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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**Form 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**

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

Commission file number 0-8328

**DYNAMIC MATERIALS CORPORATION**

(Exact name of Registrant as Specified in its Charter)

**Delaware**

(State of Incorporation or Organization)

**84-0608431**

(I.R.S. Employer Identification No.)

**5405 Spine Road, Boulder, Colorado 80301**

(Address of principal executive offices, including zip code)

**(303) 665-5700**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 under the Act). Yes  No

The number of shares of Common Stock outstanding was 5,118,230 as of July 31, 2004.

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## CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. In particular, we direct your attention to Part I Item 1—Financial Statements, Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 3—Quantitative and Qualitative Disclosures About Market Risk. We intend the forward-looking statements throughout the quarterly report on Form 10-Q and the information incorporated by reference to be covered by the safe harbor provisions for 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. All projections and statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as "may", "believe", "plan", "will", "anticipate", "estimate", "expect", "intend" and other phrases of similar meaning. The forward-looking information is based on information available as of the date of this report on Form 10-Q and on numerous assumptions and developments that are not within our control. Although we believe that our expectations as expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Factors that could cause actual results to differ materially include, but are not limited to, the following: the ability to obtain new contracts at attractive prices; the size and timing of customer orders; fluctuations in customer demand; competitive factors; the timely completion of contracts; any actions which may be taken by SNPE as the controlling shareholder of the Company with respect to the Company and our businesses; the timing and size of expenditures; the timely receipt of government approvals and permits; the adequacy of local labor supplies at our facilities; the availability and cost of funds; and general economic conditions, both domestically and abroad. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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Part I—FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

|  | June 30,<br>2004  | December 31,<br>2003 |
|--|-------------------|----------------------|
|  | (unaudited)       |                      |
| <i>ASSETS</i>  |                   |                      |
| CURRENT ASSETS:  |                   |                      |
| Cash and cash equivalents  | \$ 689,655        | \$ 521,697           |
| Accounts receivable, net of allowance for doubtful accounts of \$262,001 and \$216,384, respectively | 8,523,189         | 6,922,630            |
| Inventories  | 6,298,450         | 5,713,369            |
| Prepaid expense and other  | 804,585           | 1,207,615            |
| Current portion of promissory note receivable  | 210,000           | 157,500              |
| Current deferred tax asset   | 336,600           | 388,100              |
|  | <u>16,862,479</u> | <u>14,910,911</u>    |
| Total current assets   | 16,862,479        | 14,910,911           |
| PROPERTY, PLANT AND EQUIPMENT  | 19,746,661        | 19,284,937           |
| Less—Accumulated depreciation  | (8,078,584)       | (7,454,538)          |
|  | <u>11,668,077</u> | <u>11,830,399</u>    |
| Property, plant and equipment  | 11,668,077        | 11,830,399           |
| RESTRICTED CASH AND INVESTMENTS  | 191,999           | 191,999              |
| GOODWILL, net of accumulated amortization of \$234,299   | 847,076           | 847,076              |
| INTANGIBLE ASSETS, net of accumulated amortization of \$705,854 and \$694,854, respectively          | 55,668            | 66,668               |
| OTHER ASSETS, net  | 172,628           | 197,262              |
| PROMISSORY NOTE RECEIVABLE   | 317,500           | 422,500              |
| ASSETS HELD FOR SALE   | 3,056,629         | 3,914,593            |
|  | <u>33,172,056</u> | <u>32,381,408</u>    |
| TOTAL ASSETS   | \$ 33,172,056     | \$ 32,381,408        |

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

**DYNAMIC MATERIALS CORPORATION & SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**

|  | June 30,<br>2004     | December 31,<br>2003 |
|--|----------------------|----------------------|
|  | (unaudited)          |                      |
| <i>LIABILITIES AND STOCKHOLDERS' EQUITY</i>  |                      |                      |
| <b>CURRENT LIABILITIES:</b>  |                      |                      |
| Bank overdraft   | \$ 182,613           | \$ 288,162           |
| Accounts payable   | 5,248,673            | 2,759,121            |
| Accrued expenses   | 2,864,085            | 2,379,483            |
| Lines of credit  | 931,432              | 2,059,624            |
| Current maturities on long-term debt   | 3,848,381            | 2,627,049            |
|  | 13,075,184           | 10,113,439           |
| Total current liabilities  |                      |                      |
| LONG-TERM BANK LINE OF CREDIT  | 1,175,838            | —                    |
| OTHER LONG-TERM DEBT   | 3,260,137            | 6,021,540            |
| NET DEFERRED TAX LIABILITIES   | 244,191              | 485,555              |
| DEFERRED GAIN ON SWAP TERMINATION  | 32,571               | 37,245               |
| OTHER LONG-TERM LIABILITIES  | 130,425              | 139,223              |
|  | 17,918,346           | 16,797,002           |
| Total liabilities  |                      |                      |
| <b>STOCKHOLDERS' EQUITY:</b>   |                      |                      |
| Preferred stock, \$.05 par value; 4,000,000 shares authorized; no issued and outstanding shares                                  | —                    | —                    |
| Common stock, \$.05 par value; 15,000,000 shares authorized; 5,118,230 and 5,088,884 shares issued and outstanding, respectively | 255,914              | 254,446              |
| Additional paid-in capital   | 12,490,208           | 12,428,545           |
| Retained earnings  | 1,757,096            | 2,053,869            |
| Other cumulative comprehensive income  | 750,492              | 847,546              |
|  | 15,253,710           | 15,584,406           |
| Total stockholders' equity   |                      |                      |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$ 33,172,056</b> | <b>\$ 32,381,408</b> |

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

**DYNAMIC MATERIALS CORPORATION & SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003**

|  | (unaudited)                    |              |                              |               |
|--|--------------------------------|--------------|------------------------------|---------------|
|  | Three months ended<br>June 30, |              | Six months ended<br>June 30, |               |
|  | 2004                           | 2003         | 2004                         | 2003          |
| NET SALES  | \$ 11,985,085                  | \$ 9,256,393 | \$ 22,145,213                | \$ 17,206,055 |
| COST OF PRODUCTS SOLD  | 9,098,241                      | 6,634,587    | 16,931,035                   | 12,322,822    |
| Gross profit   | 2,886,844                      | 2,621,806    | 5,214,178                    | 4,883,233     |
| COSTS AND EXPENSES:  |                                |              |                              |               |
| General and administrative expenses  | 895,911                        | 733,175      | 1,684,498                    | 1,449,259     |
| Selling expenses   | 940,653                        | 772,501      | 1,696,685                    | 1,501,560     |
| Total costs and expenses   | 1,836,564                      | 1,505,676    | 3,381,183                    | 2,950,819     |
| INCOME FROM OPERATIONS   | 1,050,280                      | 1,116,130    | 1,832,995                    | 1,932,414     |
| OTHER INCOME (EXPENSE):  |                                |              |                              |               |
| Other income (expense), net  | 2,399                          | (3,879)      | 7,042                        | 37            |
| Interest expense   | (110,511)                      | (131,304)    | (234,022)                    | (275,012)     |
| Interest income  | 7,448                          | 287          | 11,619                       | 1,628         |
| INCOME BEFORE INCOME TAXES   | 949,616                        | 981,234      | 1,617,634                    | 1,659,067     |
| INCOME TAX PROVISION   | 384,685                        | 384,008      | 645,243                      | 649,332       |
| INCOME FROM CONTINUING OPERATIONS  | 564,931                        | 597,226      | 972,391                      | 1,009,735     |
| DISCONTINUED OPERATIONS:   |                                |              |                              |               |
| Loss from operations of discontinued operations, net of tax benefit                      | (450,919)                      | (201,818)    | (650,164)                    | (460,622)     |
| Loss on impairment of assets associated with discontinued operations, net of tax benefit | (619,000)                      | —            | (619,000)                    | —             |
| Loss from discontinued operations  | (1,069,919)                    | (201,818)    | (1,269,164)                  | (460,622)     |
| NET INCOME (LOSS)  | \$ (504,988)                   | \$ 395,408   | \$ (296,773)                 | \$ 549,113    |
| NET INCOME (LOSS) PER SHARE—BASIC AND DILUTED:   |                                |              |                              |               |
| Income from continuing operations  | \$ 0.11                        | \$ 0.12      | \$ 0.19                      | \$ 0.20       |
| Loss from discontinued operations  | (0.21)                         | (0.04)       | (0.25)                       | (0.09)        |
| Net Income (loss)  | \$ (0.10)                      | \$ 0.08      | \$ (0.06)                    | \$ 0.11       |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING—   |                                |              |                              |               |
| Basic  | 5,106,912                      | 5,061,390    | 5,098,231                    | 5,061,390     |
| Diluted  | 5,192,276                      | 5,077,351    | 5,180,286                    | 5,078,785     |

