U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 1997

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

For the transition period from __________________to ____________________

Commission file number: 0-8328

DYNAMIC MATERIALS CORPORATION

(Name of small business issuer in its charter)

| | |
|---|---|
| COLORADO | 84-0608431 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 551 ASPEN RIDGE DRIVE, LAFAYETTE | 80026 |
| (Address of principal executive office) | (Zip Code) |

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

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

COMMON STOCK, $.05 PAR VALUE
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 2,713,248 shares of common stock as of July 31, 1997.

ITEM 1. FINANCIAL STATEMENTS

DYNAMIC MATERIALS CORPORATION
CONDENSED BALANCE SHEETS
(unaudited)

| | June 30, 1997 | December 31, 1996 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 1,071,402 | $ 209,650 |

| | | |
|---|---|---|
| Accounts receivable, net of allowance for doubtful accounts of $220,250 and $170,000, respectively | 4,507,386 | 6,176,589 |
| Inventories (Note 3) | 1,669,976 | 4,828,828 |
| Prepaid expenses and other | 284,027 | 150,951 |
| Deferred tax asset | 287,950 | 287,950 |
| Total current assets | 7,820,741 | 11,653,968 |
| PROPERTY, PLANT AND EQUIPMENT | 5,876,580 | 5,421,680 |
| Less- Accumulated depreciation | (2,702,928) | (2,426,870) |
| Property, plant and equipment--net | 3,173,652 | 2,994,810 |
| INTANGIBLE ASSETS, Net of accumulated amortization of $247,899 and $188,344, respectively | 1,287,068 | 1,337,480 |
| OTHER ASSETS | 201,007 | 498,982 |
| TOTAL ASSETS | $ 12,482,468 | $ 16,485,240 |

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS



DYNAMIC MATERIALS CORPORATION
CONDENSED BALANCE SHEETS
(unaudited)

<TABLE>
<CAPTION>

| LIABILITIES AND STOCKHOLDERS' EQUITY | June 30, 1997 | December 31, 1996 |
|---|---|---|
| <S> | <C> | <C> |
| CURRENT LIABILITIES: | | |
| Bank overdraft | $ -- | $ 743,471 |
| Accounts payable | 1,670,295 | 2,255,190 |
| Accrued expenses | 859,541 | 990,959 |
| Current maturities of long-term debt | 98,732 | 94,636 |
| Current portion of capital lease | 28,685 | 27,528 |
| Total current liabilities | 2,657,253 | 4,111,784 |
| LINE OF CREDIT | -- | 3,930,000 |
| LONG-TERM DEBT | 39,655 | 89,857 |
| CAPITAL LEASE OBLIGATION | 85,999 | 100,639 |
| DEFERRED TAX LIABILITY | 27,200 | 27,200 |
| Total liabilities | 2,810,107 | 8,259,480 |
| STOCKHOLDERS' EQUITY | | |
| Convertible preferred stock, $.05 par value; 4,000,000 shares authorized: no issued and outstanding shares | -- | -- |
| Common stock, $.05 par value; 15,000,000 shares authorized; 2,711,458 and 2,539,323 shares issued and outstanding, respectively | 135,527 | 126,967 |
| Additional paid-in capital | 6,266,552 | 5,971,076 |
| Retained earnings | 3,270,282 | 2,127,717 |
| | 9,672,361 | 8,225,760 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $12,482,468 | $16,485,240 |

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS



DYNAMIC MATERIALS CORPORATION
CONDENSED STATEMENTS OF INCOME
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 1997 AND 1996
(unaudited)

