

**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 September 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
(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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 under the Act). Yes No

The number of shares of Common Stock outstanding was 11,726,224 as of October 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", "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 Dynamic Materials Corporation ("DMC" or 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. Condensed Consolidated Financial Statements

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	<u>September 30,</u> <u>2005</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2004</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,368	\$ 2,404
Accounts receivable, net of allowance for doubtful accounts of \$384 and \$280, respectively	14,109	13,936
Inventories	12,577	8,000
Prepaid expense and other	2,071	527
Current portion of other receivables	—	943
Current deferred tax assets	429	436
	<u>30,554</u>	<u>26,246</u>
Total current assets	30,554	26,246
PROPERTY, PLANT AND EQUIPMENT	22,043	20,832
Less - Accumulated depreciation	<u>(9,857)</u>	<u>(8,988)</u>
Property, plant and equipment, net	12,186	11,844
GOODWILL, net of accumulated amortization of \$234	847	847
DEFERRED TAX ASSETS	896	—
OTHER ASSETS, net	113	171
OTHER RECEIVABLES	681	753
ASSETS OF DISCONTINUED OPERATIONS	<u>3,808</u>	<u>3,892</u>
TOTAL ASSETS	<u>\$ 49,085</u>	<u>\$ 43,753</u>

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

<u>September 30,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
-------------------------------------	------------------------------------

(unaudited)

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
CURRENT LIABILITIES:			
Accounts payable	\$	6,080	\$ 6,041
Accrued expenses		3,979	3,287
Customer advances		1,387	1,232
Bank lines of credit		—	3,216
Related party debt		36	2,001
Current maturities on long-term debt		529	1,185
Total current liabilities		12,011	16,962
LONG-TERM DEBT		2,283	2,906
DEFERRED TAX LIABILITIES		1,412	729
OTHER LONG-TERM LIABILITIES		202	206
LIABILITIES OF DISCONTINUED OPERATIONS		2,880	2,880
Total liabilities		18,788	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; 5,863,112 and 5,320,438 shares issued and outstanding, respectively		293	266
Additional paid-in capital		18,748	13,617
Retained earnings		10,648	4,887
Other cumulative comprehensive income		608	1,300
Total stockholders' equity		30,297	20,070
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	49,085	\$ 43,753

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004
(Dollars in Thousands, Except Per Share Data)
(unaudited)

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
NET SALES	\$ 20,238	\$ 12,070	\$ 56,124	\$ 34,215
COST OF PRODUCTS SOLD	13,970	8,820	39,990	25,862
Gross profit	6,268	3,250	16,134	8,353
COSTS AND EXPENSES:				
General and administrative expenses	1,020	529	2,726	2,102
Selling expenses	849	774	2,845	2,471
Total costs and expenses	1,869	1,303	5,571	4,573
INCOME FROM OPERATIONS OF CONTINUING OPERATIONS	4,399	1,947	10,563	3,780
OTHER INCOME (EXPENSE):				
Other income (expense)	(8)	(5)	9	2
Interest expense	(65)	(117)	(233)	(351)
Interest income	2	6	22	18
INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	4,328	1,831	10,361	3,449
INCOME TAX PROVISION	1,176	696	3,445	1,343
INCOME FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS	3,152	1,135	6,916	2,106
DISCONTINUED OPERATIONS:				
Loss from operations of discontinued operations, net of tax	—	(133)	—	(783)
Loss on sale of discontinued operations, net of tax	—	(168)	—	(787)
Loss from discontinued operations	—	(301)	—	(1,570)
NET INCOME	\$ 3,152	\$ 834	\$ 6,916	\$ 536
INCOME PER SHARE - BASIC:				
Continuing operations	\$ 0.54	\$ 0.22	\$ 1.24	\$ 0.41
Discontinued operations	—	(0.06)	—	(0.31)
Net income	\$ 0.54	\$ 0.16	\$ 1.24	\$ 0.10
INCOME PER SHARE - DILUTED:				
Continuing operations	\$ 0.52	\$ 0.21	\$ 1.15	\$ 0.40
Discontinued operations	—	(0.05)	—	(0.29)
Net income	\$ 0.52	\$ 0.16	\$ 1.15	\$ 0.11
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - Basic	5,824,251	5,122,225	5,570,697	5,106,287

Diluted	6,067,571	5,416,542	6,014,281	5,392,441
DIVIDENDS PER COMMON SHARE	\$ 0.20	\$ —	\$ 0.20	\$ —

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005
(Amounts in Thousands)
(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Income	Total	Comprehensive Income for the Period
	Shares	Amount					
Balances, December 31, 2004	5,320	\$ 266	\$ 13,617	\$ 4,887	\$ 1,300	\$ 20,070	
Shares issued for stock option exercises	338	17	1,419	—	—	1,436	
Shares issued in connection with the employee stock purchase plan	5	—	45	—	—	45	
Annual dividend paid	—	—	—	(1,155)	—	(1,155)	
Conversion of subordinated note	200	10	1,190	—	—	1,200	
Tax benefit related to exercise of stock options	—	—	2,477	—	—	2,477	
Net income	—	—	—	6,916	—	6,916	\$ 6,916
Change in cumulative foreign currency translation adjustment	—	—	—	—	(692)	(692)	(692)
Balances, September 30, 2005	5,863	\$ 293	\$ 18,748	\$ 10,648	\$ 608	\$ 30,297	\$ 6,224

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004
(Dollars in Thousands)
(unaudited)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from continuing operations	\$ 6,916	\$ 2,106
Adjustments to reconcile income from continuing operations to net cash provided by operating activities -		
Depreciation	1,122	1,015
Amortization	10	10
Amortization of capitalized debt issuance costs	33	61
Provision for deferred income taxes	(171)	1,265
Tax benefit related to exercise of stock options	2,477	—
Change in -		
Accounts receivable, net	(1,003)	(1,883)
Inventories	(5,126)	(3,599)
Prepaid expense and other	(1,585)	477
Accounts payable	421	2,934
Accrued expenses and other liabilities	1,450	471
Net cash flows provided by operating activities	4,544	2,857
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment received on other receivables	1,016	105
Acquisition of property, plant and equipment	(1,966)	(899)
Change in other non-current assets	218	(15)
Net cash flows used in investing activities	(732)	(809)

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004
(Dollars in Thousands)
(unaudited)

	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings / (repayments) on bank lines of credit, net	(3,216)	1,120
Repayments on related party lines of credit, net	(86)	(61)
Payment on SNPE, Inc. term loan	(667)	(667)
Payment on industrial development revenue bond	(745)	(690)
Payment on term loan with French bank	(366)	(355)
Payment of dividends	(1,155)	—
Change in other long-term liabilities	23	4
Net proceeds from issuance of common stock to employees and directors	1,481	98
Bank overdraft	—	357
Net cash flows used in financing activities	(4,731)	(194)
EFFECTS OF EXCHANGE RATES ON CASH	(117)	7
CASH FLOWS USED IN DISCONTINUED OPERATIONS	—	(1,807)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,036)	54
CASH AND CASH EQUIVALENTS, beginning of the period	2,404	522
CASH AND CASH EQUIVALENTS, end of the period	\$ 1,368	\$ 576
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.

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Share and Per Share Data)
(unaudited)

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 the Company and each subsidiary in which it has a greater than 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 with 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

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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; the price is fixed or determinable; delivery has occurred; 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 provide currently 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 for 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 September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Risk-free interest rate	N/A	N/A	3.7%	3.2%
Expected lives	N/A	N/A	4.0 years	4.0 years
Expected volatility	N/A	N/A	91.1%	77.6%
Expected dividend yield	N/A	N/A	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.