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

**DYNAMIC MATERIALS CORPORATION & SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2004**

(unaudited)

|   | Common Stock |            | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Other<br>Cumulative<br>Comprehensive<br>Income (loss) | Total         | Comprehensive<br>Loss for the Period |
|---|--------------|------------|----------------------------------|----------------------|---|---------------|--------------------------------------|
|   | Shares       | Amount     |                                  |                      |   |               |                                      |
| Balances, December 31, 2003                                       | 5,088,884    | \$ 254,446 | \$ 12,428,545                    | \$ 2,053,869         | \$ 847,546  | \$ 15,584,406 |                                      |
| Shares issued for stock option exercises                          | 18,250       | 913        | 35,332                           | —                    | —   | 36,245        |                                      |
| Shares issued in connection with the employee stock purchase plan | 11,096       | 555        | 26,331                           | —                    | —   | 26,886        |                                      |
| Net loss  | —            | —          | —                                | (296,773)            | —   | (296,773)     | \$ (296,773)                         |
| Derivative valuation, net of tax of \$27,276                      | —            | —          | —                                | —                    | 42,662  | 42,662        | 42,662                               |
| Change in cumulative foreign currency translation adjustment      | —            | —          | —                                | —                    | (139,716)   | (139,716)     | (139,716)                            |
| Balances, June 30, 2004   | 5,118,230    | \$ 255,914 | \$ 12,490,208                    | \$ 1,757,096         | \$ 750,492  | \$ 15,253,710 | \$ (393,827)                         |

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

**DYNAMIC MATERIALS CORPORATION & SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003**

**(unaudited)**

|  | <u>2004</u>      | <u>2003</u>      |
|--|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                  |                  |
| Income from continuing operations  | \$ 972,391       | \$ 1,009,735     |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities— |                  |                  |
| Depreciation   | 676,763          | 609,196          |
| Amortization   | 11,000           | 11,000           |
| Amortization of deferred gain on swap termination  | (4,674)          | (5,931)          |
| Provision for deferred income taxes  | 627,096          | 389,415          |
| Change in—   |                  |                  |
| Accounts receivable, net   | (1,838,155)      | 1,488,197        |
| Inventories  | (702,689)        | (1,462,261)      |
| Prepaid expenses and other   | 381,472          | (256,298)        |
| Accounts payable   | 2,506,076        | 1,027,195        |
| Accrued expenses   | 445,365          | (603,834)        |
|  | <u>3,074,645</u> | <u>2,206,414</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                  |                  |
| Payment received on promissory note receivable   | 52,500           | —                |
| Acquisition of property, plant and equipment   | (630,326)        | (649,618)        |
| Change in other non-current assets   | 24,634           | 28,357           |
|  | <u>(553,192)</u> | <u>(621,261)</u> |



**DYNAMIC MATERIALS CORPORATION & SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003**  
**(unaudited)**

|  | <u>2004</u>                 | <u>2003</u>                 |
|--|-----------------------------|-----------------------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>             |                             |                             |
| Borrowings on bank lines of credit, net                  | 90,441                      | 1,114,639                   |
| Borrowings on related party lines of credit, net         | —                           | 307,034                     |
| Payment on SNPE Inc term loan                            | (666,666)                   | (1,333,332)                 |
| Payment on industrial development revenue bond           | (455,000)                   | (415,000)                   |
| Payment on term loan with French bank                    | (355,518)                   | —                           |
| Change in other long-term liabilities                    | (3,621)                     | —                           |
| Net proceeds from issuance of common stock               | 63,131                      | 22,597                      |
| Repayment of bank overdraft                              | (177,745)                   | (177,705)                   |
|  | <u>                    </u> | <u>                    </u> |
| Net cash flows used in financing activities              | (1,504,978)                 | (481,767)                   |
|  | <u>                    </u> | <u>                    </u> |
| EFFECTS OF EXCHANGE RATES ON CASH                        | (6,737)                     | 105,640                     |
| CASH FLOWS USED IN DISCONTINUED OPERATIONS               | (841,780)                   | (1,114,190)                 |
|  | <u>                    </u> | <u>                    </u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS                | 167,958                     | 94,836                      |
| CASH AND CASH EQUIVALENTS, beginning of the period       | 521,697                     | 1,158,234                   |
|  | <u>                    </u> | <u>                    </u> |
| CASH AND CASH EQUIVALENTS, end of the period             | \$ 689,655                  | \$ 1,253,070                |
|  | <u>                    </u> | <u>                    </u> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b> |                             |                             |
| Cash paid during the period for—                         |                             |                             |
| Interest   | \$ 208,307                  | \$ 345,850                  |
|  | <u>                    </u> | <u>                    </u> |
| Income taxes   | \$ 119,644                  | \$ 475,501                  |
|  | <u>                    </u> | <u>                    </u> |

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**1. BASIS OF PRESENTATION**

The information included in the Consolidated Financial Statements is unaudited but includes all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the interim periods presented. These Consolidated Financial Statements should be read in conjunction with the financial statements that are included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2003.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation*

The consolidated financial statements include the accounts of Dynamic Materials Corporation ("DMC") and its subsidiary in which it has a greater than a 50% interest. All significant intercompany accounts, profits and transactions have been eliminated in consolidation.

*Foreign Operations and Foreign Exchange Rate Risk*

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

*Revenue Recognition*

DMC's contracts with its customers generally require the production and delivery of multiple units or products. The Company records revenue from the 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, we currently provide for such anticipated loss.

*Stock Based Compensation*

The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations in accounting for its employee stock options including Statement of Financial Accounting Standard ("SFAS") No. 148, *Accounting for Stock-*

*Based Compensation—Transition and Disclosure* ("SFAS 148"). Under APB 25, because the exercise price of the Company's employee stock options is generally equal to the market price of the underlying stock on the date of the grant, no compensation expense is recognized. SFAS No. 123, *Accounting and Disclosure of Stock-Based Compensation* ("SFAS 123"), establishes an alternative method of expense recognition for stock-based compensation awards to employees that is based on fair values. The Company elected not to adopt SFAS 123 for expense recognition purposes.

Pro-forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock options and employees stock purchase plan under the fair value method of SFAS 123. The fair value of the options granted was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

|                         | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |           |
|-------------------------|--------------------------------|------|------------------------------|-----------|
|                         | 2004                           | 2003 | 2004                         | 2003      |
| Risk-free interest rate | 3.6%                           | N/A  | 3.2%                         | 2.5%      |
| Expected lives          | 4.0 years                      | N/A  | 4.0 years                    | 4.0 years |
| Expected volatility     | 74.4%                          | N/A  | 77.6%                        | 101.0%    |
| Expected dividend yield | 0.0%                           | N/A  | 0.0%                         | 0.0%      |

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price characteristics significantly different from those of traded options. Expected volatility is computed using the Company's historic stock prices over the preceding three-year period. Because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The weighted average fair value of options granted for the three months ended June 30, 2004 was \$2.05. No options were granted for the three months ended June 30, 2003. For the six months ended June 30, 2004 and 2003, the weighted average fair value of options granted was \$1.99 and \$1.66, respectively. For purposes of pro-forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro-forma net income (loss) and pro-forma net income (loss) per share, as if the Company had used the fair value accounting provisions of SFAS 123, are shown below.

|  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2004                           | 2003       | 2004                         | 2003       |
| <b>Net income (loss):</b>                                    |                                |            |                              |            |
| As reported  | \$ (504,988)                   | \$ 395,408 | \$ (296,773)                 | \$ 549,113 |
| Expense calculated under SFAS 123                            | (56,382)                       | (63,571)   | (110,199)                    | (113,239)  |
| Pro forma  | \$ (561,370)                   | \$ 331,837 | \$ (406,972)                 | \$ 435,874 |
| <b>Basic and diluted net income (loss) per common share:</b> |                                |            |                              |            |
| As reported  | \$ (0.10)                      | \$ 0.08    | \$ (0.06)                    | \$ 0.11    |
| Pro forma  | \$ (0.11)                      | \$ 0.07    | \$ (0.08)                    | \$ 0.09    |

The pro forma net income calculation above reflects \$10,050 and \$9,639 in compensation expense associated with the Employee Stock Purchase Plan for the three and six months ended June 30, 2004 and 2003, respectively.

