Lender under this Section 2.8(b) or under 2.8(a) may be applied to the Obligations, in such order and in such amounts as the Bank, in its discretion, may from time to time determine. If, after giving effect to any such payment any LIBOR Rate Loan would be prepaid prior to the end of its applicable Interest Period, the Company shall pay the Bank the breakage fee required under Section 2.11(c) hereof.

(c) FREE CASH FLOW RECAPTURE. Within ninety (90) days of the end of each fiscal year of the Company commencing with the Company's fiscal year ending on December 31, 1999, the Company shall make a principal payment in respect of the Acquisition Line in an amount equal to fifty percent (50%) of the Company's Free Cash Flow for such fiscal year, and the aggregate principal amount available under the Acquisition Line shall be permanently reduced in such amount. If, after giving effect to any such payment any LIBOR Rate Loan would be prepaid prior to the end of its applicable Interest Period, the Company shall pay the Bank the breakage fee required under Section 2.11(c) hereof.

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(d) PREPAYMENT UPON SIGNIFICANT SALE OF ASSETS. Without notice or demand, if the Company sells, leases, transfers or otherwise disposes of any plant or any manufacturing facility or other assets in any single transaction involving amounts exceeding \$250,000, the Company shall immediately prepay the Loans in the full amount of the consideration (whether cash or otherwise) received by the Company in respect of such sale. Such prepayment shall be applied to the

Acquisition Line or the Working Capital Line in such proportions as the Company shall direct, but such application shall not effect a permanent reduction to the applicable credit facility. If, after giving effect to any such prepayment, any LIBOR Rate Loan would be prepaid prior to the end of its applicable Interest Period, the Company shall pay the Bank the breakage fee required under Section 2.11(c) hereof.

SECTION 2.9 FEES. The Company shall pay to the Bank:

(a) A commitment fee of \$30,000 payable upon the execution of this Agreement;

(b) An annual administrative fee of \$5,000, payable on last day of each Credit Year and on the Acquisition Line Maturity Date;

(c) Prior to maturity (whether by acceleration or otherwise), for each payment of principal or interest not paid when due, a late fee equal to five percent (5.00%) of such payment, not to exceed \$100.00; and

(d) An unused line fee with respect to the Working Capital Line at the Unused Line Rate on the average daily Unused Amount of the Working Capital Line from the date of this Agreement to and including the Working Capital Line Maturity Date, due and payable quarterly in arrears on the last day of each calendar quarter and on the Working Capital Line Maturity Date.

SECTION 2.10 COMPUTATION OF INTEREST AND FEES. Interest on Loans and unpaid fees, if any, shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed.

SECTION 2.11 ADDITIONAL COSTS.

(a) If, due to either (i) the introduction of, or any change in, or in the interpretation of, any law or regulation, or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), there shall be any increase in the cost to the Bank of making, funding or maintaining LIBOR Rate Loans, then the Company shall from time to time, upon demand by the Bank pay to the Bank additional amounts sufficient to reimburse the Bank for any such additional costs. A certificate of the Bank submitted to the Company as to the amount of such additional costs, shall be conclusive and binding for all purposes, absent manifest error. Notwithstanding anything to the contrary contained in this Section 2.11(a), the Company shall not be obligated to indemnify or reimburse the Bank for any additional costs which arose or were incurred during, or is otherwise attributable to, any period of time more than 180 days prior to the date on which the Bank delivered its written certificate for indemnification or reimbursement for such additional costs and such costs shall be nondiscriminatory in nature and will apply without exception to all Bank clients of equal standing. Upon notice from the Company to the

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Bank within five (5) Business Days after the Bank notifies the Company of any such additional costs pursuant to this Section 2.11(a), the Company may either prepay in full all LIBOR Rate Loans so affected then outstanding, together with interest accrued thereon to the date of such prepayment, or (ii) convert such LIBOR Rate Loans so affected then outstanding into Federal Funds Effective Rate Loans upon not less than four (4) Business Days' notice to the Bank.

(b) If either (i) the introduction of, or any change in, or in the interpretation of, any law or regulation, or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), affects or would affect the amount of capital required or expected to be maintained by the Bank or any corporation controlling the Bank and the Bank determines that the amount of such capital is increased by or based upon the existence of the Loan (or commitment to make the Loan) and other extensions of credit (or commitments to extend credit) of similar type, then, upon demand by the Bank, the Company shall pay to the Bank from time to time as specified by the Bank additional amounts sufficient to compensate the Bank in the light of such circumstances, to the extent that the Bank reasonably determines such increase in capital to be allocable to the existence of the Bank's Loan (or commitment to make the Loan). A certificate of the Bank submitted to the Company as to such amounts shall be conclusive and binding for all purposes, absent manifest error. Notwithstanding anything to the contrary contained in this Section 2.11(b), the Company shall not be obligated to indemnify or reimburse the Bank for any such additional amounts which arose or were incurred during, or is otherwise attributable to, any period of time more than 180 days prior to the date on which the Bank delivered its written certificate for indemnification or reimbursement for such additional amounts and such amounts shall be nondiscriminatory in nature and will apply without exception to all Bank clients of equal standing. Upon notice from the Company to the Bank within five (5) Business Days after the Bank notifies the Company of any such additional costs pursuant to this Section 2.11(b), the Company may either (A) prepay in full the Loan if so affected, together with interest

accrued thereon to the date of such prepayment, or (B) convert the Loan if so affected into a Loan of any other type not so affected upon not less than four (4) Business Days' notice to the Bank.

(c) If any prepayment or conversion of any LIBOR Rate Loan (including any prepayment or conversion under this Section 2.11 or under Section 2.7 or subparts (b), (c) or (d) of Section 2.8) occurs on any day other than the last day of the applicable Interest Period for such Loan, the Company also shall pay to the Bank such additional amounts sufficient to indemnify the Bank against any loss, cost, or expense incurred by the Bank as a result of such prepayment or conversion, including, without limitation, any loss (including loss of anticipated profits), cost, or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by the Bank to fund any such Loan, and a certificate as to the amount of any such loss, cost, or expense submitted by the Bank to the Company shall be conclusive and binding for all purposes, absent manifest error.

SECTION 2.12 ILLEGALITY. Notwithstanding any other provision of this Agreement, if the introduction of or any change in or in the interpretation of any law or regulation shall make it unlawful, or any central bank or other governmental authority shall assert that it is unlawful, for the Bank to perform its obligations hereunder to make, continue, or convert LIBOR Rate Loans hereunder, then, (a) on notice thereof by the Bank to the Company, the obligation of the Bank to

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make or continue a LIBOR Rate Loan or to convert any Federal Funds Effective Rate Loan into a LIBOR Rate Loan shall terminate and the Bank shall thereafter be obligated to make only Federal Funds Effective Rate Loans whenever any written notice requests for any type LIBOR Rate Loan is received, and (b) upon demand therefor by the Bank to the Company, the Company shall either (i) forthwith prepay in full any LIBOR Rate Loan then outstanding, together with interest accrued thereon, or request that the Bank, upon four (4) Business Days' notice, convert any LIBOR Rate Loan then outstanding into a Federal Funds Effective Rate Loan. If any such prepayment or conversion of any LIBOR Rate Loan occurs on any day other than the last day of the applicable Interest Period for such Loan, the Company also shall pay to the Bank such additional amounts sufficient to indemnify the Bank against any loss, cost, or expense incurred by the Bank as a result of such prepayment or conversion, including, without limitation, any loss (including loss of anticipated profits), cost, or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by the Bank to fund any such Loan, and a certificate as to the amount of any such loss, cost, or expense submitted by the Bank to the Company shall be conclusive and binding, for all purposes, absent manifest error.

SECTION 2.13 INTEREST RATE SWAP CONTRACTS. The Company shall have the option at any time and from time to time to enter into one or more interest rate swap contracts with Key Capital Markets, Inc. on any portion of the Loans outstanding, on terms and conditions mutually agreeable to the Company and Key Capital Markets, Inc. Such interest rate swaps may be entered into for periods up to, but not extending beyond, the maturity date of the credit facility under which such Loans were made.

#### ARTICLE III. SECURITY AGREEMENT

SECTION 3.1 GRANT OF SECURITY INTEREST. To secure the prompt payment and performance of the Obligations, and in addition to any other collateral or Lien securing the Obligations, the Company hereby grants to the Bank a continuing security interest in and to a pledge of all of the tangible and intangible personal property and assets of the Company, whether now owned or existing or hereafter acquired or arising and wheresoever located including, without limitation (a) all Accounts Receivable, (b) all Inventory, (c) all Equipment, (d) all General Intangibles (excluding patents), (e) any and all deposits or other sums at any time credited by or due from the Bank to the Company, whether in the Cash Collateral Account, another Depository Account, or other account, (f) all Cash Security, (g) all Instruments, Documents, documents of title, policies and certificates of insurance, securities, Goods, choses in action, Chattel Paper, cash or other property, to the extent owned by the Company or in which the Company has an interest, (h) all personal property or assets owned by the Company which now or hereafter is at any time in the possession or control of the Bank or in transit by mail or carrier to or from the Bank or in the possession of any Person acting in the Bank's behalf, without regard to whether the Bank received the same in pledge, for safekeeping, as agent for collection or transmission or otherwise or whether the Bank had conditionally released the same, and any and all balances, sums, proceeds and credits of the Company with, and any claims of the Company against, the Bank, (i) all accessions to, substitutions for, and all replacements, products and Proceeds, profits and rents of the herein above-referenced property of the Company described in this Section including, but not limited to, proceeds of insurance policies insuring such property, (j) all books, records, and other property including, but not limited to, creditfiles,

programs, printouts, computer software (to the extent not disallowed by any agreement between the Company and third parties), programs, and disks, magnetic tape and other magnetic media, and other materials and records) of the Company pertaining to any such above-referenced property of the Company, (k) all real property, improvements, fixtures, appurtenances, leasehold interests and any other property of similar kind or character, and (l) all "investment property" (as defined in the UCC). Notwithstanding the foregoing, the Collateral shall not include that certain sublease (the "Sublease") dated July 22, 1996 between the Company and E.I. duPont de Nemours and Company ("DuPont") and those assets located on the property covered by the Sublease or those assets used directly or indirectly in connection with the services provided by the Company to DuPont under that certain Tolling/Services Agreement for Industrial Diamonds dated July 22, 1996, all of which assets are located at the Company's facility in Dunbar, Pennsylvania.