No options were granted for the three months ended September 30, 2005 and 2004. For the nine months ended September 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

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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 September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income:				
As reported	\$ 3,152	\$ 834	\$ 6,916	\$ 536
Expense calculated under SFAS 123	(326)	(59)	(586)	(159)
Pro forma	\$ 2,826	\$ 775	\$ 6,330	\$ 377
Basic net income per common share:				
As reported	\$ 0.54	\$ 0.16	\$ 1.24	\$ 0.10
Pro forma	\$ 0.49	\$ 0.15	\$ 1.14	\$ 0.07
Diluted net income per common share:				
As reported	\$ 0.52	\$ 0.16	\$ 1.15	\$ 0.11
Pro forma	\$ 0.47	\$ 0.15	\$ 1.06	\$ 0.08

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 nine months ended September 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 effects of dilutive securities. The following represents a reconciliation of the numerator and denominator used in the calculation of basic and diluted EPS:

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	For the three months ended September 30, 2005		
	Net Income	Shares	Per share Amount
Basic earnings per share	\$ 3,152	5,824,251	\$ 0.54
Dilutive effect of options to purchase common stock	—	243,320	
Dilutive effect of convertible subordinated note, net of tax	—	—	
Dilutive earnings per share	\$ 3,152	6,067,571	\$ 0.52
	For the three months ended September 30, 2004		
	Net Income	Shares	Per share Amount
Basic earnings per share	\$ 834	5,122,225	\$ 0.16

Dilutive effect of options to purchase common stock	—	94,317	
Dilutive effect of convertible subordinated note, net of tax	12	200,000	
Dilutive earnings per share	\$ 846	5,416,542	\$ 0.16
For the nine months ended September 30, 2005			
	Net Income	Shares	Per share Amount
Basic earnings per share	\$ 6,916	5,570,697	\$ 1.24
Dilutive effect of options to purchase common stock	—	327,101	
Dilutive effect of convertible subordinated note, net of tax	23	116,483	
Dilutive earnings per share	\$ 6,939	6,014,281	\$ 1.15

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For the nine months ended September 30, 2004			
	Net Income	Shares	Per share Amount
Basic earnings per share	\$ 536	5,106,287	\$ 0.10
Dilutive effect of options to purchase common stock	—	86,154	
Dilutive effect of convertible subordinated note, net of tax	37	200,000	
Dilutive earnings per share	\$ 573	5,392,441	\$ 0.11

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. The Company must adopt SFAS 123R no later than January 1, 2006.

The adoption of SFAS 123R, which will occur on January 1, 2006, will result in a reduction of net income. The Company is currently evaluating the significance of 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.

In May 2005, the FASB issued SFAS 154, *Accounting Changes and Error Corrections*, which requires the direct effects of voluntary accounting principle changes to be retrospectively applied to prior periods’ financial statements. This Statement does not change the transition provisions of any existing accounting pronouncements, but would apply in the unusual instance that a pronouncement does not include specific transition provisions. SFAS No. 154 maintains existing guidance with respect to accounting estimate changes and corrections of errors. The Statement is effective for the Company beginning on January 1, 2006. Adoption is not expected to have a material impact on the Company’s financial position, results of operation or cash flows.

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3. INVENTORY

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

	September 30, 2005 (unaudited)	December 31, 2004
Raw materials	\$ 5,187	\$ 3,619
Work-in-process	7,111	4,049
Supplies	279	332
	\$ 12,577	\$ 8,000

4. DEBT

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

	September 30, 2005 (unaudited)	December 31, 2004
SNPE S.A line of credit	\$ 36	\$ 134
SNPE convertible subordinated note	—	1,200
SNPE term loan	—	667
Related party debt (all current)	\$ 36	\$ 2,001

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

	September 30, 2005 <u>(unaudited)</u>	December 31, 2004
Term loan - French bank	\$ 1,047	\$ 1,581
Industrial development revenue bonds	1,765	2,510
	<u>2,812</u>	<u>4,091</u>
Less current maturities	(529)	(1,185)
Long-term debt	<u>\$ 2,283</u>	<u>\$ 2,906</u>

Conversion of SNPE Convertible Subordinated Note

On June 8, 2005, SNPE, Inc. exercised its conversion rights on the convertible subordinated note it held from the Company. 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.

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Bank Line of Credit

On September 15, 2005, the Company entered into a new \$7,500 credit facility with Wells Fargo Bank, National Association ("Bank"). The credit facility, which expires June 30, 2007, replaces the \$6,000 credit facility between the Company and Wells Fargo Business Credit Inc., an affiliate of the Bank that terminated concurrently with the signing of the new credit facility. The new credit facility allows for Euro-denominated advances up to a \$2,000 equivalent. Dollar-denominated advances bear interest at either the Bank's prime rate less 0.5% (6.25% as of September 30, 2005) or LIBOR plus 2% (the rate selection is at the Company's option subject to certain conditions). Euro-denominated advances bear interest at EURIBOR plus 2%. Borrowings on the credit facility are secured by accounts receivable, inventory and any equipment acquired after the date of the agreement. There were no borrowings outstanding on the credit facility as of September 30, 2005.

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 September 30, 2005, the Company was in compliance with all financial covenants and other provisions of its debt agreements.

5. INCOME TAXES

During the quarter ended September 30, 2005, the Company completed several U.S. tax projects that impacted the tax provision recorded for the three and nine months ended September 30, 2005. The tax provision for the three and nine months ended September 30, 2005 includes U.S. Federal and state tax benefits of approximately \$254 relating to tax credits and other attributes identified in connection with these tax projects and claimed on 2004 and amended prior year Federal and state tax returns that were filed during the third quarter. Upon completion of its 2004 and amended prior year tax returns, the Company was able to estimate better the effects that recent divestitures and other changes in its business are expected to have on its 2005 effective state income tax rate and, thus, on its overall consolidated effective income tax rate for the full year 2005, which is currently estimated to approximate 34%.

6. 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

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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 nine months ended September 30, 2005 and 2004 as follows:

	Explosive Metalworking Group	AMK Welding	Total
For the three months ended September 30, 2005:			
Net sales	\$ 19,188	\$ 1,050	\$ 20,238
Depreciation and amortization	\$ 361	\$ 54	\$ 415
Income from operations of continuing operations	\$ 4,141	\$ 258	\$ 4,399
Unallocated amounts:			
Other income			(8)
Interest expense, net			(63)
Consolidated income before income taxes and discontinued operations			<u>\$ 4,328</u>
For the three months ended September 30, 2004:			
Net sales	\$ 11,342	\$ 728	\$ 12,070
Depreciation and amortization	\$ 288	\$ 54	\$ 342
Income from operations of continuing operations	\$ 1,869	\$ 78	\$ 1,947
Unallocated amounts:			
Other expense			(5)
Interest expense, net			(111)
Consolidated income before income taxes and discontinued operations			<u>\$ 1,831</u>

	Explosive Metalworking Group	AMK Welding	Total
For the nine months ended September 30, 2005:			
Net sales	\$ 53,402	\$ 2,722	\$ 56,124
Depreciation and amortization	\$ 989	\$ 143	\$ 1,132
Income from operations of continuing operations	\$ 10,078	\$ 485	\$ 10,563
Unallocated amounts:			
Other income			9
Interest expense, net			(211)
Consolidated income before income taxes and discontinued operations			\$ 10,361

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	Explosive Metalworking Group	AMK Welding	Total
For the nine months ended September 30, 2004:			
Net sales	\$ 32,428	\$ 1,787	\$ 34,215
Depreciation and amortization	\$ 862	\$ 163	\$ 1,025
Income from operations of continuing operations	\$ 3,736	\$ 44	\$ 3,780
Unallocated amounts:			
Other income			2
Interest expense, net			(333)
Consolidated income before income taxes and discontinued operations			\$ 3,449

During the three months ended September 30, 2005 sales to one customer represented approximately \$2,225 (11%) of total net sales and sales to another customer represented approximately \$3,125 (15%) of total net sales. During the three months ended September 30, 2004, and the nine months ended September 30, 2005 and 2004, sales to no one customer accounted for more than 10% of total net sales.

7. COMPREHENSIVE INCOME

DMC's comprehensive income for the three and nine months ended September 30, 2005 and 2004 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income for the period	\$ 3,152	\$ 834	\$ 6,916	\$ 536
Derivative valuation adjustment	—	—	—	43
Foreign currency translation adjustment	(2)	88	(692)	(51)
Comprehensive income	\$ 3,150	\$ 922	\$ 6,224	\$ 528

As of September 30, 2005 and December 31, 2004 other cumulative comprehensive income of \$608 and \$1,300, respectively, consists entirely of cumulative foreign currency translation adjustment.