### 3. INVENTORY

The components of inventory are as follows at June 30, 2004 and December 31, 2003:

|                 | June 30,<br>2004    | December 31,<br>2003 |
|-----------------|---------------------|----------------------|
|                 | (unaudited)         |                      |
| Raw materials   | \$ 3,157,715        | \$ 2,757,459         |
| Work-in-process | 2,872,329           | 2,706,676            |
| Supplies        | 268,406             | 249,234              |
|                 | <u>\$ 6,298,450</u> | <u>\$ 5,713,369</u>  |

### 4. DEBT

Lines of credit consist of the following at June 30, 2004 and December 31, 2003:

|                               | June 30,<br>2004    | December 31,<br>2003 |
|-------------------------------|---------------------|----------------------|
| Bank lines of credit          | \$ 1,382,170        | \$ 1,306,204         |
| SNPE S.A line of credit       | 725,100             | 753,420              |
|                               | <u>2,107,270</u>    | <u>2,059,624</u>     |
| Less current portion          | (931,432)           | (2,059,624)          |
| Long-term bank line of credit | <u>\$ 1,175,838</u> | <u>\$ —</u>          |

Other long-term debt consists of the following at June 30, 2004 and December 31, 2003:

|  | June 30,<br>2004    | December 31,<br>2003 |
|--|---------------------|----------------------|
| SNPE, Inc. Convertible subordinated note | \$ 1,200,000        | \$ 1,200,000         |
| SNPE, Inc. Term loan                     | 1,333,336           | 2,000,002            |
| Term loan—French bank                    | 1,400,182           | 1,818,587            |
| Industrial development revenue bonds     | 3,175,000           | 3,630,000            |
|  | <u>7,108,518</u>    | <u>8,648,589</u>     |
| Less current maturities                  | (3,848,381)         | (2,627,049)          |
| Other long-term debt                     | <u>\$ 3,260,137</u> | <u>\$ 6,021,540</u>  |

#### *Loan Covenants and Restrictions*

The Company's existing loan agreements include various covenants and restrictions, certain of which relate to the payment of dividends or other distributions to stockholders, redemption of capital stock, incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets, limits on capital expenditures and maintenance of specified financial ratios. As of June 30, 2004, the Company failed to meet minimum debt service coverage and minimum net income covenants for its U.S. operations under its revolving line of credit with a U.S. bank. Covenant violations occurred primarily as a result of significant operating losses incurred by the Company's Spin Forge division during 2004. The Company has obtained an amendment on this revolving line of credit which waives the covenant violations and sets forth new financial covenants for the remainder of the year which are

based on management's forecast of 2004 operating results, cash flows and capital expenditures. Additionally, the amendment extends the expiration date for the revolving line of credit from December 4, 2004 to December 4, 2005. Therefore, as of June 30, 2004, the Company has classified the outstanding borrowings under this line of credit as long term.

## 5. BUSINESS SEGMENTS

DMC is organized in the following two segments: the Explosive Metalworking Group and AMK Welding. The Explosive Metalworking Group uses explosives to perform metal cladding and shock synthesis. The most significant product of this group is clad metal which is used in the fabrication of pressure vessels, heat exchangers and transition joints used in the hydrocarbon processing, chemical processing, power generation, petrochemical, pulp and paper, mining, shipbuilding and heat, ventilation and air conditioning industries. AMK Welding utilizes a number of welding technologies to weld components for manufacturers of jet engines and ground based turbines.

Historically, our Aerospace Group has been comprised of the AMK Welding, Spin Forge and PMP divisions. Since PMP and Spin Forge are now reported as discontinued operations due to the 2003 sale of PMP and the planned divestiture of Spin Forge in 2004, the Aerospace Group no longer exists and AMK Welding is been reported as standalone business segment.

DMC's reportable segments are strategic business units that offer different products and services and are separately managed. Each segment is marketed to different customer types and requires different manufacturing processes and technologies. Segment information is presented for the three and six months ended June 30, 2004 and 2003 as follows:

|   | Explosive<br>Manufacturing | AMK<br>Welding | Total         |
|---|----------------------------|----------------|---------------|
| <b>For the three months ended June 30, 2004</b> |                            |                |               |
| Net sales                                       | \$ 11,426,038              | \$ 559,047     | \$ 11,985,085 |
| Depreciation and amortization                   | \$ 289,364                 | \$ 54,092      | \$ 343,456    |
| Income from operations                          | \$ 1,031,749               | \$ 18,531      | \$ 1,050,280  |
| Unallocated amounts:                            |                            |                |               |
| Other income, net                               |                            |                | 2,399         |
| Interest expense, net                           |                            |                | (103,063)     |
| Consolidated income before income taxes         |                            |                | \$ 949,616    |
| <b>For the three months ended June 30, 2003</b> |                            |                |               |
| Net sales                                       | \$ 8,478,766               | \$ 777,627     | \$ 9,256,393  |
| Depreciation and amortization                   | \$ 259,370                 | \$ 52,464      | \$ 311,834    |
| Income from operations                          | \$ 900,509                 | \$ 215,621     | \$ 1,116,130  |
| Unallocated amounts:                            |                            |                |               |
| Other income, net                               |                            |                | (3,879)       |
| Interest expense, net                           |                            |                | (131,017)     |
| Consolidated income before income taxes         |                            |                | \$ 981,234    |

|   | Explosive<br>Manufacturing | AMK<br>Welding | Total         |
|---|----------------------------|----------------|---------------|
| For the six months ended June 30, 2004  |                            |                |               |
| Net sales                               | \$ 21,086,472              | \$ 1,058,741   | \$ 22,145,213 |
| Depreciation and amortization           | \$ 579,303                 | \$ 108,460     | \$ 687,763    |
| Income (loss) from operations           | \$ 1,867,306               | \$ (34,311)    | \$ 1,832,995  |
| Unallocated amounts:                    |                            |                |               |
| Other income, net                       |                            |                | 7,042         |
| Interest expense, net                   |                            |                | (222,403)     |
| Consolidated income before income taxes |                            |                | \$ 1,617,634  |
| For the six months ended June 30, 2003  |                            |                |               |
| Net sales                               | \$ 15,751,797              | \$ 1,454,258   | \$ 17,206,055 |
| Depreciation and amortization           | \$ 513,829                 | \$ 106,367     | \$ 620,196    |
| Income from operations                  | \$ 1,577,141               | \$ 355,273     | \$ 1,932,414  |
| Unallocated amounts:                    |                            |                |               |
| Other income, net                       |                            |                | 37            |
| Interest expense, net                   |                            |                | (273,384)     |
| Consolidated income before income taxes |                            |                | \$ 1,659,067  |

During the three and six months ended June 30, 2004 and 2003, sales to no one customer accounted for more than 10% of total net sales.

## 6. COMPREHENSIVE INCOME

DMC's comprehensive income for the three and six months ended June 30, 2004 and 2003 was as follows:

|   | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2004                           | 2003       | 2004                         | 2003       |
| Net income (loss) for the period        | \$ (504,988)                   | \$ 395,408 | \$ (296,773)                 | \$ 549,113 |
| Derivative valuation adjustment         | 59,730                         | —          | 42,662                       | —          |
| Foreign currency translation adjustment | (40,199)                       | 260,277    | (139,716)                    | 379,254    |
| Comprehensive income (loss)             | \$ (485,457)                   | \$ 655,685 | \$ (393,827)                 | \$ 928,367 |

As of June 30, 2004, cumulative comprehensive income totaling \$750,492 consisted entirely of currency translation adjustments. As of December 31, 2003, cumulative comprehensive income, which totaled \$847,546, consisted of currency translation adjustments of \$890,208, which were partially offset by a comprehensive loss related to a derivative valuation adjustment of \$42,662.