SECTION 3.2 GRANT OF LICENSE. The Company hereby grants to the Bank a fully-paid, royalty-free, worldwide right and license to, upon the occurrence of an Event of Default, (a) use, or sell or otherwise transfer, any and all of the Company's Inventory; (b) use or sell any such work-in-process, raw materials or completed or finished products, and (c) accept any and all orders or shipments of products ordered by the Company from manufacturers and use or sell any such products.

SECTION 3.3 PERFECTION. The Company shall execute such financing statements provided for by applicable law, and otherwise take such other action and execute such assignments or other instruments or documents, in each case as the Bank may reasonably request, to evidence, perfect, or record the Bank's security interest in the Collateral or to enable the Bank to exercise and enforce its rights and remedies under this Agreement with respect to any Collateral. The Company hereby authorizes the Bank to execute and file any such financing statement or continuation statement on the Company's behalf. The parties acknowledge that a carbon, photographic, or other reproduction of this Agreement shall be sufficient as a financing statement to the extent permitted by law.

SECTION 3.4 GENERAL REPRESENTATIONS AS TO COLLATERAL. The Company represents that the Schedule attached as Exhibit C hereto sets forth: (a) the principal place of business of the Company and the office where its chief executive offices and accounting offices are located, (b) the office where Company keeps its records concerning the Accounts Receivable and General Intangibles, (c) the location of the Company's registered office, (d) each location at which is located any Inventory, Equipment or other tangible Collateral of the Company, including, without limitation, the location of any warehouse, bailee or consignee at which Collateral is located, and (e) all trade names, assumed names, fictitious names and other names used by the Company during the five (5) years prior to the date hereof.

SECTION 3.5 TITLE TO COLLATERAL; LIENS; TRANSFERS. The Company has good, clear and merchantable title to and ownership of the Collateral, free and clear of all Liens, except for Permitted Liens. Except as otherwise provided herein or in any other Loan Document, and except as to Permitted Liens and sale of Inventory in the ordinary course of business, the Company shall not encumber, pledge, mortgage, grant a security interest in, assign, sell, lease or otherwise dispose of or transfer, whether by sale, merger, consolidation, liquidation, dissolution or otherwise, any of the Collateral.

SECTION 3.6 CHANGES AFFECTING PERFECTION. The Company shall not, without giving the Bank thirty (30) days prior notice thereof: (a) make any change in any location where Company's Equipment or material amounts of Company's Inventory is maintained or locate any of the Company's Equipment or material amounts of the Company's Inventory at any new locations, (b) make any change in the location of its chief executive office, principal place of business or the office where Company's records pertaining to its Accounts and General Intangibles are kept, (c) add any new places of business or close any of its existing places of business, (d) make any change in Company's name or adopt any trade names, assumed names or fictitious names or otherwise add any name under which the Company does business, or (e) make any other change (other than sales of Inventory in the ordinary course of business) which might affect the perfection or priority of the Bank's Lien in the Collateral.

SECTION 3.7 POWER OF ATTORNEY FOR INSURANCE. Upon request of the Bank, the Company shall promptly deliver to the Bank true copies of all reports made to insurance companies. The Company hereby irrevocably makes, constitutes, and appoints the Bank (and all officers, employees, or agents designated by the Bank) as its true and lawful attorney-in-fact and agent, with full power of substitution, such that the Bank shall have the right and authority, upon the occurrence and during the continuance of an Event of Default which has not been

waived in writing by the Bank as required by this Agreement, to make and adjust claims under such policies of insurance, receive and endorse the name of the Company on, any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and make all determinations and decisions with respect to such policies of insurance. The Company hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable. Without waiving or releasing any obligation, Potential Default or Event of Default by the Company under this Agreement, the Bank may (but shall not be required to) at any time or times thereafter maintain such action with respect thereto as the Bank deems advisable. All sums disbursed by the Bank in connection therewith (including, but not limited to, reasonable attorneys' and paralegals' fees and disbursements, court costs, expenses and other charges relating thereto) shall be payable on demand, and until paid by the Company to the Bank, with interest thereon at the then applicable Federal Funds Effective Rate plus six hundred (600) basis points, and shall be additional Obligations under this Agreement secured by the Collateral.

SECTION 3.8 PROTECTION OF COLLATERAL; REIMBURSEMENT. All insurance expenses and all expenses of protecting, storing, warehousing, insuring, handling, maintaining, and shipping any Collateral, any and all excise, property, sales, use, or other taxes imposed by any state, Federal, or local authority on any of the Collateral, or in respect of the sale thereof, or otherwise in respect of the Company's business operations which, if unpaid, could result in the imposition of any Lien upon the Collateral, shall be borne and paid by the Company. If the Company fails to promptly pay any portion thereof when due, except as may otherwise be permitted under this Agreement or under any of the other Loan Documents, the Bank, at its option, may, but shall not be required to, pay the same. All sums so paid or incurred by the Bank for any of the foregoing and any and all other sums for which the Company may become liable under this Agreement and all reasonable costs and expenses (including reasonable attorneys' fees and paralegals' fees, legal expenses, and court costs, expenses and other charges related thereto) which the Bank may incur in enforcing or protecting its Liens on

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or rights and interests in the Collateral or any of its rights or remedies under this Agreement or any other agreement between the parties to this Agreement or in respect of any of the transactions to be had under this Agreement shall be repayable within five (5) Business Days of demand and if not paid within said five (5) Business Day period, which amount shall also accrue interest, until paid by the Company to the Bank with interest thereon at a rate per annum equal to the Federal Funds Effective Rate plus six hundred (600) basis points, shall be additional Obligations under this Agreement secured by the Collateral. Unless otherwise provided by law, neither the Bank nor any Affiliate of the Bank shall be liable or responsible in any way for the safekeeping of any of the Collateral or for any loss or damage thereto or for any diminution in the value thereof, or for any act or default of any warehouseman, carrier, forwarding agency, or other Person whomsoever.

SECTION 3.9 INSPECTION; VERIFICATION. During regular business hours and with prior notice to the Company, the Bank (by any of its officers, employees, agents, representatives, or designees) shall have the right to inspect the Company's Collateral and to inspect and audit, all books, records, journals, orders, receipts, or other correspondence related thereto (and to make extracts or copies thereof as the Bank may desire) and to inspect the premises upon which any of the Collateral is located for the purpose of verifying the amount, quality, quantity, value, and condition of, or any other matter relating to, the Collateral, provided, however, that upon the occurrence and during the continuance of an Event of Default, the Bank may exercise such access and other rights at any time the Bank deems such action necessary or desirable. In addition to inspections as outlined above, the Bank or its designee shall have the right to make test verifications of the Accounts Receivable and other Collateral and physical verifications of the Inventory and other tangible items of the Collateral in any manner and through any commercially reasonable medium that the Bank considers advisable, and the Company agrees to furnish all such assistance and information as the Bank may require in connection therewith. The Company shall pay the costs for each of one such inspection and one such verification in each 12-month period; PROVIDED, HOWEVER that if an Event of Default has occurred and is continuing, the Company shall pay the costs of all such inspections and verifications.

SECTION 3.10 ASSIGNMENTS, RECORDS AND SCHEDULES OF ACCOUNTS. On or before the thirtieth (30th) calendar day of each month from and after the date of this Agreement, the Company shall deliver to the Bank, in form and substance acceptable to the Bank, a summary aged trial balance of the Company's Accounts Receivables dated as of the last day of the preceding month (and upon the Bank's request, a detailed aged trial balance, of all then existing Accounts Receivable specifying the names, face value and dates of invoices for each Account Debtor obligated on an Account Receivable so listed). In addition, upon the Bank's request, the Company shall furnish the Bank with copies of proof of delivery and the original copy, if available, of all documents relating to the Accounts

Receivable including, but not limited to, repayment histories and present status reports, and such other matters and information relating to the status of then existing Accounts Receivable as the Bank shall reasonably request. If, upon the occurrence of an Event of Default, the Bank so requests, the Company shall execute and deliver to the Bank, on forms supplied by the Bank and at such intervals as the Bank may from time to time require, written assignments of all of its Accounts after shipment of the subject goods, together with copies of invoices and/or invoice registers related thereto.

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SECTION 3.11 REPORTING REGARDING INVENTORY. The Company shall report inventory figures no later than thirty (30) days after the end of each month based upon month-end balances reconciled to the period end balance sheet. The Company's Inventory shall be reported based upon reconciliation of the financial statements to the perpetual inventory system or a regular physical count as the case may be, and: (a) the values shown on reports of Inventory shall be at the lower of cost or market value determined in accordance with the Company's usual cost accounting system, consistently applied, and (b) no later than thirty (30) days after the end of each month, or more frequently, if the Bank shall so request, the Company shall submit to the Bank an inventory report, the Company's perpetual inventory records and its general ledger, broken down into such detail and with such categories as the Bank shall require.

SECTION 3.12 OTHER COLLATERAL REPORTS. The Company shall furnish the Bank with, on or before the thirtieth (30th) day of each month from and after the date of this Agreement, a report listing the schedule of backlog of orders being processed by the Company, and such other reports regarding other Collateral as the Bank from time to time reasonably may request.

#### ARTICLE IV. COLLECTION OF ACCOUNTS AND LOCKBOX

##### SECTION 4.1 LOCKBOX; RECEIPT IN TRUST.

(a) MAINTENANCE OF LOCKBOX. The Company has rented and shall continue to rent the post office boxes in the name of the Company (the "Lockboxes") as and having the addresses set forth in the Schedule attached as Exhibit C hereto, and such other Lockboxes and addresses as the Bank upon request of the Company may approve from time to time. The Company shall notify all of its customers and Account Debtors to forward all Collections of every kind due the Company to one of the Lockboxes (such notices to be in such form and substance as the Bank may require from time to time). The Company shall establish and, unless otherwise directed by the Bank, maintain blocked accounts ("Blocked Accounts") with such other banks as are acceptable to the Bank, as set forth in each case in the Schedule attached as Exhibit C hereto (collectively, the "Lockbox Banks"). Each Lockbox Bank and the Company shall have entered into a Lockbox Agreement with respect to the Lockboxes controlled by such Lockbox Bank and with the Bank with respect to the Blocked Account maintained as such Lockbox Bank, each such Lockbox Agreement in form and substance satisfactory to the Bank. All collections from Account Debtors ("Collections") sent directly to the Lockboxes shall be deposited into the Blocked Account in accordance with the terms of the applicable Lockbox Agreement. The Company will promptly deposit all remittances from Account Debtors submitted to the Company ("Remittances"), in the identical form in which such Remittances were made (except for any necessary endorsements), whether by cash or check, into the applicable Blocked Account or the Cash Collateral Account established pursuant to Section 4.2 below. Only the Lockbox Banks, and to the extent not inconsistent with the applicable Lockbox Agreement, the Bank, shall have at all times sole access to the Lockboxes. The Company shall take all action necessary to grant the Lockbox Banks and, to the extent not inconsistent with the applicable Lockbox Agreements, the Bank such sole access. At no time shall the Company remove any item from any Lockbox without the Bank's prior written consent. The Company shall notify all customers or Account Debtors to pay all Collections to the Lockboxes and all payees to pay all Remittances to the Lockboxes, the Blocked Accounts or such Cash Collateral Account. The Company shall not instruct any Account Debtor or

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payee to pay any Collection or Remittance to any other place or address without the Bank's prior written consent. If the Company neglects or refuses to notify any customer or Account Debtor to pay any Collection to the applicable Lockbox, the Bank shall be entitled to make such notification. To the extent not inconsistent with the applicable Lockbox Agreement, the Company hereby grants to the Bank an irrevocable power of attorney, coupled with an interest, to take in the Company's name all action necessary to: (i) grant the Bank sole access to the Lockbox, (ii) after the occurrence and during the continuance of an Event of Default, contact Account Debtors to pay any Collections to the Lockbox or for any other reason, and (iii) endorse each Collection or Remittance delivered to the Lockbox for deposit to the Cash Collateral Account.