8. STOCK SPLIT

On September 23, 2005, the Company announced that its Board of Directors had approved a 2-for-1 split of the Company's common stock. The split was effected as a stock dividend, and was paid to stockholders of record as of the close of business on October 5, 2005. Stockholders as of the record date received one additional share of common stock for each share held. The payment date was October 12, 2005. The stock split increased the number of common

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shares issued and outstanding from approximately 5,860,000 shares to approximately 11,720,000 shares.

The Company's historical earnings per share for the three and nine months ended September 30, 2005 and 2004, on a pro-forma basis assuming the stock split had occurred as of January 1, 2004, would be as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Pro forma earnings per basic common share:				
Continuing operations	\$ 0.27	\$ 0.11	\$ 0.62	\$ 0.21
Discontinued operations	—	(0.03)	—	(0.16)
Net income	\$ 0.27	\$ 0.08	\$ 0.62	\$ 0.05
Pro forma earnings per diluted common share:				
Continuing operations	\$ 0.26	\$ 0.11	\$ 0.58	\$ 0.20
Discontinued operations	—	(0.03)	—	(0.15)
Net income	\$ 0.26	\$ 0.08	\$ 0.58	\$ 0.05

9. 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 \$2,880, 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:

	September 30, 2005 (unaudited)	December 31, 2004
Leased manufacturing equipment	928	1,012
Capital lease asset - real estate	2,880	2,880
Total assets of discontinued operations	<u>\$ 3,808</u>	<u>\$ 3,892</u>

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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 \$1,700 and the sale of this inventory was reflected in other receivables. As of September 30, 2005, the other receivables balance was \$681, which is classified as long term, based upon the agreed upon payment schedule.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net sales	\$ —	\$ 821	\$ —	\$ 1,790
Loss from operations of discontinued operations	—	(218)	—	(1,284)
Tax benefit	—	85	—	501
Loss from operations of discontinued operations, net of tax	<u>\$ —</u>	<u>\$ (133)</u>	<u>\$ —</u>	<u>\$ (783)</u>
Loss on sale of discontinued operations	—	(275)	—	(1,290)
Tax benefit	—	107	—	503
Loss on sale of discontinued operations, net of tax	<u>\$ —</u>	<u>\$ (168)</u>	<u>\$ —</u>	<u>\$ (787)</u>

10. SUBSEQUENT EVENT

The Company reached an agreement to sell the property purchase option rights associated with its former Spin Forge division to the property owner for \$2,300. The transaction is currently scheduled to close in late January 2006.

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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 nine months ended September 30, 2005 increased by 64% from those for the first nine months of 2004 including sales increases of 63% and 67% by the U.S. Clad Metal Division and Nobelclad Europe, respectively. Consolidated income from operations increased by \$6,783, or 179%, to \$10,563 for the nine months ended September 30, 2005 from \$3,780 for the comparable period of 2004, reflecting a \$6,342 improvement in Explosive Metalworking Group's operating income and a \$441 improvement in AMK's operating results. Our year-to-date consolidated net income increased to \$6,916 in 2005 from net income of \$536 in 2004. The 2004 net income included a loss from discontinued operations of \$1,570 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 \$6,916 for the first nine months of 2005 from \$2,106 for the comparable 2004 period.

Our Explosive Metalworking Group reported sales of \$53,402 for the nine months ended September 30, 2005 versus comparable 2004 sales of \$32,428 and an increase in operating income to \$10,078 in 2005 from \$3,736 in 2004. The Explosive Metalworking Group's backlog, which had increased from \$11,700 at December 31, 2003 to \$27,500 at December 31, 2004, increased further to \$34,100 as of September 30, 2005 and reflects record booking levels during the first nine months of 2005, including a March order valued at more than \$5,300 for work related to a nickel hydrometallurgy project in New Caledonia and an order booked by Nobelclad Europe in early August for approximately \$6,000 relating to a petrochemical project in Kuwait. Shipments on the nickel hydrometallurgy project order began in the third quarter and most of the order is expected to ship by the end of 2005. The order relating to the petrochemical project in Kuwait will be manufactured at our facilities in France and the U.S. and is scheduled to 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 plants in different parts of the world, including China, and on sales of electrical transition joints that are used in the aluminum smelting industry. Based upon a strong backlog as of September 30, 2005 and generally favorable market conditions in most of the industries that we serve, we are optimistic that 2006 will be another good year for our Explosive Metalworking Group.

For the nine months ended September 30, 2005, AMK reported sales of \$2,722 as compared to sales of \$1,787 in the comparable period of 2004. As a result of this 52% sales increase, AMK reported year-to-date operating income of \$485 in 2005 compared to operating income of \$44 for the same nine 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

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second quarter. Prospects at AMK for calendar year 2006 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 operating activities of \$4,544 during the nine months ended September 30, 2005. This operating cash flow was supplemented by the receipt of a \$1,016 payment on an outstanding receivable relating to the 2004 Spin Forge divestiture and \$1,481 in cash proceeds from stock option exercises and employee stock plan purchases, which enabled us to pay annual dividends of \$1,151, reduce term debt (excluding the conversion of the \$1,200 convertible subordinated note discussed below) by \$1,946 and line of credit borrowings by \$3,314 during 2005. Debt levels were further reduced in 2005 as a result of the June conversion of a \$1,200 convertible

subordinated note held by Groupe SNPE into 200,000 shares of the Company's common stock. We funded \$1,966 of capital expenditures during the first nine months of 2005. Based upon our expectations of future sales and operating income performance and the expected stabilization of working capital levels, we expect to continue to generate strong operating cash flow in the fourth quarter of 2005 and during the 2006 calendar year. After the reductions to term debt that have either already occurred or are scheduled to occur in the fourth quarter of 2005, outstanding obligations under term debt agreements will be reduced to approximately \$2,900 by the end of 2005 from approximately \$6,100 as of December 31, 2004. Minimum annual principal payments on existing term debt will be less than \$600 in 2006.

Three and Nine Months Ended September 30, 2005 Compared to Three and Nine Months Ended September 30, 2004

	Three Months Ended September 30,		Change	Percentage Change
	2005	2004		
<u>Net sales</u>	\$ 20,238	\$ 12,070	\$ 8,168	67.7%

	Nine Months Ended September 30,		Change	Percentage Change
	2005	2004		
<u>Net sales</u>	\$ 56,124	\$ 34,215	\$ 21,909	64.0%

The significant increases in consolidated net sales for the three and nine-month periods ended September 30, 2005 as compared to the same periods of 2004 reflect 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 69.2% to \$19,188 in the third quarter of 2005 from \$11,342 in the third quarter of 2004. The Explosive Metalworking Group third quarter sales increase reflects a 44.7% increase in U.S. clad sales and a 130.5% U.S. dollar increase in sales by Nobleclad Europe. For the nine-month period, the Explosive Metalworking Group's sales increased by 64.7% to \$53,402 in 2005 from \$32,428 in 2004. The year-to-date increase in Explosive Metalworking Group's sales reflects a 63.3% increase in U.S. clad sales and a 67.3% U.S. dollar sales increase at Nobleclad Europe. The substantial increases in third quarter and year-to-date Explosive Metalworking Group sales is principally attributable to the improved economic condition of the

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industries that the Explosive Metalworking Group serves as evidenced by an increase in the Explosive Metalworking Group's backlog from \$11,700 at December 31, 2003 to \$27,500 as of December 31, 2004, \$34,100 as of March 31, 2005 and \$33,200 as of June 30, 2005. Explosive Metalworking Group sales for the fourth quarter of 2005 are expected to approximate those reported for the third quarter. Third quarter sales at AMK increased by 44.2% to \$1,050 in 2005 from \$728 in 2004. For the nine months ended September 30, AMK's sales increased by 52.3% to \$2,722 in 2005 from \$1,787 in 2004. The significant increases in third 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 fourth quarter sales are expected to be comparable to those reported for the third quarter, with sales expected to strengthen during 2006 as AMK increases production levels relating to the new ground-based turbine program.