## 7. DISCONTINUED OPERATIONS

On October 7, 2003, DMC completed the sale of its PMP division. The sale price was \$580,000 and was financed through the issuance of a promissory note payable over a 2<sup>1</sup>/<sub>2</sub> year period. The sale included the inventory and property, plant and equipment of PMP.

During the three months ended June 30, 2004, DMC reached a decision to divest of its Spin Forge division under a plan that involves subleasing the Spin Forge real estate and leasing the manufacturing equipment and tooling to a third party. The division's inventory would be sold to this third party who would also assume full responsibility for Spin Forge business activities and operating expenses. With respect to the Spin Forge manufacturing equipment and tooling, DMC recorded an after tax impairment loss of \$619,000 in its June 30, 2004 financial statements based upon the difference between the current carrying value of the equipment and the present value of the future minimum equipment lease payments from the third party plus estimated liquidation proceeds at the end of the minimum lease term. The Company holds a purchase option on the Spin Forge real estate that allows it to purchase the real estate for \$2,880,000, a price that is significantly below the real estate's recently appraised value. As part of the proposed divestiture transaction, DMC will maintain control of the real estate purchase option but the third party will have the option, through August 1, 2005, to receive an assignment of the primary lease and real estate purchase option from DMC for such reasonable consideration as the parties may mutually agree. The value inherent in the real estate purchase option is believed to be significant but was not considered in the calculation of the reported impairment loss on the Spin Forge equipment and tooling due to uncertainties surrounding its ultimate realization.

Spin Forge inventory totaled \$1,965,138 and \$1,728,343 as of June 30, 2004 and December 31, 2003, respectively. The carrying value of the equipment and tooling is \$1,091,491 (after impairment) and \$2,186,250 at June 30, 2004 and December 31, 2003, respectively. The Spin Forge inventory and equipment and tooling are classified as assets held for sale in the consolidated balance sheets as of June 30, 2004 and December 31, 2003.

Operating results of the discontinued operations for the three and six months ended June 30, 2004 and 2003 are summarized as follows:

|   | Three Months Ended<br>June 30, |                     | Six Months Ended<br>June 30, |                     |
|---|--------------------------------|---------------------|------------------------------|---------------------|
|   | 2004                           | 2003                | 2004                         | 2003                |
| <b>Net sales:</b>   |                                |                     |                              |                     |
| PMP division  | \$ —                           | \$ 559,403          | \$ —                         | \$ 1,091,772        |
| Spin Forge division   | 147,689                        | 1,444,811           | 969,069                      | 2,699,014           |
| <b>Total net sales</b>  | <b>\$ 147,689</b>              | <b>\$ 2,004,214</b> | <b>\$ 969,069</b>            | <b>\$ 3,790,786</b> |
| <b>Loss from discontinued operations:</b>   |                                |                     |                              |                     |
| PMP division  | \$ —                           | \$ (197,110)        | \$ —                         | \$ (495,586)        |
| Spin Forge division   | (739,919)                      | (133,708)           | (1,065,164)                  | (259,036)           |
| <b>Total loss from discontinued operations</b>  | <b>(739,919)</b>               | <b>(330,818)</b>    | <b>(1,065,164)</b>           | <b>(754,622)</b>    |
| <b>Tax benefit:</b>   |                                |                     |                              |                     |
| PMP division  | —                              | 77,000              | —                            | 193,000             |
| Spin Forge division   | 289,000                        | 52,000              | 415,000                      | 101,000             |
| <b>Total tax benefit</b>  | <b>289,000</b>                 | <b>129,000</b>      | <b>415,000</b>               | <b>294,000</b>      |
| <b>Loss from discontinued operations, net of tax</b>                                    | <b>\$ (450,919)</b>            | <b>\$ (201,818)</b> | <b>\$ (650,164)</b>          | <b>\$ (460,622)</b> |
| <b>Loss on impairment of assets associated with discontinued operations:</b>            |                                |                     |                              |                     |
| PMP division  | \$ —                           | \$ —                | \$ —                         | \$ —                |
| Spin Forge division   | (1,015,000)                    | —                   | (1,015,000)                  | —                   |
| <b>Total loss on impairment of assets associated with discontinued operations</b>       | <b>(1,015,000)</b>             | <b>—</b>            | <b>(1,015,000)</b>           | <b>—</b>            |
| <b>Tax benefit:</b>   |                                |                     |                              |                     |
| PMP division  | —                              | —                   | —                            | —                   |
| Spin Forge division   | 396,000                        | —                   | 396,000                      | —                   |
| <b>Total tax benefit</b>  | <b>396,000</b>                 | <b>—</b>            | <b>396,000</b>               | <b>—</b>            |
| <b>Loss on impairment of assets associated with discontinued operations, net of tax</b> | <b>\$ (619,000)</b>            | <b>\$ —</b>         | <b>\$ (619,000)</b>          | <b>\$ —</b>         |



## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Executive Overview

DMC's consolidated sales for both the second quarter and six months ended June 30, 2004 increased by 29% from those for the comparable periods of 2003 due to a general strengthening in demand for clad metal plate manufactured by our Explosive Metalworking Group. Explosive Metalworking Group sales for the second quarter and six months ended June 30, 2004 and 2003, increased by 35% and 34%, respectively, and include sales increases of 40% and 48% for the respective periods by the Group's U.S. Clad Metal Division. Despite the large sales increase, consolidated income from operations for the six months ended June 30 declined slightly to \$1,832,995 in 2004 from \$1,932,414 in 2003 due to a year-to-year decline in AMK Welding operating income and lower Explosive Metalworking Group gross margins in the 2004 period. We reported a consolidated net loss of \$296,773 for the six months ended June 30, 2004 as compared to net income of \$549,113 for the comparable period of 2003. The net loss in 2004 is attributable to a loss from discontinued operations of \$1,269,164 that resulted from our recent decision to divest the Spin Forge Division. In the 2003 six-month period, we reported a loss from discontinued operations of \$460,622 that reflected the combined after tax operating losses of Spin Forge and the former PMP Division, which was sold on October 7, 2003. After tax income from continuing operations for the six months ended June 30, 2004 and 2003 remained relatively flat at \$972,391 and \$1,009,735, respectively.

Our Explosive Metalworking Group reported sales of \$21,086,472 for the six months ended June 30, 2004 versus comparable 2003 sales of \$15,751,797 and an increase in operating income to \$1,867,306 in 2004 from \$1,577,141 in 2003. The outlook for continued improvement in the Group's 2004 sales performance and operating income is promising. The Explosive Metalworking backlog, which had increased from \$8.6 million at December 31, 2002 to \$11.7 million at December 31, 2003 and \$17.3 million as of March 31, 2004, increased further to \$21.1 million as of June 30, 2004. This record backlog is the direct result of the strong flow of new orders during the first six months of 2004 that significantly exceeded our expectations and that includes an order in excess of \$5 million for the Ravensthorpe nickel project in Australia, which we expect to ship in the fourth quarter of 2004. With the exception of the large nickel hydrometallurgy project orders that we receive periodically, U. S. demand for our clad metal products is largely driven by plant maintenance and retrofit projects at existing chemical processing, petrochemical processing and oil refining facilities. Postponed capital spending within these industries over the past few years, improved economic conditions and the "Clean Fuels Act" appear to be working together to increase demand for our products in the U.S. In contrast to the U.S. market, demand for our clad products in Europe is more dependent on large projects, such as the building of new purified terephthalic acid ("PTA") plants in different parts of the world, and on sales of electrical transition joints that are used in the aluminum smelting industry. European sales are expected to be strong in the second half of 2004 as Nobelclad ships products relating to orders in support of new PTA plant construction and continues to gain market share in the electrical transition joint business.

Historically, our Aerospace Group has been comprised of the AMK Welding, Spin Forge and PMP divisions. Since PMP and Spin Forge are now reported as discontinued operations due to the 2003 sale of PMP and the planned divestiture of Spin Forge in 2004, the Aerospace Group no longer exists and AMK Welding has been reported as a standalone business segment in the accompanying consolidated financial statements. For the six months ended June 30, 2004, AMK Welding reported sales of \$1,058,741 compared to sales of \$1,454,258 in the first half of 2003. As a result of this 27% sales decrease, AMK Welding reported a year-to-date operating loss of \$34,311 in 2004 compared to operating income of \$355,273 in 2003. Development work performed in 2003 on a new ground-based turbine did not recur during the first half of 2004 and the absence of such work in 2004 is largely responsible for the decline in AMK's sales and operating income levels. Based upon a recent increase in orders, AMK's sales and operating results are expected to show modest improvement during the

second half of 2004 from those reported for the first half of the year but full year 2004 results will likely fall short of those reported in 2003. However, prospects at AMK for 2005 and beyond appear to be excellent as the new ground-based turbine goes into production and the demand for commercial aircraft engines, which has been depressed since 2001, continues to improve. AMK sales in 2005 are expected to exceed those of 2002 when AMK reported sales of approximately \$3.3 million and operating income in excess of \$1 million.