(b) RECEIPT IN TRUST. Any Collections or Remittances received directly by

the Company shall be deemed held by the Company in trust and as fiduciary for the Bank. The Company immediately shall deposit any such Collection or Remittance, in its original form, into one of the Blocked Accounts or into the Cash Collateral Account. Pending such deposit, the Company agrees that it will not commingle any such Collection or Remittance with any of the Company's other funds or property, but will hold it separate and apart therefrom in trust and as fiduciary for the Bank until deposit is made into a Blocked Account or the Cash Collateral Account.

SECTION 4.2 CASH COLLATERAL ACCOUNT. Each Lockbox Bank shall acknowledge and agree, in a manner satisfactory to the Bank, that: (i) all Collections and Remittances deposited in the Blocked Accounts are the sole and exclusive property of the Bank, and (ii) such Lockbox Bank shall have no right to setoff (except as the Bank may expressly agree upon in writing) against the Blocked Accounts. In accordance with the terms of the applicable Lockbox Agreements, each Lockbox Bank will wire, or otherwise transfer immediately available funds in a manner satisfactory to the Bank, all Collections and Remittances deposited into the Blocked Accounts to the Cash Collateral Account on a daily basis as soon as good funds in respect to such Collection and Remittances are collected. All funds in the Cash Collateral Account shall be deemed to be the property of the Bank and shall be subject only to the signing authority designated from time to time by the Bank. The Company shall have no control over such funds. The Bank shall have sole access to the Cash Collateral Account, and the Company shall have no access thereto. The Company hereby grants to the Bank a security interest in all funds held in any Lockbox and, to the extent funds in the Cash Collateral Account were to be construed to be the property of the Company, all funds held in the Cash Collateral Account as security for the Obligations. The Cash Collateral Account shall not be subject to any deduction, set-off, banker's lien or any other right in favor of any person or entity other than the Bank. Prior to the occurrence of an Event of Default which is continuing, deposits to the Cash Collateral Account shall be: (i) applied immediately against the principal and/or interest of the Loans and/or other Obligations all in such order and method of application as may be elected by the Bank in its sole discretion; PROVIDED, HOWEVER, that the Bank will use reasonable efforts to avoid applications that would cause early prepayment of a LIBOR Rate Loan prior to the expiration of its applicable Interest Period, or (ii) to the extent not so applied by the Bank, release to the Company for use in the Company's business.

SECTION 4.3 CREDITING OF COLLECTIONS AND REMITTANCES. For the purpose of calculating interest and determining the aggregate Loans outstanding and resulting loan availability hereunder, all Collections and Remittances shall be credited to the Company on the Business Day or on the next

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Business Day after which the Bank receives notice of the deposit of the proceeds of such Collections and Remittances into the Cash Collateral Account, and is in good funds with respect thereto, prior to 2:00 p.m. (Denver, Colorado time). From time to time, upon advance written notice to the Company, the Bank may adopt such additional or modified regulations and procedures as it may deem reasonable and appropriate with respect to the operation of the Cash Collateral Account and the services to be provided by the Bank under this Agreement.

SECTION 4.4 COST OF COLLECTION. All reasonable costs of collection of the Company's Accounts Receivable, including out-of-pocket expenses, administrative and record-keeping costs, reasonable attorney's fees, and all service charges and costs related to the establishment and maintenance of the Cash Collateral Account, shall be the sole responsibility of the Company, whether the same are incurred by the Bank or the Company, and the Bank, in its sole discretion, may charge the same against the Company and/or any account maintained by the Company with the Bank and the same shall be deemed part of the Obligations hereunder. The Company hereby indemnifies and holds the Bank harmless from and against any loss or damage with respect to any Collection or Remittance deposited in the Cash Collateral Account which is dishonored or returned for any reason. If any Collection or Remittance deposited in the Cash Collateral Account is dishonored or returned unpaid for any reason, the Bank, in its sole discretion, may charge the amount of such dishonored or returned Collection or Remittance directly against the Company and/or any account maintained by the Company with the Bank and such amount shall be deemed part of the Obligations hereunder. The Bank shall not be liable for any loss or damage resulting from any error, omission, failure or negligence on the part of the Bank under this Agreement, except losses or damages resulting from the Bank's gross negligence or willful misconduct as determined by a final judgment of a court of competent jurisdiction.

SECTION 4.5 RETURN OF FUNDS. Upon the payment in full of all Obligations: (a) the Bank's security interests and other rights in funds in the Cash Collateral Account under Section 4.2 of this Agreement shall terminate, (b) all rights to such funds shall revert to the Company, and (c) the Bank will, at the Company's expense, take such steps as the Company may reasonably request to evidence the termination of such security interests and to effect the return to the Company of such funds.

SECTION 4.6 NOTICE TO ACCOUNT DEBTORS. The Company hereby authorizes the Bank, upon the occurrence and during the continuance of an Event of Default, in accordance with the powers conferred upon the Bank pursuant to any applicable provision of this Agreement, to: (a) notify any or all Account Debtors that the Accounts Receivable have been assigned to the Bank, for the benefit of the Bank, and that the Bank has a security interest therein, and (b) direct such Account Debtors to make all payments due from them to the Company upon the Accounts Receivable directly to the Bank or to a Lockbox designed by the Bank; provided, however, that the Bank shall not exercise any of its rights under this sentence unless: (i) the Company has failed to so notify or direct any such Account Debtor following a request from the Bank to the Company for such notification or direction, or (ii) the Bank reasonably believes that the Company has failed to so notify or direct any such Account Debtor. The Bank shall promptly furnish the Company with a copy of any such notice sent. Any such notice, in the Bank's sole discretion, may be sent on the Company's stationery, in which event the Company shall co-sign such notice with the Bank.

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SECTION 4.7 APPOINTMENT OF ATTORNEY-IN-FACT. The Company hereby irrevocably appoints the Bank (and all persons designated by the Bank) as the Company's true and lawful attorney (and agent-in-fact) authorized, upon the occurrence and during the continuance of an Event of Default in the Company's or the Bank's name, to (i) demand payment of the Accounts Receivable, (ii) enforce payment of the Accounts Receivable, by legal proceedings or otherwise, (iii) exercise all of the Company's rights and remedies with respect to the collection of the Accounts and any other Collateral, (iv) settle, adjust, compromise, extend, or renew the Accounts Receivable, (v) settle, adjust, or compromise any legal proceedings brought to collect the Accounts Receivable, (vi) if permitted by applicable law, sell or assign the Accounts Receivable and other Collateral upon such terms, for such amounts, and at such time or times as the Bank deems advisable, (vii) discharge and release the Accounts Receivable and any other Collateral, (viii) take control, in any manner, of any item of payment or proceeds relating to any Collateral, (ix) prepare, file, and sign the Company's name on a proof of claim in bankruptcy or similar document against any Account Debtor, (x) prepare, file, and sign the Company's name on any notice of Lien, assignment, or satisfaction of Lien or similar document in connection with the Accounts Receivable, (xi) do all acts and things necessary, in the Bank's discretion, to fulfill the Company's obligations under this Agreement, (xii) endorse the name of the Company upon any of the items of payment or proceeds relating to any Collateral and deposit the same to the account of the Bank on account of the Obligations, (xiii) endorse the name of the Company upon any Chattel Paper, document, Instrument, invoice, freight bill, bill of lading, or similar document or agreement relating to the Accounts Receivable, Inventory and any other Collateral, (xiv) use the Company's stationery and sign the name of the Company to verifications of the Accounts Receivable and notices thereof to Account Debtors, (xv) use the information recorded on or contained in any data processing equipment and computer hardware and software relating to the Accounts Receivable, Inventory, and any other Collateral to which the Company has access, and (xvi) notify post office authorities to change the address for delivery of the Company's mail to an address designated by the Bank, receive and open all mail addressed to the Company, and, after removing all Collections and Remittances and other Proceeds of Collateral, forward the mail to the Company. The Company hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

ARTICLE V. SPECIFIC REPRESENTATIONS, WARRANTIES  
AND COVENANTS RELATING TO COLLATERAL

SECTION 5.1 DISPUTES AND CLAIMS REGARDING ACCOUNTS. The Company shall notify the Bank promptly of all material disputes and claims and settle or adjust them at no expense to the Bank, but no material discount, credit or allowance outside the ordinary course of business or material adverse extension, compromise or settlement shall be granted to any customer or Account Debtor in respect of an Account Receivable and no returns of merchandise outside the ordinary course of business shall be accepted by the Company in settlement or satisfaction of an Account Receivable which settlement or satisfaction would have a Material Adverse Effect, without the Bank's consent which consent shall not be unreasonably withheld.

SECTION 5.2 DEPOSIT ACCOUNTS. Other than: (a) the Blocked Accounts and the Cash Collateral Account, and (b) those other Deposit Accounts disclosed on the Schedule on Exhibit C

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hereto and consented to by the Bank, neither the Company nor any of its Subsidiaries maintains a Deposit Account or trust account for the purpose of collecting and depositing Collections and/or Remittances or otherwise holding

monies of the Company.

