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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, 2005

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	**84-0608431**
(State of Incorporation or Organization)	(I.R.S. Employer Identification No.)

5405 Spine Road, Boulder, Colorado 80301
(Address of principal executive offices, including zip code)

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

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 5,779,862 as of July 31, 2005.

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 this quarterly report on Form 10-Q and the information incorporated by reference herein to be covered by the safe harbor provisions for forward-looking statements. Statements contained in this report which are not historical facts 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 quarterly report 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 1—FINANCIAL INFORMATION

Part I—FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	June 30, 2005	December 31, 2004
	(unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,824	$ 2,404
Accounts receivable, net of allowance for doubtful accounts of $337 and $280, respectively	13,485	13,936
Inventories	10,789	8,000
Prepaid expense and other	2,107	527
Current portion of other receivables	69	943
Current deferred tax assets	444	436
Total current assets	28,718	26,246
PROPERTY, PLANT AND EQUIPMENT	21,448	20,832
Less—Accumulated depreciation	(9,448)	(8,988)
Property, plant and equipment, net	12,000	11,844
GOODWILL, net of accumulated amortization of $234	847	847
OTHER ASSETS, net	125	171
OTHER RECEIVABLES	753	753
ASSETS OF DISCONTINUED OPERATIONS	3,877	3,892
TOTAL ASSETS	$ 46,320	$ 43,753

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	June 30, 2005		December 31, 2004	
	(unaudited)			
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	7,517	$	6,041
Accrued expenses		3,494		3,287
Dividend payable		1,155		—
Customer advances		268		1,232
Bank lines of credit		7		3,216
Related party debt		361		2,001
Current maturities on long-term debt		740		1,185
Total current liabilities		13,542		16,962
LONG-TERM DEBT		2,329		2,906
DEFERRED TAX LIABILITIES		694		729
OTHER LONG-TERM LIABILITIES		212		206
LIABILITIES OF DISCONTINUED OPERATIONS		2,880		2,880
Total liabilities		19,657		23,683
STOCKHOLDERS' EQUITY:				
Preferred stock, $.05 par value; 4,000,000 shares authorized; no issued and outstanding shares		—		—
Common stock, $.05 par value; 15,000,000 shares authorized; 5,779,862 and 5,320,438 shares issued and outstanding, respectively		289		266
Additional paid-in capital		18,269		13,617
Retained earnings		7,495		4,887
Other cumulative comprehensive income		610		1,300
Total stockholders' equity		26,663		20,070
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	46,320	$	43,753

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

(Dollars in Thousands, Except Per Share Data)

(unaudited)

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
NET SALES	$ 18,376	$ 11,985	$ 35,886	$ 22,145
COST OF PRODUCTS SOLD	13,161	9,148	26,020	17,043
Gross profit	5,215	2,837	9,866	5,102
COSTS AND EXPENSES:				
General and administrative expenses	898	846	1,707	1,573
Selling expenses	870	941	1,995	1,697
Total costs and expenses	1,768	1,787	3,702	3,270
INCOME FROM OPERATIONS OF CONTINUING OPERATIONS	3,447	1,050	6,164	1,832
OTHER INCOME (EXPENSE):				
Other income	13	2	16	7
Interest expense	(82)	(111)	(168)	(234)
Interest income	16	7	20	12
INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	3,394	948	6,032	1,617
INCOME TAX PROVISION	1,279	385	2,269	645
INCOME FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS	2,115	563	3,763	972
DISCONTINUED OPERATIONS:				
Loss from operations of discontinued operations, net of tax	—	(451)	—	(650)
Loss on sale of discontinued operations, net of tax	—	(619)	—	(619)
Loss from discontinued operations	—	(1,070)	—	(1,269)
NET INCOME (LOSS)	$ 2,115	$ (507)	$ 3,763	$ (297)
INCOME (LOSS) PER SHARE—BASIC:				
Continuing operations	$ 0.38	$ 0.11	$ 0.69	$ 0.19
Discontinued operations	—	(0.21)	—	(0.25)
Net income (loss)	$ 0.38	$ (0.10)	$ 0.69	$ (0.06)
INCOME (LOSS) PER SHARE—DILUTED:				
Continuing operations	$ 0.35	$ 0.11	$ 0.63	$ 0.19
Discontinued operations	—	(0.20)	—	(0.24)
Net income (loss)	$ 0.35	$ (0.09)	$ 0.63	$ (0.05)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING —				
Basic	5,535,466	5,106,912	5,441,818	5,098,231
Diluted	6,026,669	5,392,276	5,979,348	5,380,286
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.20	$ —	$ 0.20	$ —

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2005

(Amounts in Thousands)

(unaudited)

	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Income	Total	Comprehensive Income for the Period
Balances, December 31, 2004	5,320	$ 266	$ 13,617	$ 4,887	$ 1,300	$ 20,070	
Shares issued for stock option exercises	255	13	1,123	—	—	1,136	
Shares issued in connection with the employee stock purchase plan	5	—	45	—	—	45	
Dividends declared	—	—	—	(1,155)	—	(1,155)	
Conversion of subordinated note	200	10	1,190	—	—	1,200	
Tax benefit related to exercise of stock options	—	—	2,294	—	—	2,294	
Net income	—	—	—	3,763	—	3,763	3,763
Change in cumulative foreign currency translation adjustment	—	—	—	—	(690)	(690)	(690)
Balances, June 30, 2005	5,780	$ 289	$ 18,269	$ 7,495	$ 610	$ 26,663	$ 3,073