DMC generated cash flow from operations of approximately \$3,075,000 during the first six months of 2004, the majority of which was applied to the funding of capital expenditures, scheduled long-term debt principal payments, and operating losses and working capital requirements of the discontinued operations of Spin Forge in the approximate amounts of \$630,000 and \$1,477,000 and \$842,000, respectively. Based on expected improvements in operating income during the remainder of 2004 and minimal expected income tax payments due to more than \$2.5 million in net operating loss carry-forwards for U.S. Federal income tax purposes, we expect operating cash flow for the remainder of 2004 to be strong. A significant portion of the operating cash flow that we expect to generate in 2004 will be used to satisfy approximately \$2.6 million in principal payments that are due in 2004 under various long-term debt agreements. These payments will further strengthen our balance sheet, which also benefited from payments on long-term debt of approximately \$2.2 million in 2003.

### Three and Six Months Ended June 30, 2004 Compared to Three and Six Months Ended June 30, 2003

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

|                                   | Percentage of net sales        |        |                              |        |
|-----------------------------------|--------------------------------|--------|------------------------------|--------|
|                                   | Three months ended<br>June 30, |        | Six months ended<br>June 30, |        |
|                                   | 2004                           | 2003   | 2004                         | 2003   |
| Net sales                         | 100.0%                         | 100.0% | 100.0%                       | 100.0% |
| Cost of products sold             | 75.9%                          | 71.7%  | 76.5%                        | 71.6%  |
| Gross margin                      | 24.1%                          | 28.3%  | 23.5%                        | 28.4%  |
| General & administrative          | 7.5%                           | 7.9%   | 7.6%                         | 8.4%   |
| Selling expenses                  | 7.8%                           | 8.3%   | 7.6%                         | 8.8%   |
| Income from operations            | 8.8%                           | 12.1%  | 8.3%                         | 11.2%  |
| Other expense, net                | 0.0%                           | 0.0%   | 0.0%                         | 0.0%   |
| Interest expense, net             | 0.8%                           | 1.5%   | 1.0%                         | 1.6%   |
| Income tax provision              | 3.2%                           | 4.1%   | 2.9%                         | 3.7%   |
| Income from continuing operations | 4.8%                           | 6.5%   | 4.4%                         | 5.9%   |
| Loss from discontinued operations | 9.0%                           | 2.2%   | 5.7%                         | 2.7%   |
| Net income (loss)                 | (4.2)%                         | 4.3%   | (1.3)%                       | 3.2%   |

*Net Sales.* Net sales for the quarter ended June 30, 2004 increased by 29.5% to \$11,985,085 from \$9,256,393 in the second quarter of 2003. Sales by the Explosive Metalworking Group, which includes explosion bonding of clad metal and shock synthesis of synthetic diamonds, increased by 34.8% to \$11,426,038 in the second quarter of 2004 from \$8,478,766 in the second quarter of 2003. The Explosive Metalworking sales increase reflects a 40.2% increase in U.S. clad sales and a 26.6% U.S. dollar sales increase at Nobleclad Europe. Nobleclad Europe's sales increase reflects a sales volume increase of 19.4% with the remainder of the 26.6% increase being attributable to foreign exchange rate fluctuations. The overall increase in quarter-to-quarter worldwide Explosive Metalworking Group sales is principally attributable to the improved economic condition of the industries that the Group serves

as evidenced by an increase in backlog from \$10.7 million at March 31, 2003 to \$17.3 million as of March 31, 2004. This positive sales trend is expected to continue in the second half of 2004 based on an increase in the backlog to \$21.1 million as of June 30, 2004. Sales at AMK Welding, the only continuing operating division in what was formerly our Aerospace Group, decreased by 28.1% to \$559,047 in the second quarter of 2004 from \$777,627 in the second quarter of 2003. Lower quarter-to-quarter revenues from ground-based turbine work negatively affected AMK Welding's second quarter 2004 sales as AMK waits for a customer to transition a new ground-based turbine system from development into production.

For the six months ended June 30, 2004, net sales increased by 28.7% to \$22,145,213 from \$17,206,055 for the comparable period of 2003. Explosive Metalworking Group sales for the comparable six-month periods increased by 33.9% to \$21,086,472 in 2004 from \$15,751,797 in 2003. As discussed above, the overall increase in worldwide Explosive Metalworking sales is principally attributable to the improved economic condition of the industries that the Group serves as evidenced by significant year-to-year backlog increases. AMK Welding sales for the six-month period ended June 30, 2004 totaled \$1,058,741, a decrease of 27.2% from sales of \$1,454,258 reported for the comparable period of 2003. This year-to-year sales decrease is also attributable to the lower revenues from ground-based turbine work as discussed above.

*Gross Profit.* Gross profit for the quarter ended June 30, 2004 increased by 10.1% to \$2,886,844 from \$2,621,806 in the second quarter of 2003. The gross profit margin rate for the second quarter of 2004 was 24.1%, a 15% decrease from the gross profit margin rate of 28.3% for the second quarter of 2003. For the six months ended June 30, 2004, gross profit was \$5,214,178, a 6.8% increase from \$4,883,233 in a comparable period of 2003. The gross profit margin rate for the first six months of 2004 was 23.5%, a 17% decrease from the gross profit margin rate of 28.4% for the first six months of 2003.

The gross profit margin for the Explosive Metalworking Group decreased to 24.5% in the second quarter of 2004 from 27.7% in the second quarter of 2003. This decrease is primarily a result of unfavorable product mix changes in the Group's U.S. operations, whose second quarter gross margin rate decreased to 26.2% in 2004 from 32.0% in 2003. Nobelcad Europe's second quarter gross margin rate increased slightly to 21.2% in 2004 from 20.8% in 2003. For the six months ended June 30, 2004, the gross profit margin for the Explosive Metalworking Group decreased to 24.2% from 28.0% for the six months ended June 30, 2003. This decrease reflects a decrease in the U.S. gross margin rate to 28.0% in 2004 from 30.0% in 2003 and a decrease in Nobelclad Europe's year-to-date gross margin rate to 17.5% in 2004 from 25.0% in 2003. The year-to-year decrease in Nobelclad's gross margin rate reflects an unfavorable first quarter 2004 product mix and the negative impact of stiff local market price competition on certain orders that were booked in late 2003 and early 2004.

The gross profit margin for AMK Welding was 16.2% for the quarter ended June 30, 2004 as compared to a gross margin of 35.2% in the second quarter of 2003. For the six months ended June 30, 2004, AMK Welding's gross profit margin decreased to 9.7% from 32.4% for the comparable period of 2003. The gross margin declines at AMK Welding reflect less favorable absorption of fixed manufacturing overhead expenses resulting from the sales declines experienced in 2004.

*General and Administrative Expenses.* General and administrative expenses for the quarter ended June 30, 2004 were \$895,911, a 22.2% increase from the \$733,175 reported in the second quarter of 2003. For the six months ended June 30, 2004, general and administrative expenses increased to \$1,684,498 from \$1,449,259 in the comparable period of 2003. The increase in general and administrative expenses for both the second quarter and six-month periods of 2004 reflect increases in consulting fees, legal expenses and board of director fees. Increased consulting fees relate to the use of an outside consultant to assist with the Spin Forge divestiture efforts. The increase in legal expenses relates to assistance with the preparation of proxy materials for the annual stockholders meeting held on June 10, 2004 (the 2003 annual stockholders meeting was held in October) and the implementation

of new corporate governance requirements under the Sarbanes-Oxley Act. Director fees increased as a result of an increase in the number of meetings held during the first half of 2004 versus the first half of 2003 and an increase in the quarterly retainer and meeting fees paid to directors that became effective on July 1, 2003.