SECTION 5.3 COMPLIANCE WITH TERMS OF ACCOUNTS; GENERAL INTANGIBLES. The Company will perform and comply in all material respects with all obligations in respect of Accounts Receivable, Chattel Paper, General Intangibles and under all other contracts and agreements to which it is a party or by which it is bound relating to the Collateral where failure to so comply would result in any material impairment in the value of the Collateral, unless the validity thereof is being contested in good faith by appropriate proceedings and such proceedings do not involve the material danger of the sale, forfeiture or loss of the Collateral which is the subject of such proceedings or the priority of the lien in favor of the Bank thereon.

SECTION 5.4 NO WAIVERS, EXTENSIONS, AMENDMENTS. The Company will not, without the Bank's prior written consent, which consent shall not be unreasonably withheld or delayed, grant any extension of the time of payment of any of the Accounts, Chattel Paper or Instruments, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any person liable for the payment thereof, or allow any credit or discount whatsoever thereon, other than in the ordinary course of business.

SECTION 5.5 LOCATION OF COLLATERAL. All of the locations of the Company and its Subsidiaries and all locations of the Collateral are set forth in the Schedule attached hereto as Exhibit C. Other than as otherwise set forth in the Schedule on Exhibit C hereto, as amended or supplemented by written notice to the Bank: (a) the Company does not keep, and shall not keep, any Collateral owned by it on any property not owned in fee simple by the Company, and (b) each of the Subsidiaries of the Company does not keep, and shall not keep, any Collateral owned by it on any property not owned in fee simple by the Company except to the extent permitted by this Agreement.

SECTION 5.6 LIEN PRIORITY. From and after the date of this Agreement, by reason of the filing of financing statements and termination statements in all requisite government offices, this Agreement and the Loan Documents will create and constitute a valid and perfected first priority security interest (except as permitted by this Agreement and subject to Permitted Liens) in and Lien on that portion of the Collateral which can be perfected by such filing or delivery, which security interest will be enforceable against the Company and all third parties as security for payment of all Obligations.

SECTION 5.7 LIEN WAIVERS; LANDLORD, BAILEE AND CONSIGNEE WAIVERS, WAREHOUSE RECEIPTS. The Company will not create, permit or suffer to exist and will defend the Collateral against and take such other action as is necessary to remove, any Lien, claim or right, in or to the Collateral, other than the Permitted Liens. The Company shall defend the right, title and interest of the Bank in and to any of the Company's rights to the Collateral and in and to the Proceeds and products thereof against the claims and demands of all Persons. In the event any Collateral of the Company comprising personal property subject to the security interest or Lien in favor of the Bank is at any time located on any real property not owned by the Company, the Company will obtain and maintain in effect at all times while any such Collateral is so located valid and effective lien waivers,

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in form and substance reasonably satisfactory to the Bank whereby each owner, landlord, consignee, bailee and mortgagee having an interest in such real property shall disclaim any interest in such Collateral, as the case may be, and shall agree to allow the Bank reasonable access to such real property in connection with any enforcement of the security interest granted hereunder.

SECTION 5.8 MAINTENANCE OF INSURANCE. The Company will maintain with financially sound and reputable companies, insurance policies: (a) insuring the real property portion of the Collateral, the Equipment, the Inventory, and all equipment subject to any lease, against loss by fire, explosion, theft, flood (if any such properties are located in a federally designated flood hazard area) and such other casualties as are usually insured against by companies engaged in the same or similar businesses, and (b) insuring the Company and the Bank against liability for personal injury and property damage relating to such real property, Equipment, Inventory and equipment covered by any equipment lease, such policies to be in such form and in such amounts and coverage as may be reasonably satisfactory to the Bank, with losses payable to the Company and the Bank as their respective interests may appear. All insurance with respect to the real property, Equipment and Inventory shall: (i) provide that no cancellation, reduction in amount, change in coverage or expiration thereof, shall be effective until at least thirty (30) days after written notice to the Bank thereof. and (ii) be satisfactory in all respects to the Bank.

SECTION 5.9 MAINTENANCE OF EQUIPMENT. The Company will keep and maintain each item of Equipment necessary for the operation of the Company's business in good operating condition, ordinary wear and tear excepted, and the Company will provide all maintenance and service, and all repairs necessary for such purpose.

SECTION 5.10 LIMITATIONS ON DISPOSITIONS OF INVENTORY AND EQUIPMENT. The Company will not sell, transfer, lease or otherwise dispose of any of the Inventory or Equipment, or attempt, offer or contract to do so, except for (a) dispositions of Inventory in the ordinary course of business, and (b) so long as no Event of Default has occurred, the disposition of obsolete or worn out Equipment in the ordinary course of business and other dispositions of Equipment permitted by this Agreement.

SECTION 5.11 GENERAL APPOINTMENT AS ATTORNEY-IN-FACT. The Company hereby irrevocably constitutes and appoints the Bank and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Company and in the name of the Company or in its own name, from time to time following the occurrence of an Event of Default and for such time as such Event of Default is continuing, in the Bank's reasonable discretion, for the purpose of carrying out the terms of this Agreement, without notice (except as specifically provided herein) to or assent by the Company, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to effect the terms of this Agreement, including, without limiting the generality of the foregoing, the power and right, on behalf of the Company, to do the following, upon notice to the Company: (a) to pay or discharge taxes, liens, security interests or other encumbrances levied or placed on or threatened against the Collateral, to effect any repairs or any insurance, called for by the terms of this Agreement and to pay all or any part of the premiums therefor and the costs thereof, and otherwise to itself perform or comply with, or otherwise cause performance or

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compliance with, any of the covenants or other agreements of the Company contained in this Agreement which the Company has failed to perform or with which the Company has not complied, (b) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of component jurisdiction to collect the Collateral or any thereof and to enforce any other right in respect of any Collateral; (c) to defend any suit, action or proceeding brought against the Company with respect to any Collateral; (d) to settle, compromise or adjust any suit, action or proceeding described above and, in connection therewith, to give such discharges or releases as the Bank may deem appropriate; (e) to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Bank were the absolute owner thereof for all purposes; and (f) to do, at the Bank's option and the Company's expense, at any time, or from time to time, all acts and things which the Bank deems necessary, to protect, preserve or realize upon the Collateral and the Bank's security interest therein, in order to effect the intent of this Agreement, all as fully and effectively as the Company might do. This power of attorney is a power coupled with an interest and shall be irrevocable.

SECTION 5.12 BANK NOT LIABLE. The powers conferred on the Bank hereunder are solely to protect its interests in the Collateral and shall not impose any duty upon it to exercise any such powers. The Bank shall be accountable only for amounts that it actually receives as a result of the exercise of such powers and neither it nor any of its officers, directors, employees or agents shall be responsible to the Company for any act or failure to act, except for its own gross negligence or willful misconduct.

SECTION 5.13 AUTHORITY TO EXECUTE TRANSFERS. Without limitation of any authorization granted to the Bank hereunder, the Company also hereby authorizes the Bank, upon the occurrence of an Event of Default, to execute, in connection with the exercise by the Bank of its remedies hereunder, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

SECTION 5.14 PERFORMANCE BY BANK OF THE COMPANY'S OBLIGATIONS. If the Company fails to perform or comply with any of its agreements contained herein and the Bank shall itself perform or comply, or otherwise cause performance or compliance with, such agreement, the expenses of the Bank incurred in connection with such performance or compliance together with, interest thereon at the interest rate provided for in Section 2.5(c) hereof in effect from time to time, shall be payable by the Company to the Bank within five (5) Business Days following demand.

#### ARTICLE VI. GENERAL REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Bank (which representations and warranties will survive the delivery of the Notes and all extensions of credit under this Agreement) that:

##### SECTION 6.1 ORGANIZATION; CORPORATE POWER.

(a) The Company is a corporation duly organized, validly existing, and in good standing under the laws of the jurisdiction in which it is incorporated;

(b) The Company has the corporate power and authority to own its properties and assets and to carry on its business as now being conducted,

(c) The Company is qualified to do business in every jurisdiction in which the ownership or leasing of its property or the doing of business requires such qualification and the failure of such qualification would have a Material Adverse Effect: and

(d) The Company has the corporate power to execute, deliver, and perform its obligations under the Loan Documents and to borrow hereunder.

SECTION 6.2 AUTHORIZATION OF LOAN. The execution, delivery, and performance of the Loan Documents and the Loans by Company have been duly authorized by all requisite corporate action.

SECTION 6.3 NO CONFLICT. The execution, delivery, and performance of the Loan Documents will not (a) violate any provision of any law, rule or regulation, the Articles of Incorporation of Company, or By-Laws of Company, (b) violate any order of any court or other agency of any federal or state government or any provision of any material indenture, agreement, or other instrument to which Company is a party or by which it or any of its properties or assets are bound, (c) conflict with, result in a breach of, or constitute (with passage of time or delivery of notice, or both), a default under any such material indenture, agreement, or other instrument, or (d) result in the creation or imposition of any Lien, other than a Permitted Lien, or other encumbrance of any nature whatsoever upon any of the properties or assets of the Company except in favor of the Bank.

SECTION 6.4 EXECUTION OF LOAN DOCUMENTS. The Loan Documents have been duly executed and are valid and binding obligations of the Company fully enforceable in accordance with their respective terms.

SECTION 6.5 FINANCIAL CONDITION. The following information with respect to the Company has heretofore been furnished to the Bank:

(a) Audited annual financial statements of the Company for the periods ended December 31, 1996 and December 31, 1997;

(b) Unaudited, internally prepared financial statements of the Company for the ten-month period ending October 31, 1998; and

(c) Pro forma financial statements of the Company as of December 1, 1998, including a consolidated opening balance sheet and a consolidated statement of profit and loss of the Company, which pro forma financial statements reflect the Company's purchase of the Precision Machined Products assets and the liabilities incurred by the Company related to such purchase.

Each of the financial statements referred to above in this Section 6.5 was prepared in accordance with GAAP (subject in the case of interim statements, to the absence of footnotes and

normal year-end adjustments) applied on a consistent basis, except as stated therein. Each of the financial statements referred to above in this Section 6.5 fairly presents the financial condition or pro forma financial condition, as the case may be, of the Company and is complete and correct in all material respects and no Material Adverse Effect has occurred since the date thereof.

SECTION 6.6 LIABILITIES; LIENS. The Company has made no investment in, advance to, or guarantee of, the obligations of any Person nor are the Company's assets and properties subject to any claims, liabilities, Liens, or other encumbrances, except as disclosed in the financial statements and related notes thereto referred to in Section 6.5 hereof.