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

(Dollars in Thousands)

(unaudited)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from continuing operations	$ 3,763	$ 972
Adjustments to reconcile income from continuing operations to net cash provided by operating activities—		
Depreciation	710	677
Amortization	7	6
Amortization of capitalized debt issuance costs	26	41
Provision for deferred income taxes	(10)	627
Tax benefit related to exercise of stock options	2,294	—
Change in—		
Accounts receivable, net	(415)	(1,838)
Inventories	(3,376)	(703)
Prepaid expense and other	(1,620)	381
Accounts payable	1,978	2,509
Accrued expenses and other liabilities	(198)	445
Net cash flows provided by operating activities	3,159	3,117
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment received on other receivables	874	53
Acquisition of property, plant and equipment	(1,376)	(630)
Change in other non-current assets	148	(16)
Net cash flows used in investing activities	(354)	(593)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

(Dollars in Thousands)

(unaudited)

	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings / (repayments) on bank lines of credit, net	(3,208)	90
Borrowings on related party lines of credit, net	259	—
Payment on SNPE, Inc. term loan	(667)	(667)
Payment on industrial development revenue bond	(490)	(455)
Payment on term loan with French bank	(373)	(356)
Change in other long-tem liabilities	32	(4)
Net proceeds from issuance of common stock to employees and directors	1,181	63
Repayment of bank overdraft	—	(178)
Net cash flows used in financing activities	(3,266)	(1,507)
EFFECTS OF EXCHANGE RATES ON CASH	(119)	(7)
CASH FLOWS USED IN DISCONTINUED OPERATIONS	—	(842)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(580)	168
CASH AND CASH EQUIVALENTS, beginning of the period	2,404	522
CASH AND CASH EQUIVALENTS, end of the period	$ 1,824	$ 690
NON-CASH FINANCING ACTIVITY:		
Conversion of SNPE convertible subordinated note into common stock	$ 1,200	$ —

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

1. BASIS OF PRESENTATION

The information included in the Condensed 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 Condensed 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, 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of Dynamic Materials Corporation ("DMC", or the "Company") and each 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

Sales of clad metal products and welding services are generally based upon customer specifications set forth in customer purchase orders and require us to provide certifications relative to metals used, services performed and the results of any non-destructive testing that the customer has requested be performed. Any non-conformance issues are resolved before the product is shipped and billed. Revenue is recognized only when all four of the following criteria have been satisfied: persuasive evidence of an arrangement exists; delivery has occurred; the price is fixed or determinable; and collection is reasonably assured. For contracts that require multiple shipments, revenue is recorded only for the units included in each individual shipment. 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 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 June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Risk-free interest rate	3.7%	3.6%	3.7%	3.2%
Expected lives	4.0 years	4.0 years	4.0 years	4.0 years
Expected volatility	92.2%	74.4%	91.1%	77.6%
Expected dividend yield	0.5%	0.0%	0.5%	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 four-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, 2005 and 2004 was $28.99 and $2.05, respectively. For the six months ended June 30, 2005 and 2004, the weighted average fair value of options granted was $12.85 and $1.99, 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 and pro-forma net income per share, as if the Company had used the fair value accounting provisions of SFAS 123, are shown below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net income (loss):				
As reported	$ 2,115	$ (507)	$ 3,763	$ (297)
Expense calculated under SFAS 123	(179)	(56)	(260)	(110)
Pro forma	$ 1,936	$ (563)	$ 3,503	$ (407)
Basic net income (loss) per common share:				
As reported	$ 0.38	$ (0.10)	$ 0.69	$ (0.06)
Pro forma	$ 0.35	$ (0.11)	$ 0.64	$ (0.08)
Diluted net income (loss) per common share:				
As reported	$ 0.35	$ (0.09)	$ 0.63	$ (0.05)
Pro forma	$ 0.32	$ (0.10)	$ 0.59	$ (0.07)

The pro forma net income calculation above reflects $24 and $10 in compensation expense associated with the Employee Stock Purchase Plan for the three and six months ended June 30, 2005 and 2004, respectively.

Earnings Per Share

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

	For the three months ended June 30, 2005		
	Income	Shares	Per share Amount
Basic earnings per share:			
Net income	$ 2,115	5,535,466	$ 0.38
Dilutive effect of options to purchase common stock	—	339,555	
Dilutive effect of convertible subordinated note, net of tax	10	151,648	
Dilutive earnings per share:			
Net income	$ 2,125	6,026,669	$ 0.35

	For the three months ended June 30, 2004		
	Income	Shares	Per share Amount
Basic earnings per share:			
Net loss	$ (507)	5,106,912	$ (0.10)
Dilutive effect of options to purchase common stock	—	85,364	
Dilutive effect of convertible subordinated note, net of tax	12	200,000	
Dilutive earnings per share:			
Net loss	$ (495)	5,392,276	$ (0.09)

	For the six months ended June 30, 2005		
	Income	Shares	Per share Amount
Basic earnings per share:			
Net income	$ 3,763	5,441,818	$ 0.69
Dilutive effect of options to purchase common stock	—	361,839	
Dilutive effect of convertible subordinated note, net of tax	23	175,691	
Dilutive earnings per share:			
Net income	$ 3,786	5,979,348	$ 0.63

	For the six months ended June 30, 2004		
	Income	Shares	Per share Amount
Basic earnings per share:			
Net loss	$ (297)	5,098,231	$ (0.06)
Dilutive effect of options to purchase common stock	—	82,055	
Dilutive effect of convertible subordinated note, net of tax	25	200,000	
Dilutive earnings per share:			
Net loss	$ (272)	5,380,286	$ (0.05)

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123 (revised 2004),*Share-Based Payment* ("SFAS 123R"), which is a revision of SFAS 123. SFAS 123R supersedes APB 25 and amends SFAS 95, *Statement of Cash Flows*. Generally the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an option. The Company must adopt SFAS 123R no later than January 1, 2006.