As a percentage of net sales, general and administrative expenses decreased to 7.5% in the second quarter of 2004 from 7.9% in the second quarter of 2003 as a result of the 29.5% increase in second quarter 2004 sales. For the six months ended June 30, 2004, general and administrative expenses, as a percentage of net sales, decreased to 7.6% from 8.4% for the comparable six-month period.

*Selling Expenses.* Selling expenses increased by 21.8% to \$940,653 for the quarter ended June 30, 2004 from \$772,501 in the second quarter of 2003. For the six months ended June 30, 2004, selling expenses increased by 13% to \$1,696,685 from \$1,501,560 in the comparable period of 2003. The increase in selling expenses for both the second quarter and six-month periods of 2004 reflects an increase in accrued bonus expense associated with the higher profitability of the U.S. Clad Metal Division in 2004 and increased spending in 2004 on business travel and outside consultants relating to the higher level of business activity and the pursuit of new business development opportunities.

As a percentage of net sales, selling expenses decreased from 8.3% in the second quarter of 2003 to 7.8% for the quarter ended June 30, 2004 as a result of the increase in second quarter 2004 sales. For the six months ended June 30, 2004, selling expenses, as a percentage of net sales, decreased to 7.6% from 8.8% for the comparable six-month period.

*Income from Operations.* For the quarter ended June 30, 2004, we reported income from operations of \$1,050,280, a decrease of 5.9% from the \$1,116,130 of operating income reported for the second quarter of 2003. For the six months ended June 30, 2004, we reported operating income of \$1,832,995, which represented a 5.1% decrease from the \$1,932,414 in operating income that we reported for the first six months of 2003.

Our Explosive Metalworking Group reported income from operations of \$1,031,749 in the second quarter of 2004 compared to operating income of \$900,509 in the second quarter of 2003. This operating income increase reflects a sales increase of \$2,947,272, or 34.8%, that was partially offset by a decrease in the Group's gross margin rate from 28.3% in 2003 to 24.1% in 2004 and higher second quarter 2004 operating expense levels. For the six months ended June 30, 2004, our Explosive Metalworking Group reported income from operations of \$1,867,306, an 18.4% increase from operating income of \$1,577,141 for the comparable period of 2003. This operating income increase reflects a sales increase of \$5,334,675, or 33.9%, that was partially offset by a decrease in the Group's gross margin rate from 28.4% in 2003 to 23.5% in 2004 and higher 2004 operating expenses.

AMK Welding reported operating income of \$18,531 in the second quarter of 2004 compared to operating income of \$215,621 in the prior year second quarter. For the six months ended June 30, 2004, AMK reported an operating loss of \$34,311 compared to operating income of \$355,273 for the comparable period of 2003. The unfavorable changes in operating income levels at AMK are principally attributable to the second quarter and year-to-date 2004 sales declines that AMK experienced as further discussed above.

*Interest Expense, net.* Interest expense decreased by 21.3% to \$103,063 for the quarter ended June 30, 2004 from \$131,017 in the second quarter of 2003. For the six months ended June 30, 2004, interest expense decreased by 18.6% to \$222,403 from \$273,384 for the comparable period in 2003. These decreases reflect a combination of lower outstanding borrowings and lower average interest rates in 2004.

*Income Tax Provision.* For the quarter ended June 30, 2004, DMC recorded a consolidated income tax provision of \$384,685 on income from continuing operations as compared to a consolidated

income tax provision of \$384,008 in the second quarter of 2003. For the six months ended June 30, 2004, we recorded a consolidated income tax provision of \$645,243 on income from continuing operations as compared to a consolidated income tax provision of \$649,332 for the comparable period of 2003. The effective tax rate increased slightly to 40.5% and 39.9% for the three and six months ended June 30, 2004, respectively, from 39.1% for both of the respective 2003 periods.

*Income from Continuing Operations.* For the quarter ended June 30, 2004, income from continuing operations decreased to \$564,931 from \$597,226 in the second quarter of 2003. Income from continuing operations for the six months ended June 30, 2004 decreased 3.7% to \$972,391 from \$1,009,735 for the first half of 2003. The decreases for both periods are principally a result of the decline in AMK Welding operating results as discussed above but also reflect the lower gross margin rates reported by our Explosive Metalworking Group in 2004.

*Loss from Discontinued Operations.* On October 7, 2003, DMC completed the sale of its PMP division. In our consolidated financial statements for the year ended December 31, 2003, we reported the loss on the sale of PMP as well as the operating losses reported by PMP in 2003, 2002 and 2001 as discontinued operations, net of related tax benefits. Accordingly, for the second quarter and six months ended June 30, 2003, we reported net of tax operating losses of \$120,110 and \$302,586, respectively, to present PMP's 2003 operating losses as discontinued operations.

DMC currently has a divestiture plan for its Spin Forge division that involves subleasing the Spin Forge real estate and leasing the manufacturing equipment and tooling to a third party. The division's inventory would be sold to this third party who would also assume full responsibilities for Spin Forge business activities and operating expenses. With respect to the Spin Forge manufacturing equipment and tooling, we have recorded an after tax impairment loss of \$619,000 in our June 30, 2004 financial statements based upon the difference between the current carrying value of the equipment and the present value of the future minimum equipment lease payments from the third party plus estimated liquidation proceeds at the end of the minimum lease term. The Company holds a purchase option on the Spin Forge real estate that allows it to purchase the real estate for \$2,880,000, a price that is significantly below the real estate's recently appraised value. As part of the proposed divestiture transaction, DMC will maintain control of this real estate purchase option but the third party will have the option, through August 1, 2005, to receive an assignment of the primary lease and real estate purchase option from DMC for such reasonable consideration as the parties may mutually agree. The value inherent in this real estate purchase option is believed to be significant but was not considered in the calculation of the impairment loss on the Spin Forge equipment and tooling due to uncertainties surrounding its ultimate realization.

In the accompanying consolidated financial statements, we have reported the 2004 and 2003 operating losses of Spin Forge and the asset impairment loss discussed above as discontinued operations, net of related tax benefits. For the quarters ended June 30, 2004 and 2003, we reported net of tax operating losses of \$450,919 and \$81,708, respectively, from the discontinued operations of Spin Forge. For the six months ended June 30, 2004 and 2003, we reported net of tax operating losses of \$650,164 and \$158,036, respectively, with respect to the discontinued operations of Spin Forge. The large increases in the Spin Forge 2004 operating losses reflects a decrease in second quarter sales from \$1,444,811 in 2003 to only \$147,689 in 2004 and a decrease in year-to-date sales from \$2,699,014 in 2003 to \$969,069 in 2004.

*Net Income.* We reported a net loss of \$504,988 in the second quarter of 2004 compared to net income of \$395,408 in the second quarter of 2003. The net loss for the second quarter of 2004 includes income from continuing operations of \$564,931 that was offset by a loss from discontinued operations of \$1,069,919. Net income for the second quarter of 2003 includes income from continuing operations of \$597,226 that was partially offset by a loss from discontinued operations of \$201,818. For the six months ended June 30, 2004, we reported a net loss of \$296,773, which includes income from

continuing operations of \$972,391 offset by a loss from discontinued operations of \$1,269,164. For the six months ended June 30, 2003, we reported net income of \$549,113, which includes income from continuing operations of \$1,009,735 that was partially offset by a loss from discontinued operations of \$460,622.

### **Liquidity and Capital Resources**

Historically, DMC has obtained its operational financing from a combination of internally generated cash flow, revolving credit borrowings, various long-term debt arrangements and the issuance of common stock. We believe that cash flow from operations and funds available under our current credit facilities and any future replacement thereof will be sufficient to fund working capital, debt service obligations and capital expenditure requirements of our current business operations for the foreseeable future. However, a significant portion of our 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 our ability to meet cash requirements exclusively through operating activities. Consequently, any restriction on the availability of borrowing under our credit facilities could lessen our ability to meet future cash requirements. DMC attempts to minimize its risk of losing customers or specific contracts by continually improving product quality, delivering product on time and competing favorably on the basis of price. Risks associated with the availability of funds are minimized by borrowing from multiple lenders. The nature of DMC's business is largely insulated from the negative effects of inflation on sales and operating income because the pricing on custom orders reflects current raw material and other manufacturing costs.