<TABLE>
<CAPTION>

| | Three months ended June 30, 1997 | Three months ended June 30, 1996 | Six months ended June 30, 1997 | Six months ended June 30, 1996 |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| NET SALES | $ 7,877,630 | $ 5,708,423 | $ 17,659,541 | $ 11,703,997 |
| COST OF PRODUCTS SOLD | 6,003,171 | 4,524,491 | 13,692,888 | 9,399,741 |
| Gross Profit | 1,874,459 | 1,183,932 | 3,966,653 | 2,304,256 |
| COSTS AND EXPENSES: | | | | |
| General and administrative expenses | 502,970 | 391,472 | 1,007,070 | 741,105 |
| Selling expenses | 524,591 | 315,014 | 1,048,177 | 605,771 |
| Research and development costs | 68,030 | 82,322 | 171,292 | 168,139 |
| | 1,095,591 | 788,808 | 2,226,539 | 1,515,015 |
| INCOME FROM OPERATIONS | 778,868 | 395,124 | 1,740,114 | 789,241 |
| Other income | 1,612 | 1,343 | 23,506 | 8,974 |
| Interest expense | (24,921) | (5,316) | (90,285) | (13,832) |
| Interest income | 4,607 | 10,554 | 7,087 | 15,617 |
| Income before income tax provision | 760,166 | 401,705 | 1,680,422 | 800,000 |
| INCOME TAX PROVISION | 242,857 | 148,000 | 537,857 | 296,000 |
| NET INCOME | $ 517,309 | $ 253,705 | $ 1,142,565 | $ 504,000 |
| NET INCOME PER SHARE | $ 0.18 | $ 0.09 | $ 0.40 | $ 0.19 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 2,855,949 | 2,695,703 | 2,878,143 | 2,704,061 |

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS



DYNAMIC MATERIALS CORPORATION
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 1997 AND 1996
(unaudited)

<TABLE>
<CAPTION>

| | 1997 | 1996 |
|---|---|---|
| <S> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 1,142,565 | $ 504,000 |
| Adjustments to reconcile net income to net cash from operating activities- | | |
| Depreciation | 276,058 | 172,393 |
| Amortization | 50,412 | 4,500 |
| Decrease (increase) in- | | |
| Accounts receivable, net | 1,669,203 | 1,224,145 |
| Inventories | 3,158,852 | 1,105,604 |
| Prepaid expenses and other | (133,076) | (4,076) |
| Increase (decrease) in- | | |
| Bank overdraft | (743,471) | -- |
| Accounts payable | (584,895) | (849,177) |
| Accrued expenses | (131,418) | 78,854 |

| | | |
|---|---|---|
| Net cash flows from operating activities | 4,704,230 | 2,236,243 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property, plant and equipment | (170,614) | (120,179) |
| Change in other noncurrent assets | 13,689 | 77,486 |
| Net cash flows used in investing activities | (156,925) | (42,693) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on line of credit, net | (3,930,000) | (600,000) |
| Payments on long-term debt | (46,106) | (42,342) |
| Payments on capital lease obligation | (13,483) | -- |
| Net proceeds from issuance of common stock | 304,036 | 51,250 |
| Net cash flows used in financing activities | (3,685,553) | (591,092) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 861,752 | 1,602,458 |
| CASH AND CASH EQUIVALENTS, beginning of period | 209,650 | 487,573 |
| CASH AND CASH EQUIVALENTS, end of period | $ 1,071,402 | $ 2,090,031 |

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL STATEMENTS



DYNAMIC MATERIALS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The information included in the Condensed Financial Statements is unaudited, but includes all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim periods presented. These Condensed Financial Statements should be read in conjunction with the Company's 1996 Annual Report filed on Form 10-KSB.

2. ACQUISITION OF DETACLAD(R) BUSINESS OF E. I. DUPONT DE NEMOURS AND COMPANY

On July 22, 1996, the Company acquired certain assets of the Detaclad Business 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 $5,321,850 included $5,024,233 in cash payments to Dupont, $250,576 in acquisition related expenses and the assumption of accrued liabilities in the amount of $47,041. 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 the facilities at which the Detaclad business is conducted. The Detaclad acquisition was financed with Company cash and borrowings under a revolving credit facility with KeyBank of Colorado.

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

The following unaudited pro forma results of operations of the Company for the six months ended June 30, 1996 assumes 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.

<TABLE>

| <S> | <C> |
|---|---|
| Revenues | $ 17,629,000 |
| Net Income | $ 583,000 |
| Net Income Per Share | $ .22 |

</TABLE>



3. INVENTORIES

This caption on the Condensed Balance Sheets includes the following:

<TABLE>
<CAPTION>

| | JUNE 30, 1997 | DECEMBER 31, 1996 |
|---|---|---|
| Raw Materials | $ 443,081 | $ 600,942 |
| Work-in-Process | 920,103 | 3,997,680 |
| Supplies | 306,792 | 230,206 |
| | $1,669,976 | $4,828,828 |

</TABLE>

4. NET INCOME PER COMMON SHARE:

Net income per common share has been computed based upon the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Common stock equivalents recognize the potential dilutive effects of the future exercise of common stock options. Net income per share for the six months ended June 30, 1996 has been restated to correct an error in the computation of common stock equivalents outstanding. The effect of this change was to reduce net income per share by $.01 for the six months ended June 30, 1996.