The Company may adopt the requirements of SFAS 123R using either a modified prospective method or a modified retrospective method. The Company will adopt SFAS 123R by the first quarter of 2006 and is currently evaluating the effect that the adoption will have on its financial position and results of operations.

In November 2004, the FASB issued SFAS 151,*Inventory Costs*, which amends the guidance in ARB No. 43, Chapter 4,*Inventory Pricing*. This statement requires abnormal amounts of idle facility expense, freight, handling costs and wasted material to be excluded from inventory costing and instead included as period expenses. In addition, this standard requires the allocation of fixed production overhead to be based on normal capacity of the production facilities. The Company does not believe the adoption of this standard on January 1, 2006 will have a significant impact on its results of operations.

3. INVENTORY

The components of inventory are as follows at June 30, 2005 and December 31, 2004:

	June 30, 2005	December 31, 2004
	(unaudited)	
Raw materials	$ 5,793	$ 3,619
Work-in-process	4,720	4,049
Supplies	276	332
	$ 10,789	$ 8,000

4. DEBT

Related party debt consists of the following at June 30, 2005 and December 31, 2004:

	June 30, 2005	December 31, 2004
	(unaudited)	
SNPE S.A line of credit	$ 361	$ 134
SNPE convertible subordinated note	—	1,200
SNPE term loan	—	667
Related party debt (all current)	$ 361	$ 2,001

Long-term debt consists of the following at June 30, 2005 and December 31, 2004:

	June 30, 2005 (unaudited)	December 31, 2004
Term loan—French bank	$ 1,049	$ 1,581
Industrial development revenue bonds	2,020	2,510
	3,069	4,091
Less current maturities	(740)	(1,185)
Long-term debt	$ 2,329	$ 2,906

Conversion of SNPE Convertible Subordinated Note

On June 8, 2005, SNPE, Inc. exercised its conversion rights on the Convertible Subordinated Note. In accordance with the provisions of the note, the $1,200 note was converted into 200,000 shares of common stock of the Company at a conversion rate of $6 per share.

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, 2005, we were in compliance with all financial covenants and other provisions of our debt agreements.

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 segment is clad metal which is used in the fabrication of pressure vessels, heat exchangers and transition joints used in the petrochemical, refining, hydrometallurgy, aluminum smelting, shipbuilding and other industries. AMK Welding utilizes a number of welding technologies to weld components for manufacturers of jet engines and ground-based turbines.

The accounting policies of both segments are the same as those described in the summary of significant accounting policies. The Company's reportable segments are strategic business units that offer different products and services and are separately managed. Each segment is marketed to different customer types and requires different manufacturing processes and technologies. Segment information is presented for the three and six months ended June 30, 2005 and 2004 as follows:

For the three months ended June 30, 2005:	Explosive Metalworking Group	AMK Welding	Total
Net sales	$ 17,247	$ 1,129	$ 18,376
Depreciation and amortization	$ 307	$ 44	$ 351
Income from operations of continuing operations	$ 3,104	$ 343	$ 3,447
Unallocated amounts:			
Other income			13
Interest expense, net			(66)
Consolidated income before income taxes and discontinued operations			$ 3,394

For the three months ended June 30, 2004:	Explosive Metalworking Group	AMK Welding	Total
Net sales	$ 11,426	$ 559	$ 11,985
Depreciation and amortization	$ 287	$ 54	$ 341
Income from operations of continuing operations	$ 1,031	$ 19	$ 1,050
Unallocated amounts:			
Other income			2
Interest expense, net			(104)
Consolidated income before income taxes and discontinued operations			$ 948

For the six months ended June 30, 2005:	Explosive Metalworking Group	AMK Welding	Total
Net sales	$ 34,214	$ 1,672	$ 35,886
Depreciation and amortization	$ 627	$ 90	$ 717
Income from operations of continuing operations	$ 5,937	$ 227	$ 6,164
Unallocated amounts:			
Other income			16
Interest expense, net			(148)
Consolidated income before income taxes and discontinued operations			$ 6,032

For the six months ended June 30, 2004:	Explosive Metalworking Group	AMK Welding	Total
Net sales	$ 21,086	$ 1,059	$ 22,145
Depreciation and amortization	$ 575	$ 108	$ 683
Income (loss) from operations of continuing operations	$ 1,866	$ (34)	$ 1,832
Unallocated amounts:			
Other income			7
Interest expense, net			(222)
Consolidated income before income taxes and discontinued operations			$ 1,617

During the three and six months ended June 30, 2005 and 2004, 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, 2005 and 2004 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net income (loss) for the period	$ 2,115	$ (507)	$ 3,763	$ (297)
Derivative valuation adjustment	—	60	—	43
Foreign currency translation adjustment	(406)	(38)	(690)	(140)
Comprehensive income (loss)	$ 1,709	$ (485)	$ 3,073	$ (394)

As of June 30, 2005 other cumulative comprehensive income of $610 consists entirely of cumulative foreign currency translation adjustment.