The Company's existing loan agreements include various covenants and restrictions, certain of which relate to the payment of dividends or other distributions to stockholders, redemption of capital stock, incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets, limits on capital expenditures and maintenance of specified financial ratios. As of June 30, 2004, the Company failed to meet minimum debt service coverage and minimum net income covenants for its U.S. operations under its revolving line of credit with a U.S. bank. Covenant violations occurred primarily as a result of significant operating losses incurred by the Company's Spin Forge division during 2004. The Company has obtained an amendment on this revolving line of credit which waives the covenant violations and sets forth new financial covenants for the remainder of the year which are based on management's updated forecast of 2004 operating results, cash flows and capital expenditures. Additionally, the amendment extends the expiration date for the revolving line of credit from December 4, 2004 to December 4, 2005. Therefore, as of June 30, 2004, the Company is in compliance with all financial covenants and provisions of its debt agreements. There is no assurance that the Company will not violate financial covenants in the future and, in the event of a default, that the Company will be successful in obtaining waivers.

The Company's principal cash flows related to debt obligations, operating lease obligations and purchase obligations have not materially changed since December 31, 2003.

### **Highlights from the Statement of Cash Flows for the Six Months Ended June 30, 2004**

Net cash flows provided by operating activities for the six months ended June 30, 2004 totaled \$3,074,645. Significant sources of operating cash flow included net income from continuing operations of \$972,391, depreciation and amortization of \$683,089, deferred tax expense of \$627,096 and positive net changes of \$792,069 in various components of working capital. Net positive changes in working capital include an increase in accounts payable and accrued expenses aggregating \$2,951,441. This positive change in working capital was largely offset by increases in accounts receivable and inventories of \$1,838,155 and \$702,689, respectively. The large increases in accounts receivable and inventories reflect the higher production and sales volume associated with the general strength of our Explosive

Metalworking segment. Fortunately, we were able to finance these working capital requirements by increasing our accounts payable and accrued expenses.

Cash used in investing activities totaled \$553,192 and included capital expenditures in the amount of \$630,326 that was offset by payments received of \$52,500 on a promissory note receivable and a net decrease in other non-current assets of \$24,364.

Net cash flows used in financing activities totaled \$1,504,978. Significant uses of cash for financing activities included \$666,666 in principal payments on the SNPE, Inc. term loan, industrial development revenue bond principal payments of \$455,000, a principal payment on the term loan with a French bank for \$355,518 and a repayment of a bank overdraft of \$177,745. These debt repayments were partially offset by net borrowings of \$90,441 on bank lines of credit.

Cash flows used in discontinued operations totaled \$841,780 and were primarily the result of the operating losses incurred by Spin Forge.

#### **Highlights from the Statement of Cash Flows for the Six Months Ended June 30, 2003**

Net cash flows from operating activities for the six months ended June 30, 2003 were \$2,206,414. Significant sources of operating cash flow included net income from continuing operations of \$1,009,735, depreciation and amortization of \$614,265, deferred tax expense of \$389,415 and positive net changes of \$192,999 in various components of working capital. Net positive changes in working capital included a decrease in accounts receivable of \$1,488,197 and an increase in accounts payable of \$1,027,195. These positive changes in working capital were partially offset by increases in inventories and prepaid expenses of \$1,462,261 and \$256,298, respectively, and a decrease in accrued expenses of \$603,834.

Cash used in investing activities totaled \$621,261 and was comprised primarily of capital expenditures in the amount of \$649,618.

Net cash flows used in financing activities for the six months ended June 30, 2003 totaled \$481,767. Uses of cash flow from financing activities included repayment of a bank overdraft of \$177,705, principal payments on industrial development revenue bonds in the amount of \$415,000, and \$1,333,332 in principal payments on the SNPE, Inc. term loan. These debt repayments were partially offset by net borrowings of \$1,114,639 on bank lines of credit and \$307,034 on net borrowings on related party lines of credit.

Cash flows used in discontinued operations totaled \$1,114,190 and were the result of the operating losses of Spin Forge and PMP as well as negative changes in working capital for those divisions.

#### **Future Capital Needs and Resources**

We anticipate that, for the foreseeable future, available cash flows will be principally used for:

- operating expenses to support our domestic and foreign manufacturing operations;
- capital expenditures;
- debt service requirements; and
- other general corporate expenditures.

We expect cash inflows from operating activities to exceed outflows for the full year 2004. However, our success depends on the execution of our strategies, including our ability to:

- secure an adequate level of new customer orders at all operating divisions; and
- continue to implement the most cost-effective internal processes.

Based on available cash resources, anticipated capital expenditures and projected operating cash flow, we believe that we will be able to fully fund our operations through 2004. In making this assessment, we have considered:

- presently scheduled debt service requirements during the remainder of 2004, as well as the availability of funding related to our line of credit with SNPE and our bank lines of credit;
- the anticipated level of capital expenditures during 2004;
- our expectation of generating positive cash flow from operations during the remainder of 2004.

If our business plans change, or if economic conditions change materially, our cash flow, profitability and anticipated cash needs could change significantly. In particular, any acquisition or new business opportunity could involve significant additional funding needs in excess of the identified currently available sources, and could require us to raise additional equity or debt funding to meet those needs.

#### **Critical Accounting Policies**

In response to the SEC's Release No. 33-8040, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, we identified the most critical accounting principles upon which our financial status depends. We determined the critical principles by considering accounting policies that involve the most complex or subjective decisions or assessments. We identified our most critical accounting policies to be those related to revenue recognition, asset impairment, inventory valuation and impact of foreign currency exchange rate risks.

*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.

*Asset Impairments.* The Company reviews its long-lived assets and certain identifiable intangibles to be held and used by the Company for impairment whenever events or changes in circumstances indicate their carrying amount may not be recoverable. In so doing, the Company estimates the future net cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future net cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized to reduce the asset to its estimated fair value. Otherwise, an impairment loss is not recognized. Long-lived assets and certain identifiable intangibles to be disposed of, if any, are reported at the lower of carrying amount or fair value less cost to sell.

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

*Impact of Foreign Currency Exchange Rate Risks.* The functional currency for the Company's foreign operations is the applicable local currency for each affiliate company. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated at exchange rates in effect at period-end, and the statements of operations are translated at the average exchange rates during the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded as a separate component of stockholders' equity and are included in other cumulative comprehensive income (loss). Transactions denominated in currencies other than the local currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the



transactions. Cash flows from the Company's operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. As a result, amounts related to assets and liabilities reported in the consolidated statements of cash flows will not agree to changes in the corresponding balances in the consolidated balance sheets. The effects of exchange rate changes on cash balances held in foreign currencies are reported as a separate line item below cash flows from financing activities.

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

There have been no events that materially affect our quantitative and qualitative disclosure about market risk as reported in our Annual Report on Form 10-K for the year ended December 31, 2003.

### **ITEM 4. Controls and Procedures**

As of June 30, 2004, an evaluation was performed under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2004. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2004.

The Company's management, including the CEO and CFO, does not expect that the Company's disclosure controls or its internal controls will prevent all errors and all fraud. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. As a result of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, the Company's disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the disclosure controls and procedures are met.

## Part II—OTHER INFORMATION

### Item 1. Legal Proceedings

None.

### Item 2. Changes in Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on June 10, 2004. At the Annual Meeting, the stockholders of the Company (i) elected the persons listed below to serve as directors of the Company until the 2005 Annual Meeting of Stockholders or until their respective successors are elected and (ii) approved the amendment of the Company's 1997 Equity Incentive Plan to increase the aggregate number of shares of Common Stock authorized for issuance under such plan by 50,000 shares.

The Company had 5,107,134 shares of Common Stock outstanding as of April 13, 2004, the record date for the Annual Meeting. At the Annual Meeting, holders of a total of 4,963,531 shares of Common Stock were present in person or represented by proxy. The following sets forth information regarding the results of the voting at the Annual Meeting:

Proposal 1: Election of Directors.

| DIRECTOR                   | Shares Voted "FOR" | Shares Withheld |
|----------------------------|--------------------|-----------------|
| Mr. Bernard Hueber         | 4,912,586          | 50,945          |
| Mr. Jacques Loppion        | 4,911,342          | 52,189          |
| Mr. Bernard Fontana        | 4,906,809          | 56,722          |
| Mr. Gerard Munera          | 4,914,186          | 49,345          |
| Mr. Francois Schwartz      | 4,911,342          | 52,189          |
| Mr. Dean K. Allen          | 4,914,686          | 48,845          |
| Mr. George W. Morgenthaler | 4,818,721          | 144,810         |

Proposal 2: To approve the amendment of the 1997 Equity Incentive Plan

| Shares Voted "FOR" | Shares Voted "AGAINST" | Shares "ABSTAINING" | Shares not voted |
|--------------------|------------------------|---------------------|------------------|
| 3,435,145          | 209,147                | 1,225               | 1,318,014        |

### Item 5. Other Information

None.