	Three Months Ended September 30,		Change	Percentage Change
	2005	2004		
<u>Gross profit</u>	\$ 6,268	\$ 3,250	\$ 3,018	92.9%
<u>Percentage of net sales</u>	31.0%	26.9%		

	Nine Months Ended September 30,		Change	Percentage Change
	2005	2004		
<u>Gross profit</u>	\$ 16,134	\$ 8,353	\$ 7,781	93.2%
<u>Percentage of net sales</u>	28.7%	24.4%		

The improvements in our gross profit margin in the third quarter reflect an increase in our Explosive Metalworking Group's gross profit margin to 30.9% in 2005 from 27.4% in 2004 and an increase in AMK's gross margin to 33.0% in 2005 from 19.2% in 2004. The Explosive Metalworking Group's gross margin improvement includes an increase in the U.S. Clad Metal gross margin to 31.4% in 2005 from 30.9% in 2004 and an increase in Nobelclad Europe's gross profit margin to 30.1% in 2005 from 18.7% in 2004. For both the U.S. and European cladding operations and for AMK, the third 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 improvements in our gross profit margin for the nine months ended September 30, 2005 reflect an increase in our Explosive Metalworking Group's gross profit margin to 28.8% in 2005 from 25.0% in 2004 and an increase in AMK's gross margin to 26.7% in 2005 from 13.6% in 2004. The Explosive Metalworking Group gross margin improvement includes an increase in the U.S. Clad Metal gross margin to 30.4% in 2005 from 29.1% in 2004 and an increase in Nobelclad Europe's gross profit margin to 25.9% in 2005 from 17.0% in 2004. AMK reported a gross margin of 26.7% for the nine months ended September 30, 2005 as compared to a gross margin of 13.6% for the nine months ended September 30, 2004. As was the case for the third quarter, the year-to-date 2005 gross margin improvements for both the Explosive Metalworking Group and AMK relate primarily to the sales increases discussed above and the resultant more favorable absorption of fixed manufacturing overhead expenses.

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	Three Months Ended September 30,		Change	Percentage Change
	2005	2004		
<u>General & administrative expenses</u>	\$ 1,020	\$ 529	\$ 491	92.8%
<u>Percentage of net sales</u>	5.0%	4.4%		

	Nine Months Ended September 30,		Change	Percentage Change
	2005	2004		
<u>General & administrative expenses</u>	\$ 2,726	\$ 2,102	\$ 624	29.7%
<u>Percentage of net sales</u>	4.9%	6.1%		

The \$491 increase in third quarter 2005 general and administrative expenses reflects a \$434 increase in spending by our U.S. operations and a \$57 increase 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 \$165 in audit, tax advisory, consulting and investor relations expenses, a \$219 increase in accrued incentive compensation expense, and the impact of annual salary adjustments. The \$624 increase in 2005 general and administrative expenses for the nine-month period reflects a \$709 increase in spending by our U.S. operations offset by an \$85 decrease in European general and administrative expenses. Increased U.S. spending includes the effects of an aggregate increase of \$189 in audit, tax consulting and investor relations expenses, a \$287 increase in accrued incentive compensation expense, and the impact of annual salary adjustments. The 2005 increases in audit, tax advisory, consulting and investor relations expenses relates principally to compliance with the Sarbanes-Oxley Act of 2002, tax planning initiatives and increased investor relations activities. The decrease in European expenses for the nine-month period of 2005 relates primarily to the 2004 salary, payroll taxes and benefits paid, 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 allocated to both general and administrative expenses and selling expenses based on his job responsibilities.

	Three Months Ended September 30,		Change	Percentage Change
	2005	2004		
Selling expenses	\$ 849	\$ 774	\$ 75	9.7%
Percentage of net sales	4.2%	6.4%		

	Nine Months Ended September 30,		Change	Percentage Change
	2005	2004		
Selling expenses	\$ 2,845	\$ 2,471	\$ 374	15.1%
Percentage of net sales	5.1%	7.2%		

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The \$75 increase in third quarter 2005 selling expenses reflects a \$6 increase in selling expenses for our U.S. operations and a \$69 increase in our European selling expense. The \$374 increase in 2005 selling expenses for the nine-month period includes a \$164 increase for our U.S. operations and a \$210 increase for our European operations. The increase in selling expenses for our U.S. operations for the nine-month period reflects increased compensation expense of \$82 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 both the three and nine months ended September 30, 2005 reflect an increase in outside sales commissions due to the increase in sales.

	Three Months Ended September 30,		Change	Percentage Change
	2005	2004		
Income from operations	\$ 4,399	\$ 1,947	\$ 2,452	125.9%

	Nine Months Ended September 30,		Change	Percentage Change
	2005	2004		
Income from operations	\$ 10,563	\$ 3,780	\$ 6,783	179.4%

Our Explosive Metalworking Group reported income from operations of \$4,141 in the third quarter of 2005 compared to \$1,869 in the third quarter of 2004. This 121.6% operating income increase reflects a sales increase of \$7,846, or 69.2%, and an increase in the Explosive Metalworking Group's gross profit margin from 27.4% in 2004 to 30.9% in 2005. AMK reported operating income of \$258 in the third quarter of 2005 compared to \$78 in the prior year third quarter. The substantial increase in AMK's operating income reflects a sales increase of \$322, or 44.2%, and an increase in the gross margin rate from 19.2% in 2004 to 33.0% in 2005.

For the nine-month period, our Explosive Metalworking Group reported income from operations of \$10,078 in 2005 compared to \$3,736 in 2004. This 169.8% operating income increase reflects a sales increase of \$20,974, or 64.7%, and an increase in the Group's gross profit margin from 25.0% in 2004 to 28.8% in 2005. AMK reported operating income of \$485 for the nine months ended September 30, 2005 as compared to operating income of \$44 for the same period of 2004. This improved operating performance reflects a sales increase of \$935, or 52.3%, and an increase in the gross margin from 13.6% in 2004 to 26.7% in 2005.

	Three Months Ended September 30,		Change	Percentage Change
	2005	2004		
Income tax provision	\$ 1,176	\$ 696	\$ 480	69.0%
Percentage	27.2%	38.0%		

	Nine Months Ended September 30,		Change	Percentage Change
	2005	2004		
Income tax provision	\$ 3,445	\$ 1,343	\$ 2,102	156.5%
Percentage	33.2%	38.9%		

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For the three months ended September 30, 2005 and 2004, the consolidated income tax provisions included \$601 and \$634, respectively, related to U.S. taxes that were provided at effective tax rates of 23.0% and 38.6% for the respective periods. For the nine months ended September 30, 2005 and 2004, the consolidated income tax provisions included \$2,416 and \$1,240, respectively, related to U.S. taxes that were provided at effective tax rates of 33.3% and 39.0% 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 significantly lower consolidated effective tax rates in 2005 are primarily attributable to U.S. tax benefits and U.S. effective rate adjustments that were recorded in the third quarter as further explained below but also reflect 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 slightly lower than the normal combined Federal and state effective tax rate applicable to our U.S. operations.

During the quarter ended September 30, 2005, we completed several U. S. tax projects that impacted our tax provision recorded for the three and nine months ended September 30, 2005. Our third quarter and year-to-date 2005 tax provision included combined U.S. federal and state benefits of approximately \$254 relating to tax credits and other attributes identified in connection with these projects and claimed on 2004 and amended prior year Federal and state tax returns that were filed during the quarter. Upon the completion of the 2004 and amended prior year tax returns, we were able to estimate better the effects that recent divestitures and other changes in our business are expected to have on our 2005 effective state income tax rate and thus, on our overall effective income tax rate. The aforementioned tax benefits and a lower 2005 estimated effective state income tax rate are expected to result in an estimated effective tax rate for the full year 2005 of approximately 34% for both our consolidated and U.S. operations. On a going forward basis, we expect effective tax rates on our consolidated and U.S. operations of approximately 36% and 37%, respectively.

Liquidity and Capital Resources

Historically, DMC has obtained its operational financing from a combination of internally generated cash flows, revolving credit borrowings, 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 covenants and restrictions, certain of which relate to the payment of dividends or other distributions to stockholders, redemption of capital stock, incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets and maintenance of specified financial ratios. As of September 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 Nine Months Ended September 30, 2005 (dollars in thousands)

Net cash flows provided by operating activities for the nine months ended September 30, 2005 totaled \$4,544. Significant sources of operating cash flow included income from continuing operations of \$6,916, non-cash depreciation and amortization of \$1,165 and a tax benefit related to stock options exercised during the nine months ended September 30, 2005 in the amount of \$2,477. These sources of cash flow were partially offset by net negative changes in working capital. Net negative changes in working capital for the nine months ended September 30, 2005 totaled \$5,843, reflecting an increase in inventories, prepaid expenses and accounts receivable of \$5,126, \$1,585 and \$1,003, respectively. These negative changes to working capital were partially offset by a net increase in accounts payable and accrued expenses of \$1,871.