7. DISCONTINUED OPERATIONS

On September 17, 2004, DMC completed the divestiture of its Spin Forge division under an agreement that involved subleasing the Spin Forge real estate and leasing the manufacturing equipment and tooling to a third party. The division's inventory was sold at carrying value to this third party who also assumed full responsibility for Spin Forge business activities and operating expenses. The Company holds a purchase option on the Spin Forge real estate that allows it to purchase the real estate for $2.9 million, a price that is below the real estate's recently appraised value. 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.

Assets of discontinued operations are comprised of the following:

	June 30, 2005	December 31, 2004
	(unaudited)	
Leased manufacturing equipment	997	1,012
Capital lease asset—real estate	2,880	2,880
Total assets of discontinued operations	$ 3,877	$ 3,892

The Company is receiving rent of $23 per month on the leased manufacturing equipment through the end of the initial lease term, which expires in December 2006. As part of the September 17, 2004 divestiture of Spin Forge, the Company sold inventory totaling approximately $1.7 million and the sale of this inventory was reflected in other receivables. As of June 30, 2005, the other receivables balance includes $69, which is classified as current, and $753, which is classified as long term, based upon the agreed upon payment schedule.

Operating results of the discontinued operations for the three and six months ended June 30, 2005 and 2004 are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net sales	$ —	$ 148	$ —	$ 969
Loss from operations of discontinued operations	—	(740)	—	(1,065)
Tax benefit	—	289	—	415
Loss from operations of discontinued operations, net of tax	$ —	$ (451)	$ —	$ (650)
Loss on sale of discontinued operations	—	(1,015)	—	(1,015)
Tax benefit	—	396	—	396
Loss on sale of discontinued operations, net of tax	$ —	$ (619)	$ —	$ (619)

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Dollars in Thousands)

Executive Overview

The business of DMC is organized into two segments: the Explosive Metalworking Group and AMK Welding ("AMK"). The business of the Explosive Metalworking Group has been good, and, based on its current backlog, should continue to be good for the foreseeable future. In addition, while AMK incurred a loss in the first quarter of 2005, business volume improvements that were expected have now taken place, and AMK's prospects look good. DMC's consolidated sales for the six months ended June 30, 2005 increased by 62% from those for the first six months of 2004 including sales increases of 75% and 41% by the U.S. Clad Metal Division and Nobelclad Europe, respectively. Consolidated income from operations increased by $4,332, or 237%, to $6,164 for the six months ended June 30, 2005 from $1,832 for the comparable period of 2004, reflecting a $4,071 improvement in Explosive Metalworking Group's operating income and a $261 improvement in AMK's operating results. Our year-to-date consolidated net income increased to $3,763 in 2005 from a net loss of $297 in 2004. The 2004 net loss included a loss from discontinued operations of $1,269 relating to the divestiture of our Spin Forge division that was completed on September 17, 2004. Income from continuing operations before discontinued operations increased to $3,763 for the first six months of 2005 from $972 for the comparable 2004 period.

Our Explosive Metalworking Group reported sales of $34,214 for the six months ended June 30, 2005 versus comparable 2004 sales of $21,086 and an increase in operating income to $5,937 in 2005 from $1,866 in 2004. The Explosive Metalworking Group's backlog, which had increased from $11.7 million at December 31, 2003 to $27.5 million at December 31, 2004, increased further to $33.2 million as of June 30, 2005 (a slight decrease from the backlog of $34.1 million as of March 31, 2005) and reflects record booking levels during the first six months of 2005, including a March order valued at more than $5.3 million for work related to a nickel hydrometallurgy project in New Caledonia. Shipments on this large order are expected to begin during this year's third quarter and most of the order is expected to ship by the end of 2005. Subsequent to the end of the second quarter, Nobelclad Europe booked a $6.0 million order that increased the Explosive Metalworking Group's backlog to a record level. The order, which relates to a petrochemical project in Kuwait, will be manufactured at our facilities in France and the U.S. and will ship during the fourth quarter of 2005 and first quarter of 2006. 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. 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, including China, and on sales of electrical transition joints that are used in the aluminum smelting industry. With a strong backlog as of June 30, 2005, as supplemented by the $6.2 million order that we received in July, and generally favorable market conditions in most of the industries that we serve, the prospects for continued year-to-year sales and operating income growth in our core Explosive Metalworking business during the remainder of 2005 are good.

For the six months ended June 30, 2005, AMK reported sales of $1,672 as compared to sales of $1,059 in the first half of 2004. As a result of this 58% sales increase, AMK reported year-to-date operating income of $227 in 2005, which reflects second quarter operating income of $343 following a first quarter operating loss of $116, compared to an operating loss of $34 for the first six months of 2004. AMK was expected to get off to a slow start in 2005 as it prepared itself for a significant increase in business activity relating to the start-up of production for a key customer on a new ground-based power turbine that commenced during the second quarter. Prospects at AMK for the remainder of 2005 and beyond appear to be quite good as AMK's production volume relating to the new ground-based turbine program increases and the demand for commercial aircraft engines, which has been depressed since 2001, continues to improve.