**Item 6.**

**(a) Exhibits**

- 10.1 — Fourth Amendment to Credit and Security Agreement and Waiver of Defaults, dated August 12, 2004, by and between the Company and Wells Fargo Business Credit, Inc.
- 31.1 — Certification of the President and Chief Executive Officer pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 — Certification of the Vice President and Chief Financial Officer pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 — Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 — Certification of the Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**(b) Reports on Form 8-K**

Report on Form 8-K filed on April 6, 2004, announcing the date of the 2004 Annual Stockholders meeting.

Report on Form 8-K filed on June 14, 2004, announcing Michel Nicolas as the new Chairman of the Board of Directors.

**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 13, 2004

/s/ RICHARD A. SANTA

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



**FOURTH AMENDMENT TO CREDIT AND SECURITY AGREEMENT  
AND WAIVER OF DEFAULTS**

This Amendment, dated as of August 12, 2004, is made by and between DYNAMIC MATERIALS CORPORATION, a Delaware corporation (the "Borrower"), and WELLS FARGO BUSINESS CREDIT, INC., a Minnesota corporation (the "Lender").

**Recitals**

The Borrower and the Lender are parties to a Credit and Security Agreement dated as of December 4, 2001, as amended by (i) a First Amendment to Credit and Security Agreement dated as of May 28, 2003, (ii) a Second Amendment to Credit and Security Agreement dated as of December 8, 2003, and (iii) a Third Amendment to Credit and Security Agreement and Waiver of Defaults dated as of February 27, 2004 (as so amended, the "Credit Agreement"). Capitalized terms used in these recitals have the meanings given to them in the Credit Agreement unless otherwise specified.

The Borrower has requested that certain amendments be made to the Credit Agreement, which the Lender is willing to make pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, it is agreed as follows:

1. *Defined Terms.* Capitalized terms used in this Amendment which are defined in the Credit Agreement shall have the same meanings as defined therein, unless otherwise defined herein. In addition, Section 1.1 of the Credit Agreement is hereby amended by amending the following definition:

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

"Maturity Date" means December 4, 2005.

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

2. Section 6.2(a) of the Credit Agreement is hereby amended to read in its entirety as follows:

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

| Period                                     | Minimum Debt Service<br>Coverage Ratio |
|--|--|
| The nine months ending September 30, 2004  | 0.48 to 1.00                           |
| The twelve months ending December 31, 2004 | 0.72 to 1.00"                          |

3. Section 6.2(b) of the Credit Agreement is hereby amended to read in its entirety as follows:

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

| <u>Period</u>  | <u>Minimum Book Net Worth</u> |
|--|-------------------------------|
| The calendar month ending July 31, 2004                    | \$ 15,750,000                 |
| The calendar month ending August 31, 2004                  | \$ 15,750,000                 |
| The calendar month ending September 30, 2004               | \$ 15,921,000                 |
| The calendar month ending October 31, 2004                 | \$ 15,921,000                 |
| The calendar month ending November 30, 2004                | \$ 15,921,000                 |
| The calendar month ending December 31, 2004 and thereafter | \$ 16,649,000"                |

4. Section 6.2(c) of the Credit Agreement is hereby amended to read in its entirety as follows:

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

| <u>Period</u>                              | <u>Minimum Net Income</u> |
|--|---------------------------|
| The nine months ending September 30, 2004  | \$ 489,000                |
| The twelve months ending December 31, 2004 | \$ 1,217,000"             |

5. **No Other Changes.** Except as explicitly amended by this Amendment, all of the terms and conditions of the Credit Agreement shall remain in full force and effect and shall apply to any advance or letter of credit thereunder.

6. **Waiver of Defaults.** The Borrower is in default of Section 6.2(a) and Section 6.2(c) of the Credit Agreement as of June 30, 2004 (collectively, the "Existing Defaults"). Upon the terms and subject to the conditions set forth in this Amendment, the Lender hereby waives the Existing Defaults. This waiver shall be effective only in this specific instance and for the specific purpose for which it is given, and this waiver shall not entitle the Borrower to any other or further waiver in any similar or other circumstances.

7. **Conditions Precedent.** This Amendment, and the waiver set forth in Paragraph 6 hereof, shall be effective when the Lender shall have received an executed original hereof, together with such other matters as the Lender may require, each in substance and form acceptable to the Lender in its sole discretion.

8. **Representations and Warranties.** The Borrower hereby represents and warrants to the Lender as follows:

(a) The Borrower has all requisite power and authority to execute this Amendment and to perform all of its obligations hereunder, and this Amendment has been duly executed and delivered by the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms.

(b) The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to the Borrower, or the articles of incorporation or by-laws of the Borrower, or (iii) result in a breach of or constitute a

default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which the Borrower is a party or by which it or its properties may be bound or affected.

(c) All of the representations and warranties contained in Article V of the Credit Agreement are correct on and as of the date hereof as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date.

9. *References.* All references in the Credit Agreement to "this Agreement" shall be deemed to refer to the Credit Agreement as amended hereby; and any and all references in the Security Documents to the Credit Agreement shall be deemed to refer to the Credit Agreement as amended hereby.

10. *No Other Waiver.* Except as set forth in Paragraph 6 hereof, the execution of this Amendment and acceptance of any documents related hereto shall not be deemed to be a waiver of any Default or Event of Default under the Credit Agreement or breach, default or event of default under any Security Document or other document held by the Lender, whether or not known to the Lender and whether or not existing on the date of this Amendment.

11. *Release.* The Borrower hereby absolutely and unconditionally releases and forever discharges the Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state or federal law or otherwise, which the Borrower has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.

12. *Costs and Expenses.* The Borrower hereby reaffirms its agreement under the Credit Agreement to pay or reimburse the Lender on demand for all costs and expenses incurred by the Lender in connection with the Loan Documents, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Borrower specifically agrees to pay all fees and disbursements of counsel to the Lender for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. The Borrower hereby agrees that the Lender may, at any time or from time to time in its sole discretion and without further authorization by the Borrower, make a loan to the Borrower under the Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.

13. *Miscellaneous.* This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.



IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first written above.

WELLS FARGO BUSINESS CREDIT, INC.

DYNAMIC MATERIALS CORPORATION

By:           /s/ PAMELA R. KLEMPSEL          

By:           /s/ RICHARD A. SANTA          

Name: Pamela R. Klempel  
Its: Vice President

Name: Richard Santa  
Its: Vice President, Chief Financial Officer and Secretary

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[FOURTH AMENDMENT TO CREDIT AND SECURITY AGREEMENT AND WAIVER OF DEFAULTS](#)

**CERTIFICATIONS**

I, Yvon Pierre Cariou, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dynamic Materials Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2004

/s/ YVON PIERRE CARIOU

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Yvon Pierre Cariou  
President and Chief Executive Officer of Dynamic Materials Corporation

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[CERTIFICATIONS](#)

**CERTIFICATIONS**

I, Richard A. Santa, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dynamic Materials Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2004

/s/ RICHARD A. SANTA

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Richard A. Santa  
Vice President and Chief Financial Officer of Dynamic Materials Corporation

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[CERTIFICATIONS](#)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Dynamic Materials Corporation (the "Company") on Form 10-Q for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yvon Pierre Cariou, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ YVON PIERRE CARIOU

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Yvon Pierre Cariou  
President and Chief Executive Officer of Dynamic Materials Corporation

August 13, 2004

A signed original of this written statement required by Section 906 has been provided to Dynamic Materials Corporation and will be retained by Dynamic Materials Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Dynamic Materials Corporation (the "Company") on Form 10-Q for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard A. Santa, Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD A. SANTA

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Richard A. Santa  
Vice President and Chief Financial Officer of Dynamic Materials Corporation

August 13, 2004

A signed original of this written statement required by Section 906 has been provided to Dynamic Materials Corporation and will be retained by Dynamic Materials Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)