Statement of Financial Accounting Standards No. 128 ("SFAS 128), "Earnings per Share", supersedes APB Opinion 15 ("APB 15"), "Earnings per Share", and is effective for interim and annual periods ending after December 15, 1997. While early application of SFAS 128 is prohibited, footnote disclosure of pro forma earnings per share ("EPS") under the new standard is permitted. SFAS 128 replaces primary EPS with basic EPS and 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 the future exercise of common stock options utilizing the same computations that the Company currently uses to compute primary EPS under APB 15. Pro forma earnings per share for the three months and six months ended June 30, 1997 and 1996 under SFAS 128 are as follows:

<TABLE>
<CAPTION>

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|---|---|---|---|
| | JUNE 30, 1997 | JUNE 30, 1996 | JUNE 30, 1997 | JUNE 30,1996 |
| Basic earnings per share | $ .19 | $ .10 | $ .43 | $ .20 |
| Shares outstanding | 2,692,436 | 2,508,000 | 2,646,592 | 2,506,000 |
| Diluted earnings per share | $ .18 | $ .09 | $ .40 | $ .19 |
| Shares outstanding | 2,855,949 | 2,695,703 | 2,878,143 | 2,704,061 |

</TABLE>



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

The following discussion should be read in conjunction with the condensed financial statements included elsewhere within this quarterly report. Fluctuations in annual and quarterly operating results may occur as a result of certain factors such as the size and timing of customer orders and competition. Due to such fluctuations, historical results and percentage relationships are not necessarily indicative of the results for any future period. Statements 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; 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. The Company further directs readers to the factors discussed in the Company's Form 10-KSB for the year ended December 31, 1996 and Forms 10-QSB.

GENERAL

Dynamic Materials Corporation ("DMC" or the "Company"), formerly Explosive Fabricators, Inc., was incorporated in Colorado in 1971. DMC 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. The Company generates approximately 90% of its revenues from its metal cladding business and approximately 10% of its revenues from its metal forming business.

Metal Cladding. Clad metal products are used in manufacturing processes or environments that involve highly corrosive chemicals, high temperatures and/or high pressure conditions. For example, the Company fabricates clad metal tube sheets for heat exchangers. Heat exchangers are used in a variety of high temperature, high pressure, highly corrosive chemical processes, such as processing crude oil in the petrochemical industry and processing chemicals used in the manufacture of synthetic fibers. The Company believes that its clad metal products are an economical, high-performance alternative to the use of solid corrosion-resistant alloys.

Metal Forming. Formed metal products are made from single sheets of metal that are formed into a single part in place of a welded assembly of multiple components. For example, the Company fabricates structural and engine components, such as torque box webs used in jet engine nacelles for the aircraft industry. The Company believes that its formed metal products provide a number of advantages over welded assemblies, including lower assembly and inspection costs, improved reliability, reduced overall weight and increased overall strength.

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 addition, the Company has recently completed production of 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.

On July 22, 1996, the Company completed the acquisition of Detaclad for a purchase price of $5,321,850, including $250,576 of acquisition-related expenses and the assumption of $47,041 in liabilities. The Detaclad assets represent an approximate 50% increase in the Company's total assets from December 31, 1995. As operated by DuPont, Detaclad generated approximately $11,200,000 in sales revenues in the year ended December 31, 1995. Accordingly, the Company's results of operations subsequent to the acquisition will not be directly comparable with the pre-acquisition 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 is fixed, and planned expenditures are based primarily on sales forecasts and product development programs. If sales do not meet the Company's expectations in any given period, the adverse impact on operating results may be magnified by the Company's inability to adjust operating expenses sufficiently or quickly enough to compensate for such a shortfall. In addition, the Company uses numerous suppliers of alloys, steels and other materials for its operations. The Company typically bears a short-term risk of alloy, steel and other component price increases, which could adversely affect the Company's gross profit margins. Although the Company will work with customers and suppliers to minimize the impact of any component shortages, component shortages have had, and are expected to have from time to time, short-term adverse effects on the Company's business. Results of operations in any period should not be considered indicative of the results to be expected for any future period. Fluctuations in operating results may also result in fluctuations in the price of the Company's Common Stock.