DMC generated cash flow from operations of $3,159 during the first six months of 2005. This operating cash flow was supplemented by the receipt of an $874 payment on an outstanding receivable relating to the 2004 Spin Forge divestiture and $1,181 in cash proceeds from stock option exercises and employee stock plan purchases, which enabled us to reduce term debt (excluding the conversion of the $1.2 million convertible subordinated note discussed below) by $1,689 and line of credit borrowings by $2,982 during the first half of 2005. We also funded $1,376 of capital expenditures during the first six months of 2005. Debt levels were further reduced during the second quarter of 2005 as a result of the conversion of a $1.2 million convertible subordinated note held by Groupe SNPE into 200,000 shares of the Company's common stock. With the expected improvement in full year 2005 sales and operating income as compared to that reported in 2004 and the stabilization of working capital levels, operating cash flow for the remainder of 2005 should be strong. After the reductions to term debt that have either already occurred or are scheduled to occur in 2005, outstanding obligations under various term debt agreements will be reduced to approximately $2.9 million by the end of 2005 from approximately $6.1 million as of December 31, 2004. Minimum annual principal payments on existing term debt will be less than $600 in 2006.

Three and Six Months Ended June 30, 2005 Compared to Three and Six Months Ended June 30, 2004

	Three Months Ended June 30,			
	2005	2004	Change	Percentage Change
Net sales	$ 18,376	$ 11,985	$ 6,391	53.3%

	Six Months Ended June 30,			
	2005	2004	Change	Percentage Change
Net sales	$ 35,886	$ 22,145	$ 13,741	62.1%

The significant increases in consolidated net sales for the three and six-month periods ended June 30, 2005 as compared to the comparable periods of 2004 reflects the strong sales performance of our Explosive Metalworking Group. Sales by the Explosive Metalworking Group, which include explosion welding of clad metal and shock synthesis of synthetic diamonds, increased by 50.9% to $17,247 in the second quarter of 2005 from $11,426 in the second quarter of 2004. The Explosive Metalworking Group second quarter sales increase reflects a 70.2% increase in U.S. clad sales and an 18.9% U.S. dollar increase in sales by Nobleclad Europe. For the six-month period, the Explosive Metalworking Group's sales increased by 62.3% to $34,214 in 2005 from $21,086 in 2004. The year-to-date increase in Explosive Metalworking Group's sales reflects a 74.7% increase in U.S. clad sales and a 40.9% U.S. dollar sales increase at Nobleclad Europe. The substantial increases in second quarter and year-to-date Explosive Metalworking Group sales is principally attributable to the improved economic condition of the industries that the Explosive Metalworking Group serves as evidenced by an increase in the Explosive Metalworking Group's backlog from $11.7 million at December 31, 2003 to $27.5 million as of December 31, 2004 and $34.1 million as of March 31, 2005. The positive year-to-year sales trend is expected to continue through the remainder of 2005. Second quarter sales at AMK increased by 102% to $1,129 in 2005 from $559 in 2004. For the six months ended June 30, AMK's sales increased by 57.9% to $1,672 in 2005 from $1,059 in 2004. The significant increases in second quarter and year-to-date sales at AMK reflect the start-up of production by a key customer on a new ground-based power turbine during the second quarter of 2005. AMK's sales are expected to further strengthen during the remainder of the year as AMK increases production levels relating to the new ground-based turbine program.

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Change	Percentage Change
Gross profit	$ 5,215	$ 2,837	$ 2,378	83.8%
Percentage of net sales	28.4%	23.7%		

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004	Change	Percentage Change
Gross profit	$ 9,866	$ 5,102	$ 4,764	93.4%
Percentage of net sales	27.5%	23.0%		

The 83.8% increase in our second quarter consolidated gross profit follows the 53.3% increase in consolidated net sales discussed above. Our second quarter consolidated gross profit margin increased to 28.4% in 2005 from 23.7% in 2004 and reflects an increase in our Explosive Metalworking Group's gross profit margin to 27.8% in 2005 from 24.0% in 2004 and an increase in AMK's gross margin to 37.6% in 2005 from 16.3% in 2004. The Explosive Metalworking Group's gross margin improvement includes an increase in the U.S. Clad Metal gross margin to 29.6% in 2005 from 26.2% in 2004 and an increase in Nobelclad Europe's gross profit margin to 23.4% in 2005 from 20.5% in 2004. For both the U.S. and European cladding operations and for AMK, the second quarter 2005 gross margin improvement relates primarily to the sales increases discussed above and the resultant more favorable absorption of fixed manufacturing overhead expenses.

The 93.4% increase in our consolidated gross profit for the six-month period ended June 30 follows the 62.1% increase in consolidated net sales discussed above and reflects an increase in our Explosive Metalworking Group's gross profit margin to 27.7% in 2005 from 23.7% in 2004 and an increase in AMK's gross margin to 22.8% in 2005 from 9.6% in 2004. The Explosive Metalworking Group gross margin improvement includes an increase in the U.S. Clad Metal gross margin to 29.9% in 2005 from 28.0% in 2004 and an increase in Nobelclad Europe's gross profit margin to 23.1% in 2005 from 16.3% in 2004. As was the case for the second quarter, the 2005 gross margin improvement relates primarily to the sales increases discussed above and the resultant more favorable absorption of fixed manufacturing overhead expenses. AMK reported a gross margin of 22.8% for the six months ended June 30, 2005 as compared to a gross margin of 9.6% for the six months ended June 30, 2004. The lower year-to-date gross margin is attributable to the low level of first quarter production and sales, which resulted in AMK reporting a negative gross margin of 7.9% in the first quarter of 2005.