Net cash flows used in investing activities totaled \$732, which includes \$1,966 for capital expenditures that was largely offset by an \$1,016 payment received on a portion of the outstanding receivable relating to the Spin Forge divestiture and a \$218 net decrease in other non-current assets.

Net cash flows used in financing activities for the nine months ended September 30, 2005 totaled \$4,731. Significant uses of cash for financing activities included net repayments on bank lines of credit of \$3,216, payment of annual dividends of \$1,155, final principal payments on the SNPE, Inc. term loan of \$667, industrial development revenue bond principal payments of \$745 and an annual principal payment of \$366 on a term loan with a French bank. Sources of cash flow from financing activities include \$1,481 in net proceeds from the issuance of common stock relating to the exercise of stock options and employee stock purchases under the Company's employee stock purchase plan.

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

Net cash flows from operating activities for the nine months ended September 30, 2004 totaled \$2,857. Significant sources of operating cash flow included income from continuing operations of \$2,106, depreciation and amortization of \$1,086 and deferred tax expense of \$1,265. These sources of cash flow were partially offset by \$1,600 of net negative changes in components of working capital. Net negative changes in working capital included an increase in accounts receivable and inventories of \$1,883 and \$3,599, respectively. These negative changes in working capital were partially offset by an increase in accounts payable and accrued expenses of \$2,934 and \$471, respectively, and a decrease in prepaid expenses of \$477.

Cash used in investing activities totaled \$809 and was comprised primarily of capital expenditures in the amount of \$899.

Net cash flows used in financing activities for the nine months ended September 30, 2004 totaled \$194. Significant uses of cash for financing activities included principal payments on industrial development revenue bonds in the amount of \$690, principal payments on the SNPE, Inc. term loan of \$667 and \$355 in annual principal payments on a term loan with a French bank. These uses of cash for financing activities were almost entirely offset by a bank overdraft of \$357 and borrowings on bank lines of credit in the amount of \$1,120.

Cash flows used in discontinued operations totaled \$1,807 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 and during 2006. 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 and in 2006. In making this assessment, we have considered:

- presently scheduled debt service requirements during the remainder of 2005 and in 2006, 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 in 2006; and
- our expectation of realizing positive cash flow from operations during the remainder of 2005 and in 2006.

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

We have identified the most critical accounting principles upon which our financial status depends by considering those 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; the price is fixed or determinable; delivery has occurred; 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 provide 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.

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 September 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 September 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. The Company must adopt SFAS 123R no later than January 1, 2006.

The adoption of SFAS 123R, which will occur on January 1, 2006, will result in a reduction of net income. The Company is currently evaluating the significance of 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.

In May 2005, the FASB issued SFAS 154, *Accounting Changes and Error Corrections*, which requires the direct effects of voluntary accounting principle changes to be retrospectively applied to prior periods' financial statements. This Statement does not change the transition provisions of any existing accounting pronouncements, but would apply in the unusual instance

that a pronouncement does not include specific transition provisions. SFAS No. 154 maintains existing guidance with respect to accounting estimate changes and corrections of errors. The Statement is effective for the Company beginning on January 1, 2006. Adoption is not expected to have a material impact on the Company's financial position, results of operation or cash flows.

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 from that 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 September 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 (as defined in Exchange Act Rule 13a-15(e)). 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.

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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

None.

Item 5. Other Information

On March 18, 1998, the Company entered into an Operating Lease with Spin Forge, LLC (the "Owner") with respect to a parcel of real property owned by the Owner (the "Property"). The Company and the Owner also concurrently entered into an Option Agreement giving the Company an option to purchase the Property from the Owner at a fixed price, which Option Agreement has since been amended five times (as amended, the "Option Agreement"). The Option Agreement may be exercised by the Company beginning after November 1, 2006.

On September 17, 2004, the Company subleased the Property (the "Sublease") to Aerojet-General Corporation ("Aerojet") and assigned its rights in the Option Agreement to Aerojet (the "Option Assignment"). Under the Option Assignment, Aerojet's rights in the Option Agreement terminated on August 1, 2005. The Sublease expires on January 1, 2007.

The Company and the Owner have entered into an Option Purchase Agreement, dated as of November 4, 2005 (the "Option Purchase Agreement"), whereby the Company has agreed to sell the Option Agreement to the Owner for the purchase price of \$2,300. A non-refundable deposit of \$100 has been paid by the Owner to the Company and the balance of the purchase price will be paid at the closing of escrow which must occur no later than January 31, 2006. Under the Option Purchase Agreement, each party has agreed to indemnify the other for its breaches of any representations and warranties under the Option Purchase Agreement. In addition, if the escrow fails to close for reasons other than the Company's default under the Option Purchase Agreement, the Company will retain the non-refundable deposit and the Option Agreement will be replaced by an Amended and Restated Option Agreement, effective February 1, 2006.

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Item 6.

Exhibits

- 10.1 - Credit Agreement dated as of September 15, 2005 between Dynamic Materials Corporation and Wells Fargo Bank, National Association (incorporated by reference to the Company's Current Report on Form 8-K filed with the Commission on September 21, 2005)

- 10.2 - \$7,500,000 Revolving Line of Credit Note dated September 15, 2005 of Dynamic Materials Corporation payable to the order of Wells Fargo Bank, National Association (incorporated by reference to the Company's Current Report on Form 8-K filed with the Commission on September 21, 2005)
- 10.3 - Spin Forge Agreement
- 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.

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SIGNATURES

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

DYNAMIC MATERIALS CORPORATION
(Registrant)

Date: November 9, 2005

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

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OPTION PURCHASE AGREEMENT

THIS OPTION PURCHASE AGREEMENT (“**Agreement**”), is dated as of November 4, 2005, and is entered into by and between **DYNAMIC MATERIALS CORPORATION**, a Delaware corporation (“**DMC**”), and **SPIN FORGE, LLC**, a California limited liability company (“**Owner**”), with regard to the following:

A. The Owner owns certain real property (the “**Land**”) located in Los Angeles County, California, commonly known as 1700 East Grand Avenue, which is more particularly described on **Exhibit A** attached to this Agreement and incorporated herein by this reference. The Land, together with all appurtenant easements and other appurtenances thereto, as well as all buildings, structures, and other improvements located thereon and all fixtures attached thereto, are referred to collectively as the “**Property**.”

B. The Owner and DMC entered into a certain Operating Lease dated as of March 18, 1998 and amended that Operating Lease by a certain Agreement and Amendment to Operating Lease dated as of February 1, 2000 (as amended, the “**Lease**”).

C. Also as of March 18, 1998, DMC and the Owner entered into an Option Agreement dated as of March 18, 1998 giving DMC an option (the “**Option**”) to purchase the Property from the Owner, which Option Agreement has previously been amended five times (as amended, the “**Option Agreement**”).

D. DMC subleased the Property to Aerojet-General Corporation (“**Aerojet**”) pursuant to that certain written Sublease between DMC and Aerojet dated September 17, 2004 (the “**Sublease**”), a copy of which is attached to this Agreement as **Exhibit B**. DMC also assigned its rights in the Option to Aerojet pursuant to that certain written Option Agreement between DMC and Aerojet dated September 17, 2004 (the “**Option Assignment**”). By the terms of the Option Assignment, Aerojet’s rights in the Option terminated on August 1, 2005.

E. DMC has approached the Owner about further amending the Option Agreement to facilitate DMC’s possible sale of the Property to a third party after it exercises the Option. The Owner has, instead, proposed to DMC that it repurchase the Option. The parties have reached agreement on such a resale of the entire Option to the Owner on the terms and conditions set forth in this Agreement so that, upon such resale, DMC will have no further rights in the Option or the Option Agreement.

F. All capitalized terms used not defined herein or the Glossary of Terms attached hereto shall have the meanings ascribed to those terms in the Option Agreement.