QUARTER ENDED JUNE 30, 1997 COMPARED TO JUNE 30, 1996

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

<TABLE>
<CAPTION>

| | PERCENTAGE OF NET SALES | | | |
|---|---|---|---|---|
| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
| | 1997 | 1996 | 1997 | 1996 |
| <S> | <C> | <C> | <C> | <C> |
| Net Sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of Products Manufactured | 76.2% | 79.3% | 77.5% | 80.3% |
| Gross Margin | 23.8% | 20.7% | 22.5% | 19.7% |
| General & Administrative | 6.4% | 6.9% | 5.7% | 6.3% |
| Selling Expenses | 6.7% | 5.5% | 5.9% | 5.2% |
| R & D | 0.9% | 1.4% | 1.0% | 1.4% |
| Interest Expense | 0.3% | 0.1% | 0.5% | 0.1% |
| Income Tax Provision | 3.1% | 2.6% | 3.0% | 2.5% |
| Net Income | 6.6% | 4.4% | 6.5% | 4.3% |

</TABLE>

NET SALES. Net sales for the quarter ended June 30, 1997 increased 38.0% to $7,877,630 from $5,708,423 in the second quarter of 1996. This increase is principally a result of the July 22, 1996 acquisition of Detaclad. For the six months ended June 30, 1997, net sales increased 50.9% to $17,659,541 from $11,703,997 in the comparable period of 1996. This increase was primarily attributable to strong first quarter shipments against a large December 31, 1996 backlog of orders, including two large orders that generated approximately $3.2 million in sales during the first quarter of 1997, and the July 22, 1996 acquisition of Detaclad.

GROSS PROFIT. As a result of the Company's increase in net sales and an improvement in the gross margin rate, gross profit for the quarter ended June 30, 1997 increased by 58.3% to $1,874,459 from $1,183,932 in the second quarter of 1996. The gross profit margin for the quarter ended June 30, 1997 was 23.8%, representing a 15% increase from the gross profit margin of 20.7% for the second quarter of 1996. For the six months ended June 30, 1997, gross profit increased 72.1% to $3,966,653 from $2,304,256 in the comparable period of 1996. The gross profit margin for the six months ended June 30, 1997 was 22.5%, representing a 14.2% increase from the gross profit margin of 19.7% for the first six months of 1996. The increases for both the three and six month periods are due to proportionately higher sales of formed 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 the quarter ended June 30, 1997 increased 28.5% to $502,970 from $391,472 in the second quarter of 1996. For the six months ended June 30, 1997, general and administrative expenses increased 35.9% to $1,007,070 from $741,105 in the comparable period of 1996. These increases reflect higher expense levels in a number of categories, including compensation, legal fees, travel and amortization of goodwill and intangibles. General and administrative expenses are expected to remain at these higher 1997 levels



to support the Detaclad operations, increased sales activity and other strategic business initiatives. Despite the increases experienced in general and administrative expenses for the three and six month periods ended June 30, 1997, general and administrative expenses as a percentage of net sales decreased from 6.9% in the second quarter of 1996 to 6.4% for the quarter ended June 30, 1997 and from 6.3% to 5.7% for the comparable six month periods.

SELLING EXPENSE. Selling expenses increased by 66.5% to $524,591 for the quarter ended June 30, 1997 from $315,014 in the second quarter of 1996. For the six months ended June 30, 1997, selling expenses increased 73% to $1,048,177 from $605,771 in the comparable period of 1996. These increases reflect higher expense levels in a number of categories, including compensation and benefits, advertising and promotion, reserves for bad debts and travel and entertainment expenses. Selling expenses are expected to remain at these higher 1997 levels due to staffing increases during the last half of 1996 that are attributable to the Detaclad acquisition, general business growth and the Company's plans to expand its domestic and international marketing activities. Selling expenses as a percentage of net sales increased from 5.5% in the second quarter of 1996 to 6.7% for the quarter ended June 30, 1997, and from 5.2% for the six months ended June 30, 1996 to 5.9% for the comparable period of 1997, as a result of these higher spending levels.