SECTION 6.7 LITIGATION. There is no action, suit, examination, review, or proceeding by or before any governmental instrumentality or agency now pending (including any claims alleging infringement of intellectual property rights of others) or, to the knowledge of the Company, threatened against the Company or against any property or rights of the Company, which, if adversely determined, would materially impair the right of the Company to carry on its business as now being conducted, would materially adversely affect the financial condition of the Company, or would draw into question the legal existence of the Company or the validity authorization or enforceability of any of the Loan Documents, except for the litigation, if any, described in the notes to the financial statements referred to in Section 6.5 hereof.

SECTION 6.8 PAYMENT OF TAXES. The Company has accurately prepared and timely filed, or caused to be filed, all Federal, state, local, and foreign tax

returns required to be filed, and has paid, or caused to be paid, all taxes as are shown on such returns, or on any assessment received by the Company, to the extent that such taxes become due, except as otherwise contested in good faith. The Company has set aside proper amounts on its books, determined in accordance with GAAP, for the payment of all taxes for the years that have not been audited by the respective tax authorities or for taxes being contested by the Company.

SECTION 6.9 ABSENCE OF ADVERSE AGREEMENTS. The Company is not a party to any indenture, loan or credit agreement or any lease or other agreement or instrument or subject to any corporate or partnership restriction which would be reasonably likely to have a Material Adverse Effect.

SECTION 6.10 REGULATORY STATUS. Neither the making nor the performance of this Agreement, nor any extension of credit hereunder, requires the consent or approval of any governmental instrumentality or political subdivision thereof, any other regulatory or administrative agency, or any court of competent jurisdiction.

SECTION 6.11 FEDERAL RESERVE REGULATIONS: USE OF LOAN PROCEEDS. The Company is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any Margin Stock. No part of the proceeds of the Loans will be used, directly or indirectly, for a purpose which violates any law, rule or regulation of any governmental body, including without limitation the provisions of Regulations G, U, or X of the Board of Governors of the Federal Reserve System, as amended. No part of the proceeds of the

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Loans will be used, directly or indirectly, to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock.

SECTION 6.12 SUBSIDIARIES. The Company has no Subsidiaries.

SECTION 6.13 ERISA. The Company and any Commonly Controlled Entity do not maintain or contribute to any Plan which is not in substantial compliance with ERISA. Neither the Company nor any Commonly Controlled Entity maintains, contributes to, or is required to make or accrue a contribution or has within any of the six preceding years maintained, contributed to or been required to make or accrue a contribution to any Plan subject to regulation under Title IV of ERISA, any Plan that is subject to the minimum funding requirements of Section 412 of the Code or Section 302 of ERISA, or any Multiemployer Plan.

SECTION 6.14 SOLVENCY. The Company has received consideration which is the reasonable equivalent value of the obligations and liabilities that the Company has incurred to the Bank. The Company is not insolvent as defined in any applicable state or federal statute, nor will the Company be rendered insolvent by the execution and delivery of this Agreement or the Notes. The Company is not engaged or about to engage in any business or transaction for which the assets retained by it shall be an unreasonably small capital, taking into consideration the obligations to Bank incurred hereunder. The Company does not intend to, nor does it believe that it will, incur debts beyond its ability to pay them as they mature.

SECTION 6.15 SCHEDULE ON EXHIBIT C. The Schedule on Exhibit C accurately and completely lists the location of all real property owned or leased by the Company. The Company enjoys quiet possession under all material leases of real property to which it is a party as a lessee, and all of such leases are valid, subsisting and, in full force and effect. Except as specified in the Schedule in Exhibit C hereto, none of the real property occupied by the Company is located within any federal, state or municipal flood plain zone. Except as set forth in the Schedule in Exhibit C, all of the material properties used in the conduct of the Company's business (i) are in good repair, working order and condition (reasonable wear and tear excepted) and reasonably suitable for use in the operation of the Company's business; and (ii) are currently operated and maintained, in all material respects, in accordance with the requirements of applicable governmental authorities.

SECTION 6.16 ACCURACY OF REPRESENTATIONS AND WARRANTIES. None of the Company's representations or warranties set forth in this Agreement or in any document or certificate furnished pursuant to this Agreement or in connection with the transactions contemplated hereby contains any untrue statement of a material fact or omits to state a material fact necessary to make any statement of fact contained herein or therein, in light of the circumstances under which it was made not misleading.

SECTION 6.17 NO INVESTMENT COMPANY. The Company is not an "investment company" or a Company "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended, which is required to register thereunder.

SECTION 6.18 APPROVALS. Except as set forth in the Schedule in Exhibit C hereto, all approvals required of the Company from all Persons including without limitation all governmental authorities with respect to the Loan Documents have been obtained.

SECTION 6.19 LICENSES, REGISTRATIONS, COMPLIANCE WITH LAWS, ETC. The Schedule in Exhibit C hereto accurately and completely describes all permits, governmental licenses, registrations and approvals, material to carrying out of the Company's businesses as presently conducted and required by law or the rules and regulations of any federal, foreign governmental, state, county or local association, corporation or governmental agency, body, instrumentality or commission having jurisdiction over the Company, including but not limited to the United States Environmental Protection Agency, the United States Department of Labor, the United States Occupational Safety and Health Administration, the United States Equal Employment Opportunity Commission, the Federal Trade Commission and the United States Department of Justice and analogous and related state and foreign agencies. All existing material authorizations, licenses and permits are in full force and effect, are duly issued in the name of, or validly assigned to the Company and the Company has full power and authority to operate thereunder. There is no material violation or material failure of compliance or, to the Company's knowledge, allegation of such violation or failure of compliance on the part of the Company with any of the foregoing permits, licenses, registrations, approvals, rules or regulations and there is no action, proceeding or investigation pending or to the knowledge of the Company threatened nor has the Company received any notice of such which might result in the termination or suspension of any such permit, license, registration or approval which in any case could have a Material Adverse Effect.

SECTION 6.20 COPYRIGHT. The Company has not violated any of the provisions of the Copyright Revision Act of 1976, 17 U.S.C. ss. 101, ET SEQ. Except as set forth on the Schedule on Exhibit C hereto, the Company has not filed any registration statements, notices and statements of account with the United States Copyright Office. The Schedule on Exhibit C hereto accurately and completely sets forth all registered copyrights held by the Company and contains exceptions to the representations contained in this Section 6.20. To the Company's knowledge no inquiries regarding any such filings have been received by the Copyright Office.

SECTION 6.21 ENVIRONMENTAL COMPLIANCE. Except as expressly set forth in the Schedule on Exhibit C hereto, neither the Company, nor, to the knowledge of management of the Company, any other Person has:

(a) ever caused, permitted, or suffered to exist any Hazardous Material to be spilled, placed, held, located or disposed of on, under, or about, any of the premises owned or leased by the Company (the "Premises"), or from the Premises into the atmosphere, any body of water, any wetlands, or on any other real property, nor does any Hazardous Material exist on, under or about the Premises, or in respect of Hazardous Material used or disposed of in compliance with law;

(b) ever used (whether by the Company or by any other Person) as a treatment, storage or disposal (whether permanent or temporary) site for any Hazardous Waste as defined in 42 U.S.C.A. ss. 6901, ET SEQ. (the Resource Recovery and Conservation Act); and

(c) any knowledge of any notice of violation, lien or other notice issued by any governmental agency with respect to the environmental condition of the Premises or any other property occupied by the Company.

The Company is in compliance with all Environmental Laws and all other applicable federal, state and local health and safety laws, regulations, ordinances or rules, except to the extent that any non-compliance will not, in the aggregate, have a Materially Adverse Effect on the Company or the ability of the Company to fulfill its obligations under this Agreement or the Notes.

SECTION 6.22 MATERIAL AGREEMENTS, ETC. The Schedule on Exhibit C hereto accurately and completely lists all Material Agreements, all of which are presently in effect. All of the Material Agreements are legally valid, binding, and to the Company's knowledge, in full force and effect and neither the Company nor, to the Company's knowledge, any other parties thereto are in material default thereunder.

SECTION 6.23 PATENTS, TRADEMARKS AND OTHER PROPERTY RIGHTS. The Schedule on Exhibit C hereto contains a complete and accurate schedule of all registered trademarks, registered copyrights and patents of the Company, and pending applications therefor, and all other intellectual property in which the Company has any rights other than "off-the-shelf" software which is generally available to the general public at retail. Except as set forth in the Schedule on Exhibit C hereto, the Company owns, possesses, or has licenses to use all the patents,

trademarks, service marks, trade names, copyrights and nongovernmental licenses, and all rights with respect to the foregoing, necessary for the conduct of its business as now conducted, without, to the Company's knowledge, any conflict with the rights or others with respect thereto.

#### ARTICLE VII. CONDITIONS OF LENDING

SECTION 7.1 FIRST LOAN. The obligation of the Bank to make the initial Loan or Loans shall be subject to satisfaction of the following conditions, unless waived in writing by the Bank: (a) all legal matters and Loan Documents incident to the transactions contemplated hereby shall be reasonably satisfactory, in form and substance, to Bank's counsel; (b) the Bank shall have received (i) certificates by an authorized officer of Company, upon which the Bank may conclusively rely until superseded by similar certificates delivered to the Bank, certifying (A) all requisite action taken in connection with the transactions contemplated hereby, and (B) the names, signatures, and authority of Company's authorized signers executing the Loan Documents, (ii) documentation satisfactory to the Bank evidencing the Acquisition, and (iii) such other documents as the Bank may reasonably require to be executed by, or delivered on behalf of Company; (c) the Bank shall have received the Notes, with all blanks appropriately completed, executed by an authorized signer of Company; (d) the Company shall have paid to the Bank the fee(s) then due and payable in accordance with ARTICLE II, of this Agreement; (e) the Bank shall have received the written opinion of legal counsel selected by Company and satisfactory to the Bank, dated the date of this Agreement, in form satisfactory to the Bank and covering such other matter(s) as the Bank may reasonably require; (f) the Bank shall have received a fixed asset appraisal, satisfactory to the Bank, of the Precision Machined Products Assets performed by KeyCorp Leasing; (g) the Bank shall have received documentation identifying assets of the Company which are pledged to support the Letter

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of Credit Loan; (h) the Bank shall have received an initial Borrowing Base Certificate and loan covenant compliance certificate; and (i) the Company shall have entered into one or more interest rate swap contracts with Key Capital Markets, Inc. fixing interest rates on a minimum of \$5,000,000 in principal amount of the Acquisition Line.

SECTION 7.2 EACH LOAN. The obligation of the Bank to make each Loan shall be subject to satisfaction of the following additional conditions that at the date of making such Loan, and after giving effect thereto: (a) no Event of Default shall have occurred and be then continuing, (b) each representation and warranty set forth in this Agreement and in each of the other Loan Documents is true and correct as if then made, and (c) no event shall have occurred or failed to occur which has or is reasonably likely to have a Material Adverse Effect.