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Change	Percentage Change
General & administrative expenses	$ 898	$ 846	$ 52	6.1%
Percentage of net sales	4.9%	7.1%		

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004	Change	Percentage Change
General & administrative expenses	$ 1,707	$ 1,573	$ 134	8.5%
Percentage of net sales	4.8%	7.1%		

The $52 increase in second quarter 2005 general and administrative expenses reflects a $181 increase in spending by our U.S. operations offset by a $129 decrease in our European general and administrative expenses. Increased spending by our U.S. operations, which currently absorbs all corporate headquarters expenses, reflects an aggregate increase of $96 in audit, tax consulting and investor relations expenses, a $67 increase in accrued incentive compensation expense, and the impact of annual salary adjustments. The $134 increase in 2005 general and administrative expenses for the six-month period reflects a $275 increase in spending by our U.S. operations offset by a $141 decrease in European general and administrative expenses. Increased U.S. spending includes the effects of an aggregate increase of $120 in audit, tax consulting and investor relations expenses, a $135 increase in accrued incentive compensation expense, and the impact of annual salary adjustments. The 2005 increases in audit, tax consulting and investor relations expenses relates principally to Sarbanes-Oxley compliance, various tax planning initiatives and increased investor relations activities. The decreases in European expenses for the three and six-month periods of 2005 relate primarily to the 2004 salary, payroll taxes and benefits paid to, and a one-time provision recorded in the second quarter of 2004 for termination payments payable to, the former managing director of our Swedish operation whose employment was terminated during the second quarter of 2004. All expenses associated with this former managing director were split evenly between general and administrative expenses and selling expenses.

	Three Months Ended June 30,			
	2005	2004	Change	Percentage Change
Selling expenses	$ 870	$ 941	$ (71)	(7.5%)
Percentage of net sales	4.7%	7.9%		

	Six Months Ended June 30,			
	2005	2004	Change	Percentage Change
Selling expenses	$ 1,995	$ 1,697	$ 298	17.6%
Percentage of net sales	5.6%	7.7%		

The $71 decrease in second quarter 2005 selling expenses reflects a $117 decrease in European selling expenses that was partially offset by a $46 increase in selling expenses for our U.S. operations. The second quarter 2005 decrease in European selling expenses relates principally to the second quarter 2004 termination of the former Swedish managing director as discussed above and lower outside sales commissions in 2005. Increased second quarter selling expenses for our U.S. operations reflect increased compensation expense of $43 offset by net decreases in other spending categories. The $298 increase in 2005 selling expenses for the six month-period includes a $158 increase for our U.S. operations and a $140 increase for our European operations. The increase in selling expenses for our U.S. operations for the six-month period reflects increased compensation expense of $125 relating to additional personnel, higher accrued bonus expense in 2005 and annual salary adjustments, as well as increased spending in 2005 on the development of a new website and business travel. Increased European selling expenses for the six months ended June 30, 2005 reflects an increase in outside sales commissions due to the increase in sales.

	Three Months Ended June 30,			
	2005	2004	Change	Percentage Change
Income from operations	$ 3,447	$ 1,050	$ 2,397	228.3%

	Six Months Ended June 30,			
	2005	2004	Change	Percentage Change
Income from operations	$ 6,164	$ 1,832	$ 4,332	236.5%

Our Explosive Metalworking Group reported income from operations of $3,104 in the second quarter of 2005 compared to $1,031 in the second quarter of 2004. This 201% operating income increase reflects a sales increase of $5,821, or 50.9%, and an increase in the Explosive Metalworking Group's gross profit margin from 24.0% in 2004 to 27.8% in 2005. AMK reported operating income of $343 in the second quarter of 2005 compared to $19 in the prior year second quarter. The substantial increase in AMK's operating income reflects a sales increase of $570, or 102%, and an increase in the gross margin rate from 16.3% in 2004 to 37.6% in 2005.

For the six-month period, our Explosive Metalworking Group reported income from operations of $5,937 in 2005 compared to $1,866 in 2004. This 218% operating income increase reflects a sales increase of $13,128, or 62.3%, and an increase in the Group's gross profit margin from 23.7% in 2004 to 27.7% in 2005. AMK reported operating income of $227 for the six months ended June 30, 2005 as compared to an operating loss of $34 for the same period of 2004. This improved operating performance reflects a sales increase of $613, or 57.9%, and an increase in the gross margin from 9.6% in 2004 to 22.8% in 2005.

	Three Months Ended June 30,			
	2005	2004	Change	Percentage Change
Interest expense, net	$ 66	$ 104	$ (38)	(36.5)%

	Six Months Ended June 30,			
	2005	2004	Change	Percentage Change
Interest expense, net	$ 148	$ 222	$ (74)	(33.3)%

The decreases in net interest expense for both the three and six-month periods reflect decreases in average outstanding borrowings during the 2005 periods that were partially offset by modest increases in interest rates.