NOW THEREFORE, for valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. **Purchase of Option.** DMC hereby agrees to sell to the Owner and the Owner hereby agrees to buy from DMC the entire Option and the Option Agreement, free and clear of

any lien, claim, right of third party or other encumbrance, for the Purchase Price and on the other terms herein set forth.

2. **Purchase Price.** The Purchase Price (“**Purchase Price**”) for the Option and Option Agreement shall be Two Million Three Hundred Thousand and No/100 Dollars (\$2,300,000.00).

3. **Payment of Purchase Price.** The Purchase Price shall be paid to DMC as follows:

(a) **Deposit.** On the date of this Agreement (the “**Effective Date**”), the Owner shall pay to DMC outside of Escrow cash in the amount of One Hundred Thousand Dollars (\$100,000.00) (the “**Non-Refundable Deposit**”). At the Close of Escrow (as defined below), the amount of the Non-Refundable Deposit shall be credited towards payment of the Purchase Price. If the Escrow does not close, the Non-Refundable Deposit shall be applied as set forth in this Agreement.

(b) **Cash Balance.** No later than two (2) business days prior to the Scheduled Close of Escrow (as defined below), the Owner shall deposit into Escrow the balance of the Purchase Price in cash, plus such other funds as may be required for the Owner to satisfy all prorations and other costs payable by it pursuant to the terms of this Agreement. DMC shall provide wiring instructions (“**Wiring Instructions**”) to the Escrow Holder prior to the Scheduled Close of Escrow for the payment of the Purchase Price to DMC.

4. **Escrow and Deliveries Into Escrow.** DMC and the Owner shall cause the Opening of Escrow (as defined below) to occur on the Effective Date by taking the actions required of them in this Section 4.

(a) Owner agrees to deliver into the Escrow within three (3) business days of the date hereof each of the following:

(i) a fully executed counterpart of this Agreement, duly executed by Owner;

(ii) two fully executed counterparts of an agreement in the form of the Amended and Restated Option Agreement attached hereto as **Exhibit C** (the “**Amended and Restated Option Agreement**”), duly executed by Owner;

(iii) two fully executed counterparts of an assignment of the Sublease (the “**Sublease Assignment**”) in the form of **Exhibit D** attached hereto, duly executed by Owner; and

(iv) the amount of any cash prorations computed in accordance with Paragraph 10 and which are payable by Owner.

(v) The Owner also agrees to pay the remaining amount of the Purchase Price into Escrow no later than two (2) days prior to the Scheduled Close of Escrow.

(b) DMC agrees to deliver into the Escrow within three business days after the date hereof each of the following:

(i) a fully executed counterpart of this Agreement, duly executed by DMC;

(ii) two fully executed counterparts of the Amended and Restated Option Agreement, duly executed by DMC;

(iii) two fully executed counterparts of the Sublease Assignment, duly executed by DMC;

(iv) a fully executed quitclaim deed in the form of **Exhibit E** to this Agreement, duly executed by Aerojet and in recordable form (the “**Aerojet Deed**”); and

(v) a fully executed quitclaim deed in the form of **Exhibit F** to this Agreement, duly executed by DMC and in recordable form (the "**DMC Deed**").

(c) Within five (5) days after the Opening of Escrow, the Escrow holder shall deliver a letter to the parties confirming the date of the Opening of Escrow.

5. **Conditions to the Close of Escrow.**

(a) [Intentionally deleted.]

(b) **Conditions Precedent to DMC's Obligations.** The Close of Escrow and DMC's obligations with respect to the transaction contemplated by this Agreement are subject to:

(i) **Owner's Deliveries.** The Owner having delivered the funds and documents it is required by this Agreement to deliver into the Escrow.

(ii) **Breach of Warranty.** Each representation and warranty of the Owner herein shall be true and correct as of the Close of Escrow. Escrow Holder shall assume that this condition has been satisfied unless notified to the contrary in writing by DMC prior to the Close of Escrow.

(c) **Failure of Close of Escrow.** If the Escrow fails to close for a reason other than DMC's default under this Agreement, (i) this Agreement and the Escrow shall terminate, (ii) the Non-Refundable Deposit shall be retained by DMC as liquidated damages in accordance with the provisions of Paragraph 13 (b) of this Agreement and (iii) the Option Agreement as amended by the Amended and Restated Option Agreement shall become effective as of 12:00 a.m. February 1, 2006 (the "**Restated Option Agreement Effective Date**"). Unless and until the Amended and Restated Option Agreement becomes effective pursuant to the terms of this paragraph, the Option Agreement shall remain in full force and effect in its present form.

(d) **Instructions to Escrow Holder.** If this Agreement and the Escrow terminate pursuant to the immediately preceding paragraph, Escrow Holder is hereby instructed to promptly (i) deliver a fully executed original of each of the Amended and Restated Option Agreement to DMC and the Owner, (ii) deliver all copies of the Sublease Assignment to DMC and (iii) deliver to Owner and DMC all other funds and documents deposited by them, respectively, into Escrow which are held by Escrow Holder on the date of said termination, less, in the case of the party otherwise entitled to such funds, however, the amount of any cancellation charges required to be paid by such party under Paragraph 5(e).

(e) **Cancellation Fees and Expenses.** In the event this Escrow terminates because of the default of either party, the defaulting party shall pay all cancellation charges required to be paid by and to Escrow Holder. In all other cases, all such cancellation charges shall be borne equally by the Owner and DMC.

(f) **Close of Escrow.** The Close of Escrow shall occur on January 31, 2006, or such earlier date agreed to by the parties (as applicable, the "**Scheduled Close of Escrow**").

6. [Intentionally deleted.]

7. **Costs and Expenses.**

(a) **DMC's Obligations.** DMC shall pay:

(i) **Transfer Tax.** Documentary transfer tax chargeable on the Aerojet Deed and the DMC Deed, if any.

(i) **Escrow Fees.** One-half (2) of all escrow fees and costs.

(ii) **Prorations.** DMC's share of prorations, if any.

(b) **Owner's Obligations.** The Owner shall pay (in addition to the Purchase Price):

(i) **Escrow Fees.** One-half (2) of all escrow fees and costs.

(ii) **Prorations.** The Owner's share of prorations, if any.

(c) **Professional Fees, Etc.** The Owner and DMC shall each pay the legal and professional fees and fees of other consultants incurred by each of them respectively in connection with the transactions herein contemplated.

8. **Prorations.** The parties recognize that Aerojet is required to pay most expenses related to the operation of the Property and that there will be few, if any, expenses that are to be prorated in connection with the sale of the Option. Nevertheless, the parties agree that any revenues and other income from the Property, real property taxes and operating expenses, if any, affecting the Property and not paid directly by Aerojet pursuant to the provisions of the Sublease shall be prorated as of 11:59 p.m. on the day preceding the Close of Escrow. All bonds or special

assessments, if any, due after the Close of Escrow, which relate to the Property and relate to events occurring prior to the Close of Escrow, shall be prorated as of the Close of Escrow. Any supplementary tax bills received by the Owner following the Close of Escrow and not payable by Aerojet pursuant to the provisions of the Sublease relating to a period prior to the Close of Escrow shall be prorated by the parties as if said tax bills had been available at the Close of Escrow. All real property taxes and other prorations with respect to the Property shall be calculated as of 11:59 p.m. on the day preceding the Close of Escrow. For purposes of calculating prorations, the Owner shall be deemed to be in title to the Property, and therefore entitled to the income, if any, and responsible for the expenses, for the entire day upon which the Close of Escrow occurs.

9. **Disbursements and Other Actions by Escrow Holder.** On the date of the Scheduled Close of Escrow or such earlier time as the parties elect to close escrow, provided that each party has satisfied each of its obligations required by this Agreement to occur prior to the date of the Scheduled Close of Escrow, Escrow Holder shall promptly undertake all of the following in the manner indicated:

(a) **Funds.** Except as otherwise herein provided, disburse all funds deposited with Escrow Holder, less items to be charged to DMC hereunder, if any, to DMC as provided in DMC's Wiring Instructions.

(b) **Recording.** Cause to be recorded in the Official Records the Aerojet Deed first followed by the DMC Deed, together with such other instruments, if any, that the parties may mutually direct to be recorded in the Official Records, and obtain conformed copies thereof for distribution to the Owner and DMC.