#### ARTICLE VIII. COVENANTS

As long as credit is available hereunder or until all principal of and interest on the Notes have been paid in full:

SECTION 8.1 ACCOUNTING: FINANCIAL STATEMENTS AND OTHER INFORMATION. The Company will maintain a standard system of accounting, established and administered in accordance with GAAP consistently followed throughout the periods involved, and will set aside on its books for each fiscal month the proper amounts or accruals for depreciation, obsolescence, amortization, bad debts, current and deferred taxes, prepaid expenses, and for other purposes as shall be required by GAAP. The Company will deliver to the Bank:

(a) As soon as practicable after the end of each calendar month in each year and in any event within thirty (30) days thereafter, a consolidated and consolidating balance sheet of the Company as of the end of such month, and statements of income, changes in financial position, and shareholders' equity of the Company for such month, certified as complete and correct by the principal financial officer of the Company, subject to changes resulting from year-end adjustments,

(b) As soon as practicable after the end of each fiscal year, and in any event within ninety (90) days thereafter, a consolidated and consolidating balance sheet of the Company as of the end of such year, and statements of income, changes in financial position, and shareholders' equity of the Company for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and accompanied by a report and an unqualified opinion of independent certified public accountants of recognized standing, selected by the Company and satisfactory to the Bank, which report and opinion shall be prepared in accordance with generally accepted auditing standards, together with a certificate by such accountants (i) briefly setting forth the scope of their examination (which shall include a review of the relevant provisions of this Agreement and stating that in their judgment such examination is sufficient to enable them to give the certificate, and (ii) stating whether their examination has disclosed the existence of any condition or event which constitutes an Event of Default under this Agreement, and, if

their examination has disclosed such a condition or event, specifying the nature and period of existence thereof;

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(c) promptly after the filing thereof, copies of the state and federal tax returns of the Company and all schedules thereto;

(d) promptly upon their distribution, copies of all financial statements, reports and proxy statements which the Company shall have sent to its stockholders, and promptly after the sending or filing thereof, copies of all regular and periodic reports which the Company shall file with the Securities and Exchange Commission or any national securities exchange;

(e) As soon as practicable, and in any event within thirty (30) days of the end of each calendar month in each year, a certificate by the Company and all relevant facts in reasonable detail to evidence, and the computations as to, whether or not the Company is in compliance with the financial covenants set forth in Sections 8.15 through 8.19 hereof; and

(f) With reasonable promptness, such other data and information as from time to time may be reasonably requested by the Bank.

SECTION 8.2 INSURANCE; MAINTENANCE OF PROPERTIES. The Company will maintain with financially sound and reputable insurers, insurance with coverage and limits as may be required by law or as may be reasonably required by the Bank. The Company will, upon request from time to time, furnish to the Bank a schedule of all insurance carried by it, setting forth in detail the amount and type of such insurance. The Company will maintain in good repair, working order, and condition, all properties used or useful in the business of the Company.

SECTION 8.3 EXISTENCE; BUSINESS. The Company will cause to be done all things necessary to preserve and keep in full force and effect its existence and rights, to conduct its business in a prudent manner, to maintain in full force and effect, and renew from time to time, its franchises, permits, licenses, patents, and trademarks that are necessary to operate its business. The Company will comply in all material respects with all valid laws and regulations now in effect or hereafter promulgated by any properly constituted governmental authority having jurisdiction; PROVIDED, HOWEVER, that the Company shall not be required to comply with any law or regulation which it is contesting in good faith by appropriate proceedings as long as either the effect of such law or regulation is stayed pending the resolution of such proceedings or the effect of not complying with such law or regulation is not to jeopardize any franchise, license, permit patent, or trademark necessary to conduct the Company's business.

SECTION 8.4 PAYMENT OF TAXES. The Company will pay all taxes, assessments, and other governmental charges levied upon any of its properties or assets or in respect of its franchises, business, income, or profits before the same become delinquent, except that no such taxes, assessments, or other charges need be paid if contested by the Company in good faith and by appropriate proceedings promptly initiated and diligently conducted and if the Company has set aside proper amounts, determined in accordance with GAAP, for the payment of all such taxes, changes, and assessments.

SECTION 8.5 LITIGATION; ADVERSE CHANGES. The Company will promptly notify the Bank in writing of (a) any future event which, if it had existed on the date of this Agreement, would have

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required qualification of any of the representations and warranties set forth in this Agreement or any of the other Loan Documents, and (b) any Material Adverse Effect.

SECTION 8.6 NOTICE OF DEFAULT. The Company will promptly notify the Bank of any Event of Default hereunder and any demands made upon the Company by any Person for the acceleration and immediate payment of any Indebtedness owed to such Person.

SECTION 8.7 INSPECTION. The Company will make available for inspection by duly authorized representatives of the Bank, or its designated agent, the Company's books, records, and properties when reasonably requested to do so, and will furnish the Bank such information regarding its business affairs and financial condition within a reasonable time after written request therefor.

SECTION 8.8 ENVIRONMENTAL MATTERS. The Company:

(a) Shall comply with all Environmental Laws, and

(b) Shall deliver promptly to Bank (i) copies of any documents received

from the United States Environmental Protection Agency or any state, county or municipal environmental or health agency, and (ii) copies of any documents submitted by Company to the United States Environmental Protection Agency or any state, county or municipal environmental or health agency concerning its operations.

SECTION 8.9 SALE OF ASSETS. The Company will not, directly or indirectly sell, lease, transfer, or otherwise dispose of any plant or any manufacturing facility or other assets (i) without receipt of full and adequate consideration therefor, or (ii) involving amounts exceeding \$250,000 in any single transaction without making the prepayment required by Section 2.8(d) hereof.

SECTION 8.10 LIENS. The Company will not, directly or indirectly, create, incur, assume, or permit to exist any Lien with respect to any property or asset of the Company now owned or hereafter acquired other than Permitted Liens.

SECTION 8.11 INDEBTEDNESS. The Company will not, directly or indirectly, create, incur, or assume Indebtedness, or otherwise become liable with respect to, any Indebtedness other than:

(a) Indebtedness now or hereafter payable, directly or indirectly, by the Company to the Bank or any Affiliate of the Bank;

(b) Subordinated Debt of the Company;

(c) To the extent permitted by this Agreement, Indebtedness for the lease or purchase price of any real or personal property, which is secured only by a Permitted Lien;

(d) Unsecured Indebtedness and deferred liabilities incurred in the ordinary course of business;

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(e) Indebtedness for taxes, assessments, governmental charges, liens, or similar claims to the extent not yet due and payable;

(f) Indebtedness of the Company existing as of the date of this Agreement, which is expressly disclosed on the Schedule on Exhibit C hereto;

(g) Other Indebtedness of the Company not covered under subparts (a) through (f) of this Section 8.11 not exceeding \$100,000 in the aggregate outstanding at any time; and

(h) Extensions, renewals, refundings, refinancings, modifications, amendments and restatements of any of the items listed in items (b) through (g) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon the Company.

SECTION 8.12 INVESTMENTS; LOANS. Except for Permitted Investments, the Company will not, directly or indirectly, (a) purchase or otherwise acquire or own any stock or other securities of any other Person, or (b) make or permit to be outstanding any loan or advance (other than trade advances in the ordinary course of business) or enter into any arrangement to provide funds or credit, to any other Person.

SECTION 8.13 GUARANTIES. The Company will not guarantee, directly or indirectly, or otherwise become surety (including, without limitation, liability by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to, or otherwise invest in, any Person, or enter into any working capital maintenance or similar agreement) in respect of any obligation or Indebtedness of any other Person, except guaranties by endorsement of negotiable instruments for deposit, collection, or similar transactions in the ordinary course of business.

SECTION 8.14 MERGERS: CONSOLIDATION. The Company will not merge into or consolidate with any other Person or permit any other Person to merge into or consolidate with it, or sell all or substantially all of its assets; EXCEPT that the Company may permit any other Person to merge into or consolidate with it if (i) the Company shall be the corporation which survives such merger or results from such consolidation, (ii) immediately after the consummation of the transaction, and after giving effect thereto, the Company would be permitted by the provisions of this ARTICLE VIII to incur additional Indebtedness, and (iii) before and immediately after the consummation of the transaction, and after giving effect thereto, no Event of Default, or event which with notice or lapse of time or both would become an Event of Default, exists or would exist.

SECTION 8.15 CURRENT RATIO. On the last day of each month during the term of this Agreement, the Company will have a ratio of Current Assets to Current Liabilities (calculated without regard to current maturities of Funded Debt) that is not less than 2.00 to 1.00.

SECTION 8.16 DEBT SERVICE COVERAGE RATIO. The Company shall maintain its

Debt Service Coverage Ratio, as measured on the last day of each calendar quarter during the term of this Agreement for the twelve-month period ending on such date of calculation, at a ratio of not less than 1.25 to 1.00.

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SECTION 8.17 DEBT TO TANGIBLE NET WORTH. The Company shall maintain the ratio of its Total Indebtedness to its Tangible Net Worth, as measured on the last day of each month during each period set forth below, at a ratio that is less than the ratio set forth opposite such period:

PERIOD	RATIO
Date hereof to and including December 31, 1999	4.00 to 1.00
January 1, 2000 to and including December 31, 2000	3.25 to 1.00
January 1, 2001 and thereafter	3.00 to 1.00

SECTION 8.18 FUNDED DEBT TO EBITDA. During each period set forth below, the Company shall maintain the ratio of its Funded Debt to its EBITDA, as measured on the last day of each calendar quarter for the twelve-month period ending on the date of calculation, at a ratio that is less than the ratio set forth opposite such period:

PERIOD	RATIO
Date hereof to and including December 31, 2000	3.50 to 1.00
January 1, 2001 and thereafter	3.00 to 1.00

SECTION 8.19 CAPITAL EXPENDITURES. The Company will not make Capital Expenditures in an aggregate amount in excess of \$1,000,000 in any fiscal year without thirty (30) days' prior written notification to the Bank. Notwithstanding the foregoing, the Capital Expenditure limitation set forth herein shall not include expenditures relating to the Acquisition.

SECTION 8.20 SUBORDINATED DEBT. The Company will not make any payment upon any outstanding Subordinated Debt, except in such manner and amounts as may be expressly authorized in any subordination agreement presently or hereafter held by the Bank.