	Three Months Ended June 30,			
	2005	2004	Change	Percentage Change
Income tax provision	$ 1,279	$ 385	$ 894	232.2%
Percentage	37.7%	40.6%		

	Six Months Ended June 30,			
	2005	2004	Change	Percentage Change
Income tax provision	$ 2,269	$ 645	$ 1,624	251.8%
Percentage	37.6%	39.9%		

For the three months ended June 30, 2005 and 2004, the consolidated income tax provisions included $1,036 and $313, respectively, related to U.S. taxes that were provided at effective tax rates of 39.1% and 39.8% for the respective periods. For the six months ended June 30, 2005 and 2004, the consolidated income tax provisions included $1,815 and $605, respectively, related to U.S. taxes that were provided at effective tax rates of 39.0% and 39.3% for the respective periods. The remainder of the consolidated income tax provision for all periods relates to foreign taxes associated with the operations of Nobelclad Europe and its Swedish subsidiary, Nitro Metall. The decrease in the consolidated effective tax rates for the three and six months ended June 30, 2005 as compared to those applicable to the comparable periods of 2004 is attributable to higher proportionate pre-tax earnings by the European operations in the 2005 periods for which taxes were provided at French and Swedish statutory tax rates that are lower than the combined Federal and state effective tax rate applicable to our U.S. operations.

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Change	Percentage Change
Income from continuing operations	$ 2,115	$ 563	$ 1,552	275.7%

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004	Change	Percentage Change
Income from continuing operations	$ 3,763	$ 972	$ 2,791	287.1%

For the three and six-month periods, the 2005 increase in income from continuing operations reflects the significant improvement in sales and operating income reported by both our Explosive Metalworking Group and AMK in 2005 as further discussed above.

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Change	Percentage Change
Loss from discontinued operations	$ —	$ 1,070	$ (1,070)	(100.0%)

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004	Change	Percentage Change
Loss from discontinued operations	$ —	$ 1,269	$ (1,269)	(100.0%)

On September 17, 2004, we completed the divestiture of our Spin Forge division. Accordingly, we have reported a loss from discontinued operations of $1,070 and $1,269 for the three and six months ended June 30, 2004, respectively, to present Spin Forge's net of tax operating losses of $451 and $650 for the respective periods, and the net of tax asset impairment loss of $619 that was recorded during the second quarter of 2004 in connection with this divestiture, as discontinued operations.

	Three Months Ended June 30,			
	2005	2004	Change	Percentage Change
Net income (loss)	$ 2,115	$ (507)	$ 2,622	(517.2%)
	Six Months Ended June 30,			
	2005	**2004**	**Change**	**Percentage Change**
Net income (loss)	$ 3,763	$ (297)	$ 4,060	(1367.0%)

The significant increase in 2005 net income for the three and six-month periods is primarily attributable to the strong 2005 sales and operating income performance of our Explosive Metalworking Group as discussed above. Additionally, net income for the three and six months ended June 30, 2004 was reduced by a loss from discontinued operations of $1,070 and $1,269, respectively.

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 complete 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 negatively affect 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 products 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 and maintenance of specified financial rations. As of June 30, 2005, the Company was in compliance with all financial covenants and other provisions of our debt agreements.

The Company's principal cash flows related to debt obligations, operating lease obligations and purchase obligations have not materially changed since December 31, 2004.

Highlights from the Statement of Cash Flows for the Six Months Ended June 30, 2005 (dollars in thousands)

Net cash flows provided by operating activities for the six months ended June 30, 2005 totaled $3,159. Significant sources of operating cash flow included income from continuing operations of $3,763, non-cash depreciation and amortization of $717 and a tax benefit related to stock options exercised during the first half of the year in the amount of $2,294. These sources of cash flow were partially offset by net negative changes in working capital. Net negative changes in working capital during the first half of 2005 totaled $3,631, reflecting an increase in inventories, prepaid expenses and accounts receivable of $3,376, $1,620 and $415, respectively. These negative changes to working capital were partially offset by a net increase in accounts payable and accrued expenses of $1,780.

Net cash flows used in investing activities totaled $354, which includes $1,376 for capital expenditures was largely offset by an $874 payment received on a portion of the outstanding receivable relating to the Spin Forge divestiture and a $148 net decrease in other non-current assets.

Net cash flows used in financing activities totaled $3,266. Significant uses of cash for financing activities included net repayments on bank lines of credit of $3,208, final principal payments on the SNPE, Inc. term loan of $667, industrial development revenue bond principal payments of $490 and an annual principal payment of $373 on a term loan with a French bank. Sources of cash flow from financing activities included borrowings on related party lines of credit of $259 and $1,181 in net proceeds from the issuance of common stock relating to the exercise of stock options.

On June 3, 2005, the Board of Directors of the Company declared a $0.20 per common share dividend to stockholders of record on June 24, 2005. The dividend, which totaled $1,155, was paid on July 8, 2005.

Highlights from the Statement of Cash Flows for the Six Months Ended June 30, 2004 (dollars in thousands)

Net cash flows from operating activities for the six months ended June 30, 2004 totaled $3,117. Significant sources of operating cash flow included income from continuing operations of $972, depreciation and amortization of $683, deferred tax expense of $627 and $794 of positive net changes in various components of working capital. Net positive changes in working capital included an increase in accounts payable and accrued expenses of $2,509 and $445, respectively, and a decrease in prepaid expenses of $381. These positive changes in working capital were partially offset by an increase in accounts receivable and inventories of $1,838 and $703, respectively.