(c) **Deliver.** Deliver (i) to each party (1) a fully executed original of this Agreement and (2) a fully executed copy of the Sublease Assignment, and (ii) to Owner all originals of the Amended and Restated Option Agreement (which the parties agree shall then be of no force or effect, each party agreeing to destroy all executed originals and execution copies thereof).

(d) The Owner expressly agrees that notwithstanding the recordation of the Aerojet Deed and the Close of Escrow it shall not disturb Aerojet in its occupancy and quiet enjoyment of the Property pursuant to the Sublease so long as Aerojet complies with its obligations thereunder. The parties agree that Aerojet is intended to be a third party creditor beneficiary of this paragraph.

10. [Intentionally deleted.]

11. **DMC's Representations and Warranties.** In addition to any other express agreements of DMC herein contained, the following constitute representations and warranties of DMC to the Owner, all of which representations and warranties shall survive the sale of the Option from DMC to Owner and the Close of Escrow. Each of such representations and warranties shall be continuing and shall remain true and correct as of the Close of Escrow with the same force and effect as if remade by DMC in a separate certificate at that time.

(a) **Authority.** DMC has the legal power, right and authority to enter into this Agreement and to execute and deliver this Agreement, to consummate the transactions contemplated by this Agreement, and to execute and deliver the other documents, instruments and agreements required to be executed or delivered by DMC under this Agreement without the necessity of any act or consent of any other person whomsoever.

(b) **Requisite Action.** The execution, delivery and performance by DMC of this Agreement and each and every agreement, document and instrument provided for in this Agreement have been duly authorized and approved by all corporate action on the part of DMC.

(c) **Binding Nature.** This Agreement and all documents required hereby to be executed by DMC are and shall be valid, legally binding obligations of and enforceable against DMC in accordance with their terms, subject, only to applicable bankruptcy, insolvency, reorganization, moratorium laws or similar laws or equitable principles affecting or limiting the rights of contracting parties generally.

(d) **Contracts.** There are no oral or written contracts between DMC and any other person or entity with respect to the ownership, operation, maintenance, use or occupancy of the Property, other than the Sublease and the Option Assignment. DMC has not assigned or otherwise granted any right or interest in the Option or the Option Agreement to any person or entity, other than the rights expressly granted to Aerojet under the Option Assignment. The Sublease has not been modified or amended in any manner whatsoever. The Option Assignment is terminated and of no force or effect. Neither Aerojet nor any other person or entity has any right to exercise any right under the Option Assignment, and Aerojet has not assigned any of its rights under the Option Assignment to any person or entity. Upon the Close of Escrow, Owner will be the sole owner of the Option and the Option Agreement, free and clear of any lien, claim, right of third party or other encumbrance whatsoever, other than any encumbrance placed on the Option or Option Agreement solely by Owner.

(e) **Title Matters.** Except as expressly disclosed in the Option Agreement, upon the recordation of the Aerojet Deed and the DMC Deed in the Official Records, there will be no matters of record against the Property placed there by DMC or caused by the acts or omissions of DMC or any of its agents or representatives.

(f) [Intentionally deleted.]

(g) **Option.** DMC has not exercised and could not exercise the Option.

(h) **Property Conditions.** DMC has not become aware of any material adverse conditions affecting the Property caused by any third party.

12. **Owner's Representations and Warranties.** In addition to any express agreements of the Owner herein contained, the following constitute representations and warranties of the Owner to DMC. Each of such representations and warranties shall be continuing and shall remain true and correct as of the Close of Escrow with the same force and effect as if remade by Owner in a separate certificate at that time.

(a) **Authority.** The Owner has the legal power, right and authority to enter into this Agreement, and the instruments referenced herein, and to consummate the transactions contemplated hereby.

(b) **Requisite Action.** All requisite action has been taken by the Owner in connection with the entering into this Agreement, and the instruments herein referenced, and the consummation of the transactions hereby contemplated.

(c) **Binding Nature.** This Agreement and all documents required hereby to be executed by the Owner are and shall be valid, legally binding obligations of and enforceable against the Owner in accordance with their terms, subject, only to applicable bankruptcy, insolvency, reorganization, moratorium laws or similar laws or equitable principles affecting or limiting the rights of contracting parties generally.

(d) In addition to any information concerning the Property of which Owner has become aware as a result of its ownership of the Property, Owner has had the opportunity to inspect the Property and evaluate the condition of the Property.

(e) [Intentionally deleted.]

(f) **No Other Representations.** DMC has made no representations or warranties to the Owner, oral or written, except as may be specifically set forth in this Agreement, the Lease Assignment, or the Lease.

(g) [Intentionally deleted.]

13. **Legal and Equitable Enforcement of this Agreement; Indemnities.**

(a) **Default by DMC.** In the event the Close of Escrow and the consummation of the transactions herein contemplated do not occur by reason of any default by DMC, the Owner shall have the right to pursue any right, claim, damage and remedy available to it at law or in equity.

(b) **Default by Owner.** IN THE EVENT THE CLOSE OF ESCROW AND THE CONSUMMATION OF THE TRANSACTION HEREIN CONTEMPLATED DO NOT OCCUR AS HEREIN PROVIDED ON OR BEFORE THE SCHEDULED CLOSE OF ESCROW AS A RESULT OF A REASON OTHER THAN DMC'S DEFAULT, THE OWNER AND DMC AGREE THAT IT WOULD BE IMPRACTICAL AND EXTREMELY DIFFICULT TO ESTIMATE THE DAMAGES WHICH DMC MAY SUFFER. THEREFORE THE OWNER AND DMC HEREBY AGREE THAT A REASONABLE ESTIMATE OF THE TOTAL NET

DETRIMENT THAT DMC WOULD SUFFER IN THE EVENT ESCROW FAILS TO CLOSE FOR ANY REASON OTHER THAN DMC'S DEFAULT IS AND SHALL BE, AS DMC'S SOLE AND EXCLUSIVE REMEDY (WHETHER AT LAW OR IN EQUITY), (I) AN AMOUNT EQUAL TO THE NON-REFUNDABLE DEPOSIT PLUS ANY INTEREST ACCRUED THEREON, AND (II) THE AMENDED AND RESTATED OPTION AGREEMENT BECOMING EFFECTIVE ON THE RESTATED OPTION EFFECTIVE DATE. SAID REMEDY SHALL BE DMC'S FULL, AGREED AND LIQUIDATED

DAMAGES FOR THE FAILURE OF ESCROW TO CLOSE ON OR BEFORE THE SCHEDULED CLOSE OF ESCROW, ALL OTHER CLAIMS TO DAMAGES OR OTHER REMEDIES BEING HEREIN EXPRESSLY WAIVED BY DMC. THE PAYMENT OF THE NON-REFUNDABLE DEPOSIT AS LIQUIDATED DAMAGES AND THE EFFECTIVENESS OF THE AMENDED AND RESTATED OPTION AGREEMENT ON THE RESTATED OPTION AGREEMENT EFFECTIVE DATE IS NOT INTENDED AS A FORFEITURE OR PENALTY WITHIN THE MEANING OF CALIFORNIA CIVIL CODE SECTIONS 3275 OR 3369, BUT IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO DMC PURSUANT TO CALIFORNIA CIVIL CODE SECTIONS 1671, 1676 and 1677. DMC HEREBY WAIVES THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 3389.

Owner's Initials

DMC's Initials

(c) **Owner's Indemnity.** Owner shall indemnify, defend and hold harmless DMC, and each of DMC's officers, directors, agents and representatives, and each of their successors and assigns, from and against any and all claims, liabilities, demands, lawsuits, litigation, losses, damages (including consequential damages and penalties), fees, costs and expenses (including settlement costs, and costs and expenses of counsel and other professional fees, including those incurred in investigating, bringing or defending any claim or action or threatened claim or action), obligations, liens, executions, fines, awards, indebtedness, defenses and causes of action, of every and whatever type, kind, nature, description or character (collectively, "**Claims and Liabilities**"), arising out of, connected with or relating to any breach by Owner of any of its representations and warranties under this Agreement.