SECTION 8.21 SENIOR MANAGEMENT. The Company will not replace its President, Chief Executive Officer or Chief Financial Officer without sixty (60) days prior written notice to the Bank and will not accept the resignation of its President, Chief Executive Officer or Chief Financial Officer without providing written notice to the Bank, which notice will be given to the Bank as soon as reasonably possible after the Company has knowledge of the same, but in no event more than three (3) days following the date that the Company obtains such knowledge.

SECTION 8.22 COMPLIANCE WITH ERISA. With respect to the Company and any Commonly Controlled Entity, the Company will not permit the occurrence of any of the following events to the extent that any such events would result in a material Adverse Effect on the Company, (a) withdraw from or cease to have an obligation to contribute to, any Multiemployer Plan, (b) engage in any

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"prohibited transaction" (as defined in Section 4975 of the Code) involving any Plan, (c) except for any deficiency caused by a waiver of the minimum funding requirement under Section 412 of the Code, as described above, incur or suffer to exist any material "accumulated funding deficiency" (as defined in Section 302 of ERISA and Section 412 of the Code) of the Company or any Commonly Controlled Entity, whether or not waived, involving any Single Employer Plan, (d) incur or suffer to exist any Reportable Event or the appointment of a trustee or institution of proceedings for appointment of a trustee for any Single Employer Plan if, in the case of a Reportable Event, such event continues unremedied for ten (10) days after notice of such Reportable Event pursuant to Sections 4043(a), (c) or (d) of ERISA is given, if in the reasonable opinion of the Bank any of the foregoing is likely to result in a Material Adverse Effect, (e) allow or suffer to exist any event or condition, which presents a material risk of incurring a material liability of the Company or any Commonly Controlled Entity to PBGC by reason of termination of any such Plan or (f) cause or permit any Plan maintained by the Company and/or any Commonly Controlled Entity to be out of compliance with ERISA.

#### ARTICLE IX. EVENTS OF DEFAULT

The occurrence of any one or more of the following events shall constitute an Event of Default under this Agreement:

SECTION 9.1 PRINCIPAL OR INTEREST. If the Company fails to pay any installment of principal of or interest on any Note, or any other sums of money when due and payable under this Agreement and such failure continues for forty-eight (48) hours; or

SECTION 9.2 MISREPRESENTATION. If any representation or warranty made herein by Company or in any written statement, certificate, report, or financial statement at any time furnished by, or on behalf of, Company in connection herewith, is incorrect or misleading in any material respect when made; or

SECTION 9.3 FAILURE OF PERFORMANCE OF THIS AGREEMENT. Except as otherwise provided herein, if the Company fails to perform or observe any covenant or agreement contained in this Agreement or any of the other Loan Documents, and such failure remains unremedied for thirty (30) calendar days after the Bank shall have given written notice thereof to the Company; or

SECTION 9.4 CROSS-DEFAULT. If the Company (a) fails to pay any indebtedness or any other sums of money when due and payable under the Letter of Credit Loan or under any other transaction or document evidencing Indebtedness of the Company to the Bank, and such failure continues for forty-eight (48) hours, whether at maturity, by acceleration, or otherwise, or (b) fails to perform any term, covenant, or agreement on its part to be performed under any agreement or instrument (other than the Loan Documents) evidencing, securing, or relating to the Letter of Credit Loan or any other transaction or document evidencing Indebtedness of the Company to the Bank, and such failure remains unremedied for thirty (30) calendar days after the Bank shall have given written notice thereof to the Company, or is otherwise in default thereunder.

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SECTION 9.5 INSOLVENCY. If the Company shall discontinue business or (a) is adjudicated a bankrupt or insolvent under any law of any existing jurisdiction, domestic or foreign, or ceases, is unable, or admits in writing its inability to pay its debts generally as they mature, or makes a general assignment for the benefit of creditors, (b) applies for, or consents to, the appointment of any receiver, trustee, or similar officer for it or for any substantial part of its property, or any such, receiver, trustee, or similar officer is appointed without the application or consent of the Company, and such appointment continues thereafter undischarged for a period of thirty (30) days, (c) institutes, or consents to the institution of any bankruptcy, insolvency, reorganization, arrangement, readjustment or debt, dissolution, liquidation, or similar proceeding relating to it under the laws of any jurisdiction, (d) any such proceeding is instituted against the Company and remains thereafter undismissed for a period of thirty (30) days, or (e) any judgment, writ, warrant of attachment or execution, or similar process is issued or levied against a substantial part of the property of the Company or any Subsidiary and such judgment, writ, or similar process is not effectively stayed within thirty (30) days after its issue or levy.

#### ARTICLE X. REMEDIES UPON DEFAULT

SECTION 10.1 OPTIONAL ACCELERATION. In the event that one or more of the Events of Default set forth in Sections 9.1 through 9.5 above occurs and continues and is not waived by the Bank, then, in any such event, and at any time thereafter, the Bank may, at its option, terminate its commitment to make any Loan and declare the unpaid principal of, and all accrued interest on any Note, including any notes executed in connection with the Letter of Credit Loan, and any other liabilities hereunder, and all other indebtedness of Company to the Bank forthwith due and payable, whereupon the same will forthwith become due and payable without presentment, demand, protest, or other notice of any kind, all of which Company hereby expressly waives, anything contained herein or in any Note to the contrary notwithstanding.

SECTION 10.2 AUTOMATIC ACCELERATION. Intentionally Deleted.

SECTION 10.3 REMEDIES. The Bank shall have the rights and remedies of a secured party under the Uniform Commercial Code in addition to the rights and remedies of a secured party provided elsewhere within the Agreement, the Letter of Credit Loan or in any other writing executed by the Company. The Bank may require the Company to assemble the Collateral and make it available to the Bank at a reasonably convenient place to be designated by the Bank. Unless the Collateral is perishable, threatens to decline speedily in value, or is of a type customarily sold on a recognized market, the Bank will give the Company reasonable notice of the time and place of any public sale of the Collateral or of the time after which any private sale or other intended disposition thereof is to be made. The requirement of reasonable notice shall be met if such notice is mailed (deposited for delivery, postage prepaid, by U.S. mail) to either, at the Bank's option (i) the principal office of the Company as set forth in this Agreement (or as modified by any change therein which the Company has supplied in writing to the Bank), or (ii) the Company's address at which the Bank customarily communicates with the Company, at least ten (10) days before the time of the public sale or the time after which any private sale or other

intended disposition thereof is to be made. At any such public or private sale, the Bank may purchase the Collateral. After deduction for the Bank's Related Expenses, the residue of any such sale or other disposition shall be applied in satisfaction

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of the Obligations in such order of preference as the Bank may determine. Any excess, to the extent permitted by law, shall be paid to the Company, and the Company shall remain liable for any deficiency.

SECTION 10.4 NO WAIVER. The remedies in this ARTICLE X are in addition to, not in limitation of, any other right, power, privilege, or remedy, either in law, in equity, or otherwise, to which the Bank may be entitled. No failure or delay on the part of the Bank in exercising any right, power, or remedy will operate as a waiver thereof, nor will any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right hereunder.

#### ARTICLE XI. MISCELLANEOUS

SECTION 11.1 AMENDMENTS. No waiver of any provision of this Agreement, the Notes, or consent to departure therefrom, is effective unless in writing and signed by the Bank. No such consent or waiver extends beyond the particular case and purpose involved. No amendment to this Agreement is effective unless in writing, and signed by the Company and the Bank.

SECTION 11.2 EXPENSES; DOCUMENTARY TAXES. The Company shall pay (a) all out-of-pocket expenses of the Bank, including fees and disbursements of special counsel for the Bank in connection with the preparation of this Agreement, any waiver or consent hereunder or any amendment hereof or any Event of Default hereunder, and (b) if an Event of Default occurs, all out-of-pocket expenses incurred by the Bank, including reasonable fees and disbursements of counsel, in connection with such Event of Default and collection and other enforcement proceedings resulting therefrom. The Company shall reimburse the Bank for its payment of all transfer taxes, documentary taxes, assessments, or charges made by any governmental authority by reason of the execution and delivery of this Agreement or the Notes.

SECTION 11.3 INDEMNIFICATION. The Company shall indemnify and hold the Bank harmless against any and all liabilities, losses, damages, costs, and expenses of any kind (including, without limitation, the reasonable fees and disbursements of counsel in connection with any investigative, administrative or judicial proceeding, whether or not the Bank shall be designated a party thereto) which may be incurred by the Bank relating to or arising out of this Agreement or any actual or proposed use of proceeds of any Loan hereunder; PROVIDED, HOWEVER, that the Bank shall have no right to be indemnified hereunder for its own negligence, bad faith or willful misconduct as determined by a court of competent jurisdiction. The Company further agrees to indemnify the Bank against any loss or expense which the Bank may sustain or incur as a consequence of any default by the Company in payment when due of any amount due hereunder in respect of any LIBOR Rate Loan, including, but not limited to, any loss of profit, premium, or penalty incurred by the Bank in respect of funds borrowed by it for the purpose of making or maintaining any such Loan, as determined by the Bank in the exercise of its sole but reasonable discretion. A certificate as to any such loss or expense shall be promptly submitted by the Bank to the Company and shall, in the absence of manifest error, be conclusive and binding as to the amount thereof.

SECTION 11.4 CONSTRUCTION. This Agreement and the Notes will be governed by and construed in accordance with the laws of the State of Colorado, without regard to principles of

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conflict of laws. The several captions to different Sections of this Agreement are inserted for convenience only and shall be ignored in interpreting the provisions hereof.

SECTION 11.5 EXTENSION OF TIME. Whenever any payment hereunder or under any Note becomes due on a date which the Bank is not open for the transaction of business, such payment will be due on the next succeeding Business Day and such extension of time will be included in computing interest in connection with such payment.

SECTION 11.6 NOTICES. All written notices, requests, or other communications herein provided for must be addressed:

to the Company as follows:

Dynamic Materials Corporation

551 Aspen Ridge Dr.  
Lafayette, Colorado 80026  
Attn: Richard A. Santa, Vice President of Finance and Chief  
Financial Officer

to the Bank as follows:

KeyBank National Association  
600 S. Cherry Street, Suite 1000  
Denver, Colorado 80246  
Attn: Scot Wetzel, Corporate Banking

or at such other address as either party may designate to the other in writing. Such communication will be effective (i) if by telex, when such telex is transmitted and the appropriate answer back is received, (ii) if given by mail, 72 hours after such communication is deposited in the U.S. mail certified mail return receipt requested, or (iii) if given by other means, when delivered at the address specified in this Section 11.6.