Cash used in investing activities totaled $593 and was comprised primarily of capital expenditures in the amount of $630.

Net cash flows used in financing activities for the six months ended June 30, 2004 totaled $1,507. Significant uses of cash for financing activities included principal payments on industrial development revenue bonds in the amount of $455, principal payments on the SNPE, Inc. term loan of $667, $356 in annual principal payments on a term loan with a French bank and repayment of a bank overdraft in the amount of $178.

Cash flows used in discontinued operations totaled $842 and were the result of the operating losses of Spin Forge as well as negative changes in working capital for that division.

Future Capital Needs and Resources

We anticipate that, for the foreseeable future, significant amounts of available cash flows will be utilized for:

- operating expenses to support our domestic and foreign manufacturing operations;

- capital expenditures;
- debt service requirements; and
- other general corporate expenditures, including annual dividend payments.

We expect cash inflows from operating activities to exceed outflows for the full year 2005. 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 the end of 2005. In making this assessment, we have considered:

- presently scheduled debt service requirements during the remainder of 2005, 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 the remainder of 2005; and
- our expectation of realizing positive cash flow from operations during the remainder of 2005.

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 impairments, goodwill, impact of foreign currency exchange rate risks and income taxes.

Revenue Recognition. Sales of clad metal products and welding services are generally based upon customer specifications set forth in customer purchase orders and require us to provide certifications relative to metals used, services performed and the results of any non-destructive testing that the customer has requested be performed. Any non-conformance issues are resolved before the product is shipped and billed. Revenue is recognized only when all four of the following criteria have been satisfied: persuasive evidence of an arrangement exists; delivery has occurred; the price is fixed or determinable; and collection is reasonably assured. 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.

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.

Goodwill. Goodwill is tested for impairment at least annually on reporting units one level below the segment level and any impairment is based on the reporting unit's estimated fair value. Fair value can be determined based on discounted cash flows, comparable sales or valuations of similar businesses. Impairment occurs when the carrying amount of goodwill exceeds its estimated fair value. The Company's policy is to test goodwill for impairment in the fourth quarter of each year unless an indicator of impairment arises earlier.

The entire amount of goodwill, which had a carrying value of $847 on the Consolidated Balance Sheet as of June 30, 2005, relates to the Company's U.S. Clad Metal Products division. Based on the analysis performed in the fourth quarter of 2004, no impairment was recorded to the carrying value of goodwill.

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.

Income Taxes. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109) which requires the recognition of deferred tax assets and deferred tax liabilities for the expected future income tax consequences of transactions that have been included in the Consolidated Financial Statements or tax returns. Deferred tax assets and liabilities are determined based on the temporary differences between the Consolidated Financial Statement base and the tax base of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company believes that deferred tax assets will more likely than not be recovered from future projected taxable income and as such no allowance has been recorded on the deferred tax assets in the Consolidated Balance Sheet as of June 30, 2005.

Significant Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123 (revised 2004),*Share-Based Payment* ("SFAS 123R"), which is a revision of SFAS 123. SFAS 123R supersedes APB 25 and amends SFAS 95, *Statement of Cash Flows*. Generally the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share- based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an option. The Company must adopt SFAS 123R no later than January 1, 2006.

The Company may adopt the requirements of SFAS 123R using either a modified prospective method or a modified retrospective method. The Company will adopt SFAS 123R by the first quarter of 2006 and is currently evaluating the effect that the adoption will have on its financial position and results of operations.

In November 2004, the FASB issued SFAS 151, *Inventory Costs*, which amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*. This statement requires abnormal amounts of idle facility expense, freight, handling costs and wasted material to be excluded from inventory costing and instead included as period expenses. In addition, this standard requires the allocation of fixed production overhead to be based on normal capacity of the production facilities. The Company does not believe the adoption of this standard on January 1, 2006 will have a significant impact on its results of operations.

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, 2004.

ITEM 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designated to ensure that information required to be disclosed in the Company's Exchange Act reports is accurately recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of June 30, 2005, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company completed its evaluation.

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, 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. Unregistered Sales of Equity 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 3, 2005. At the Annual Meeting, the stockholders of the Company elected the persons listed below to serve as directors of the Company until the 2006 Annual Meeting of Stockholders or until their respective successors are elected.

The Company had 5,465,438 shares of Common Stock outstanding as of April 20, 2005, the record date for the Annual Meeting. At the Annual Meeting, holders of a total of 5,168,680 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 Zeller	4,931,758	236,922
Mr. Michel Rieusset	4,931,258	237,422
Mr. Michel Nicolas	4,932,183	236,497
Mr. Gerard Munera	5,165,944	2,736
Mr. Francois Schwartz	4,929,827	238,853
Mr. Dean K. Allen	5,165,919	2,761
Mr. George W. Morgenthaler	5,164,919	3,761

Item 5. Other Information

None.

Item 6.

Exhibits

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.

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 5, 2005

/s/ RICHARD A. SANTA

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

Exhibit 31.1

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.

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 5, 2005

/s/ YVON PIERRE CARIOU

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

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Exhibit 31.2

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.
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 5, 2005

/s/ RICHARD A. SANTA

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

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Exhibit 32.1

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, 2005 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

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

August 5, 2005

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.

Exhibit 32.2

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, 2005 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

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

August 5, 2005

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