RESEARCH AND DEVELOPMENT. Research and development expenses decreased 17.4% to $68,030 for the quarter ended June 30, 1997 from $82,322 in the second quarter of 1996. For the six months ended June 30, 1997, research and development expenses increased 1.9% to $171,292 from $168,139 in the comparable period of 1996. The decrease in the second quarter reflects increased engineering effort during the second quarter in the Company's manufacturing activities versus new product or process development programs.

INCOME FROM OPERATIONS. Income from operations increased by 97.1% to $778,868 for the quarter ended June 30, 1997 from $395,124 in the second quarter of 1996. This increase is a direct result of the 38% increase in net sales combined with an improvement in the gross margin rate to 23.8% for the quarter ended June 30, 1997 from 20.7% in the second quarter of 1996. For the six months ended June 30, 1997, income from operations increased 120.5% to $1,740,114 from $789,241 in the comparable period of 1996. This increase is a direct result of the 50.9% increase in net sales combined with an improvement in the gross margin rate to 22.5% for the six months ended June 30, 1997 from 19.7% for the comparable period of 1996. These improved gross margin rates are principally a result of favorable changes in product mix. Income from operations as a percentage of net sales increased to 9.9% for the both the quarter and six months ended June 30, 1997 as compared to 6.9% and 6.7%, respectively, for the comparable periods of 1996.

INTEREST EXPENSE. Interest expense increased to $24,921 for the quarter ended June 30, 1997 from $5,316 in the second quarter of 1996. For the six months ended June 30, 1997, interest expense increased to $90,285 from $13,832 in the comparable period of 1996. These increases are due to borrowings under the Company's revolving line of credit with KeyBank of Colorado that were required to finance the July 1996 Detaclad acquisition and working capital requirements associated with two large orders that accounted for a significant portion of December 31, 1996 and March 31, 1997 accounts receivable and inventory balances. Interest expense decreased significantly in the second quarter of 1997 as the line of credit borrowings, which totaled $3,930,000 at December 31, 1996 and $1,500,000 at March 31, 1997, were paid down to zero.



INCOME TAX PROVISION. The Company's income tax provision increased by 64.1% to $242,857 for the quarter ended June 30, 1997 from $148,000 in the second quarter of 1996. The income tax provision for the six months ended June 30, 1997 increased 81.7% to $537,857 from $296,000 for the comparable period of 1996. For both the quarter and six months ended June 30, 1997, the effective tax rate was 32% as compared to 36.8% and 37%, respectively, for the comparable 1996 periods. The lower 1997 effective tax rates reflect the impact of tax deductions associated with the 1997 exercise of non-qualified stock options.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company has secured the major portion of its operational financing from internally generated funds and an asset-backed revolving credit facility. In anticipation of financing needs for the Detaclad acquisition, the Company entered into a $7,500,000 secured credit facility with KeyBank of Colorado in July 1996. At June 30, 1997, no borrowings were outstanding under this facility. The credit facility has a seven-year term and is secured by substantially all of the Company's assets, including its accounts receivable, inventory and equipment. The maximum amount available under the line of credit is subject to borrowing base restrictions that are a function of defined balances in accounts receivable, inventory, real property and equipment. As of June 30, 1997, borrowing availability under the line of credit was approximately $5,450,000.

During the six months ended June 30, 1997, the Company generated $4,704,230 in cash flows from operating activities as compared to $2,236,243 for the comparable period of 1996. The principal sources of cash flow from operations for the six months ended June 30, 1997 were net income of $1,142,565, a decrease in inventories of $3,158,852 and a decrease in accounts receivable of $1,669,203. These sources of operating cash flow were offset by a $584,895 reduction in accounts payable and a $743,471 reduction in a bank overdraft. The current ratio was 2.9 at June 30, 1997 as compared to 2.8 at December 31, 1996. Investing activities in the six months ended June 30, 1997 used $156,925 of net cash, including $170,614 to fund capital expenditures. Financing activities for the six months ended June 30, 1997 used $3,685,553 of net cash, including the use of $3,930,000 in cash to reduce line of credit borrowings that was partially offset by cash proceeds of $304,036 from the exercise of stock options.