SECTION 11.7 SURVIVAL OF AGREEMENTS, RELATIONSHIP. All agreements, representations, and warranties made in this Agreement will survive the making of the extension of credit hereunder, and will bind and inure to the benefit of the Company and the Bank, and their respective successors and assigns; PROVIDED, HOWEVER, that no subsequent holder of any Note shall by reason of acquiring that Note, as the case may be, become obligated to make any Loan hereunder and no successor to or assignee of the Company may borrow hereunder without the Bank's written consent. The relationship between the Company and the Bank with respect to this Agreement, the Notes, and any other Loan Document is and shall be solely that of debtor and creditor, and the Bank has no fiduciary obligation toward the Company with respect to any such document or the transactions contemplated thereby.

SECTION 11.8 SEVERABILITY. If any provision of this Agreement or any Note, or any action taken hereunder or thereunder, or any application thereof, is for any reason held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Agreement or the

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Notes, all of which shall be construed and enforced without reference to such illegal or invalid portion and shall be deemed to be effective or taken in the manner and to the full extent permitted by law.

SECTION 11.9 ENTIRE AGREEMENT. This Agreement, the Notes, and any other Loan Document integrate all the terms and conditions mentioned herein or incidental hereto and supersede all oral representations and negotiations and prior writings with respect to the subject matter hereof.

SECTION 11.1 JURY TRIAL WAIVER. THE COMPANY AND THE BANK EACH WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, BETWEEN THE BANK' AND THE COMPANY ARISING OUT OF, IN CONNECTION WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THIS AGREEMENT OR ANY NOTE OR OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED THERETO.

IN WITNESS WHEREOF, the Company and the Bank have each caused this Agreement to be executed by their duly authorized officers as of the 30th day of November, 1998.

REMAINDER OF PAGE INTENTIONALLY DELETED

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COMPANY: DYNAMIC MATERIALS CORPORATION

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

BANK: KEYBANK NATIONAL ASSOCIATION

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

EXHIBIT A  
ACQUISITION NOTE

\$8,000,000.00

November 30, 1998

For value received, DYNAMIC MATERIALS CORPORATION, a Delaware corporation (the "Company") promises to pay to the order of KEYBANK NATIONAL ASSOCIATION (the "Bank"), its successor and assigns, at its main office, on the date or dates and in the manner specified in Article II of the Credit Agreement (as defined below), the aggregate principal amount of the Loans outstanding under the Acquisition Line, as shown on any ledger or other record of the Bank, which shall be rebuttably presumptive evidence of the principal amount owing and unpaid on this Note.

The Company promises to pay to the order of the Bank interest on the unpaid principal amount of each Loan evidenced by this Note from the date of such Loan until such principal amount is paid in full at such interest rate(s) and at such times as are specified in Article II of the Credit Agreement.

This Note is the Acquisition Note referred to in, and is entitled to the benefits of, the Amended and Restated Credit Facility and Security Agreement ("Credit Agreement") by and between the Bank and the Company dated November 30, 1998, as the same may be hereafter amended from time to time. This Note may be declared forthwith due and payable in the manner and with the effect provided in the Credit Agreement, which contains provisions for acceleration of the maturity hereof upon the happening of any Event of Default and also for prepayment on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

Each defined term used in this Note shall have the meaning ascribed thereto in Section 1.2 of the Credit Agreement.

The Company expressly waives presentment, demand, protest, and notice of dishonor.

The Company acknowledges that this Note was signed in the City of Denver, in the State of Colorado.

COMPANY: DYNAMIC MATERIALS CORPORATION

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

EXHIBIT B  
WORKING CAPITAL NOTE

\$6,000,000.00

November 30, 1998

For value received, DYNAMIC MATERIALS CORPORATION, a Delaware corporation (the "Company") promises to pay to the order of KEYBANK NATIONAL ASSOCIATION, (the "Bank"), its successor and assigns, at its main office, on the date or dates and in the manner specified in Article II of the Credit Agreement (as defined below), the aggregate principal amount of the Loans outstanding under the Working Capital Line, as shown on any ledger or other record of the Bank, which shall be rebuttably presumptive evidence of the principal amount owing and unpaid on this Note.

The Company promises to pay to the order of the Bank interest on the unpaid principal amount of each Loan evidenced by this Note from the date of such Loan until such principal amount is paid in full at such interest rate(s) and at such times as are specified in Article II of the Credit Agreement.

This Note is the Working Capital Note referred to in, and is entitled to the benefits of, the Amended and Restated Credit Facility and Security Agreement ("Credit Agreement") by and between the Bank and the Company dated November 30, 1998, as the same may be hereafter amended from time to time. This Note may be declared forthwith due and payable in the manner and with the effect provided in the Credit Agreement, which contains provisions for acceleration of the maturity hereof upon the happening of any Event of Default and also for prepayment on account of principal hereof prior to the maturity hereof upon the terms and

conditions therein specified.

Each defined term used in this Note shall have the meaning ascribed thereto in Section 1.2 of the Credit Agreement.

The Company expressly waives presentment, demand, protest, and notice of dishonor.

The Company acknowledges that this Note was signed in the City of Denver, in the State of Colorado.

COMPANY: DYNAMIC MATERIALS CORPORATION

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

EXHIBIT C

SCHEDULE OF COMPANY

[See Attached]

EXHIBIT D

BORROWING BASE CERTIFICATE  
DYNAMIC MATERIALS CORPORATION  
BORROWING BASE CERTIFICATE  
AS OF \_\_\_\_\_

The undersigned officer of Dynamic Materials Corporation, hereby certifies that the following is a true and accurate calculation of the Borrowing Base as of the date specified above, determined in accordance with the requirements of the Amended and Restated Credit Facility and Security Agreement dated November \_\_, 1998 between Dynamic Materials Corporation, a Delaware corporation ("Borrower") and KeyBank National Association ("Lender").

Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

Accounts Receivable Aging Schedule:

1-30 Day	31-61 Day	61-90 Day	90+Day	Total
-----	-----	-----	-----	-----

BORROWING BASE CALCULATION:

ACCOUNTS RECEIVABLE PORTION:

Accounts Receivable/1/

Less:

- (a) Accounts Receivable to which Borrower does not have valid tit \_\_\_\_\_
- (b) Accounts Receivable which are not the binding obligation of the account debtor \_\_\_\_\_

/1/Reference is made to the definitions of "Eligible Accounts Receivable" in Section 1.2 of the Credit Agreement. Information must be provided in accordance with such definitions. Captions set forth below are for reference purposes only and may not reflect the actual definition in the Credit Agreement.

(c) Accounts Receivable arising from services provided by Borrower to an Affiliate of Borrower \_\_\_\_\_

- (d) Accounts Receivable which are unpaid more than the earlier of ninety (90) days after the original invoice date or one hundred five (105) days after the services were provided \_\_\_\_\_
  - (e) Accounts Receivable which, when aggregated with all other Accounts Receivable of the same account debtor or Affiliate, exceed 50% in face value of all Accounts Receivable of Borrower \_\_\_\_\_
  - (f) Accounts Receivable (i) wherein the account debtor is also a creditor of the Borrower, (ii) which are subject to dispute or (iii) which are or are likely to become subject to any right of setoff or other claim or defense \_\_\_\_\_
  - (g) Accounts Receivable wherein the debtor has commenced a voluntary case under applicable bankruptcy laws, or made an assignment for the benefit of creditors, or a decree has been entered in respect of the debtor in an involuntary case under federal bankruptcy laws \_\_\_\_\_
  - (h) Accounts Receivable in which the Lender does not have a valid perfected first priority security interest \_\_\_\_\_
  - (i) Accounts Receivable for which the sale to the account debtor is on a consignment, bill-and hold, sale on approval, guaranteed sale or sale-and-return basis \_\_\_\_\_
  - (j) Accounts Receivable from the same account debtor in which 50% or more of the other Account Receivables from such account debtor are unpaid within the applicable period of time set forth above \_\_\_\_\_
  - (k) Accounts Receivable for which 75% or more of other Accounts Receivable from the same account debtor are not deemed Eligible Accounts Receivable \_\_\_\_\_
  - (l) Accounts Receivable which have not been shipped and delivered to and accepted or the services giving rise to such Account Receivable have not been performed or the Account Receivable otherwise does not represent a final sale \_\_\_\_\_
  - (m) Accounts Receivable for which the principal place of business of the debtor is located outside of the United States \_\_\_\_\_
  - (n) Accounts Receivable which do not comply in all material respects with all applicable legal requirements \_\_\_\_\_
  - (o) Accounts Receivable arising out of unbilled cooperative advertising activities \_\_\_\_\_
- Eligible Accounts Receivable  
=====

BORROWING BASE:

80% of Eligible Accounts Receivable \_\_\_\_\_  
Revolving Credit Availability \_\_\_\_\_  
=====

INVENTORY PORTION:

Eligible Inventory/2/ \_\_\_\_\_  
=====

BORROWING BASE:

50% of Eligible Inventory consisting of raw materials \_\_\_\_\_

50% of Eligible Inventory consisting of  
work-in-process purchased by the Company from  
Spin Forge LLC or Precision Machined Products \_\_\_\_\_

30% of Eligible Inventory consisting of  
work-in-process other than work-in-process  
referred to in the immediately preceding category \_\_\_\_\_

50% of Eligible Inventory consisting of finished  
product \_\_\_\_\_

- - - - -

/2/ Reference is made to the definition of "Eligible Inventory" in Section 1.2 of the Credit Agreement. Information must be provided in accordance with such definition.

Revolving Credit Availability \_\_\_\_\_  
=====

EQUIPMENT PORTION:

Eligible Equipment/3/ \_\_\_\_\_  
=====

BORROWING BASE:

the LESSER of:

50% of net book value of Eligible Equipment; or \_\_\_\_\_

70% of orderly liquidation value of Eligible  
Equipment; or \_\_\_\_\_

80% of forced sale value of Eligible Equipment \_\_\_\_\_

Revolving Credit Availability \_\_\_\_\_  
=====

REAL ESTATE PORTION:

Acceptable Real Estate/4/ \_\_\_\_\_  
=====

BORROWING BASE:

75% of Acceptable Real Estate \_\_\_\_\_

Revolving Credit Availability \_\_\_\_\_  
=====

AGGREGATE REVOLVING CREDIT  
AVAILABILITY \_\_\_\_\_  
=====

- - - - -

/3/ Reference is made to the definition of "Eligible Equipment" in Section 1.2 of the Credit Agreement. Information must be provided in accordance with such definition.

/4/ Reference is made to the definition of "Acceptable Real Estate" in Section 1.2 of the Credit Agreement. Information must be provided in accordance with such definition.

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