The Company believes that its cash flow from operations and funds expected to be available under its existing credit facility will be sufficient to fund foreseeable working capital and capital expenditure requirements of its base business operations. However, because the Company's business has been based on a relatively small number of large specifically negotiated contracts, 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 internal sources. Consequently, any restriction on the availability of borrowing under the line of credit could negatively effect the Company's ability to meet its future cash requirements. The Company plans to grow both internally and through the acquisition of complementary businesses. 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.



## PART II - OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Company's Annual Meeting of Shareholders (the "Annual Meeting") was held on May 23, 1997. At the Annual Meeting, the shareholders of the Company (i) elected each of the persons listed below to serve as a director of the Company until the 1998 Annual Meeting of Shareholders or until his successor is elected, (ii) approved the amendment and restatement of the Company's 1992 Incentive Stock Option Plan and 1994 Nonemployee Director Stock Option Plan in the form of the 1997 Equity Incentive Plan and increased the aggregate number of shares of Common Stock authorized for issuance under such plan by 275,000 shares, (iii) did not approve the reincorporation of the Company into the State of Delaware, and (iv) ratified the selection of Arthur Andersen LLP as independent accountants of the Company for its fiscal year ending December 31, 1997.

The Company had 2,675,958 shares of Common Stock outstanding as of April 10, 1997, the record date for the Annual Meeting. At the Annual Meeting, holders of a total of 2,314,516 shares of Common Stock were present in person or represented by proxy. The following sets forth information regarding the results of the voting at the Annual Meeting:

Proposal 1: Election of Directors

<TABLE>
<CAPTION>

| Director | Voting Shares In Favor | Voting Shares Against | Voting Shares Withheld |
|---|---|---|---|
| <S> | <C> | | <C> |
| Dean K. Allen | 2,296,261 | - | 18,255 |
| David E. Bartlett | 2,296,261 | - | 18,255 |
| Paul Lange | 2,296,261 | - | 16,455 |
| George Morgenthaler | 2,296,261 | - | 16,455 |

</TABLE>

Proposal 2: Approval of 1997 Equity Incentive Plan

<TABLE>

| <S> | <C> |
|---|---|
| Votes in favor: | 957,823 |
| Votes against: | 252,389 |
| Abstentions: | 4,122 |
| Broker non-votes: | 1,100,182 |

</TABLE>



Proposal 3: Reincorporation of the Company into the State of Delaware

| | |
|---|---|
| Votes in favor: | 964,208 |
| Votes against: | 307,111 |
| Abstentions: | 5,715 |
| Broker non-votes: | 1,037,482 |

Proposal 4: Ratification of Selection of Independent Accountants

| | |
|---|---|
| Votes in favor: | 2,290,131 |
| Votes against: | 11,834 |
| Abstentions: | 5,201 |

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

(a.) Exhibits

11. Statement regarding computation of per share earnings

27. Financial Data Schedule

(b.) None.



SIGNATURES

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

DYNAMIC MATERIALS CORPORATION
(Registrant)

Date: August 11, 1997

/s/ Richard A. Santa

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



INDEX TO EXHIBITS

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 11 | Statement re: Computation of Net Income Per Share |
| 27 | Financial Data Schedule |

EXHIBIT 11

DYNAMIC MATERIALS CORPORATION
Statement Re: Computation of Net Income Per Share

| | Three Months Ended | | Six Months Ended | |
| --- | --- | --- | --- | --- |
| | June 30, 1997 | June 30, 1996 | June 30, 1997 | June 30,1996 |
| Weighted average common shares outstanding ........................... | 2,692,436 | 2,508,000 | 2,646,592 | 2,506,000 |
| Common stock equivalents resulting from the application of the treasury stock method to the assumed exercise of outstanding stock options ............. | 163,513 | 187,703 | 231,551 | 198,061 |
| Total ........................ | 2,855,949 | 2,695,703 | 2,878,143 | 2,704,061 |
| Net income ............................... | $ 517,309 | $ 253,705 | $ 1,142,565 | $ 504,000 |
| Net income per share ..................... | $ 0.18 | $ 0.09 | $ 0.40 | $ 0.19 |

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM BALANCE SHEET, INCOME STATEMENT AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH 10-QSB.
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