(d) **DMC's Indemnity.** DMC shall indemnify, defend and hold harmless Owner, and each of Owner's managers, members, agents and representatives, and each of their successors, heirs and assigns, from and against any and all Claims and Liabilities arising out of, connected with or relating to any breach by DMC of any of its representations and warranties under this Agreement.

(e) **Non-Exclusive Remedy.** The indemnities set forth in paragraphs (c) and (d) of this Section 13 shall forever terminate on the first anniversary of the Close of Escrow, other than those Claims and Liabilities for which a party has demanded indemnification in writing from the other party prior to such time, which Claims and Liabilities shall survive such termination. The rights and remedies set forth in paragraphs (c) and (d) of this Section 13 shall not be exclusive, but shall be cumulative with any other rights and remedies available.

14. **Notices.** All notices or other communications required or permitted hereunder shall be in writing, and shall be personally delivered (including by means of professional messenger service) or sent by registered or certified mail, postage prepaid, return receipt requested, or by facsimile transmission followed by delivery of a "hard" copy, and shall be deemed received upon the date of receipt thereof.

If to Owner:	Spin Forge, LLC 2 Evergreen Road Severna Park, Maryland 21146 Attention: Joseph Allwein Facsimile: (410) 431-7050
With a copy to:	Van Etten Suzumoto & Becket LLP 1620 26 th Street, Suite 600 North Santa Monica, California 90404 Attention: Richard S. Grant, Esq. Facsimile: (310) 315-8210
If to DMC:	Dynamic Materials Corporation 5405 Spine road Boulder, Colorado 80301 Attention: Richard Santa Facsimile: (303) 604-1897
With a copy to:	Milan D. Smith, Jr., Esq. Smith Crane Robinson & Parker, LLP Suite 500, 21515 Hawthorne Boulevard Torrance, California 90503 Fax: (310) 543-4507
To Escrow Holder:	Carolyn Marcial Escrow Officer First American Title Insurance Company National Commercial Services 520 N. Central Avenue, 8 th Floor Glendale, California 91203 Facsimile: (818) 242-5916

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Notice of change of address shall be given by written notice in the manner detailed in this Paragraph 14.

15. **Broker.** At the Close of Escrow, DMC shall pay from funds accruing to DMC through Escrow, pursuant to DMC's separate agreement (the "**Listing Agreement**") with Grubb & Ellis Company ("**Broker**"), the brokerage commission and fees owed to DMC's Broker in connection with the transactions contemplated by this Agreement. The Owner represents and warrants to DMC that it is not represented in this transaction by the Broker. DMC represents and warrants to the Owner that except for the Broker, it has engaged no other broker or finder in connection with any transaction contemplated by this Agreement. The Owner represents and warrants to DMC that it has engaged no broker or finder in connection with any transaction contemplated by this Agreement. In the event any claims for brokers' or finders' fees or commissions in connection with the negotiation, execution or consummation of this Agreement are made by anyone other than the Broker against DMC, then the Owner shall indemnify, save

harmless and defend DMC from and against such claims if they are based upon any statement or representation or agreement by the Owner, and DMC shall indemnify, save harmless and defend the Owner from and against any claims, liabilities, damages, fees, losses, costs and expenses (including reasonable attorneys' fees and expenses) if made or based upon any statement, representation or agreement made by DMC or as a result of claims of Broker or pursuant to the Listing Agreement.

16. **Required Actions of Owner and DMC.** The Owner and DMC each agree to execute all such instruments and documents and to take all actions pursuant to the provisions hereof in order to consummate the purchase and sale herein contemplated and shall use their good faith efforts and due diligence to accomplish the Close of Escrow in accordance with the provisions hereof.

17. **Assignment.** This Agreement may not be assigned by either party.

18. **Miscellaneous.**

(a) **Partial Invalidity.** If any term or provision of this Agreement or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each such term and provision of this Agreement shall be valid and be enforced to the fullest extent permitted by law.

(b) **Waivers.** No waiver of any breach of any covenant or provision herein contained shall be deemed a waiver of any preceding or succeeding breach thereof, or of any other covenant or provision herein contained. No extension of time for performance of any obligation or act shall be deemed an extension of the time for performance of any other obligation to act except those of the waiving party, which shall be extended by a period of time equal to the period of the delay.

(c) **Successors and Assigns.** This Agreement shall be binding upon and shall inure to the benefit of the permitted successors and assigns of the parties hereto.

(d) **Professional Fees.** In the event any action or suit is brought by a party hereto against another party hereunder by reason of any breach of any of the covenants, agreements or provisions on the part of the other party arising out of this Agreement, then the prevailing party shall be entitled to have and recover of and from the other party all costs and expenses of the action or suit, including, without limitation, actual attorney fees, accounting and engineering fees, and any other professional fees resulting therefrom.

(e) **Entire Agreement.** This Agreement (including all Exhibits attached hereto) is the final expression of, and contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior understandings with respect thereto. This Agreement may not be modified, changed, supplemented or terminated, nor may any obligations hereunder be waived, except by written instrument signed by the party to be charged or by its agent duly authorized in writing or as otherwise expressly permitted herein. The parties

do not intend to confer any benefit hereunder on any person, firm or corporation other than the parties hereto.

(f) **Time of Essence.** DMC and the Owner hereby acknowledge and agree that time is strictly of the essence with respect to each and every term, condition, obligation and provision hereof and that failure to timely perform any of the terms, conditions, obligations or provisions hereof by either party shall constitute a material breach of and a non-curable (but waivable) default under this Agreement by the party so failing to perform. The provisions of this paragraph shall apply to the requirement in this Agreement that Escrow shall close on or before the date of the Scheduled Close of Escrow.

(g) **Construction.** Headings at the beginning of each paragraph and subparagraph are solely for the convenience of the parties and are not a part of the Agreement. Whenever required by the context of this Agreement, the singular shall include the plural and the masculine shall include the feminine and vice versa. This Agreement shall not be construed as if it had been prepared by one of the parties, but rather as if both parties had prepared the same. Unless otherwise indicated, all references to paragraphs and subparagraphs are to this Agreement. All exhibits referred to in this Agreement and the Glossary of Terms are attached and incorporated by this reference. In the event the date on which Owner or DMC is required to take any action under the terms of this Agreement is not a business day, the action shall be taken on the next succeeding business day. A "business day" shall be a day on which the Escrow Holder is regularly open for business to the general public.

(h) **Governing Law.** The parties hereto acknowledge that this Agreement has been negotiated and entered into in the State of California. The parties hereto expressly agree that this Agreement shall be governed by, interpreted under, and construed and enforced in accordance with the laws of the State of California.

(i) **Separate Counterparts.** This document may be executed in one or more separate counterparts, each of which, when so executed, shall be deemed to be an original. Such counterparts shall, together, constitute and be one and the same instrument.

(j) **Further Assurances.** Each party hereto agrees that it will, at anytime and from time to time after the Close of Escrow, upon request of the other party hereto, do, execute, acknowledge and deliver or will cause to be done, executed, acknowledged or delivered, such further acts, deeds, assignments, conveyances and assurances as may reasonably be required for the better carrying out of the transaction envisioned by this Agreement. The parties agree that upon the Close of Escrow, the Owner shall have the unilateral right to record a termination of any Memorandum of Option concerning the Option Agreement and/or the Operating Lease.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year hereinabove written.

DYNAMIC MATERIALS CORPORATION,
a Delaware corporation

By: _____

Its: _____

Date: _____

SPIN FORGE, LLC,
a California limited liability company

By: _____
Its: _____
Date: _____

GLOSSARY OF TERMS

1. **"Close of Escrow"** means the date the DMC Deed and the Aerojet Deed are recorded in the Official Records.
 2. **"Escrow"** means the escrow opened with the Escrow Holder for the consummation of the transaction described in this Agreement.
 3. **"Escrow Holder"** means Carolyn Marcial Escrow Officer First American Title Insurance Company National Commercial Services 520 N. Central Avenue, 8th Floor Glendale, California 91203.
 4. **"Official Records"** means the records of the County Recorder Los Angeles County.
 5. **"Opening of Escrow"** means the date on which a fully executed copy of this Agreement is delivered to Escrow Holder by Owner and DMC and DMC and Owner have delivered into the Escrow the other documents and agreements required to be delivered into the Escrow under Section 4 above.
-

EXHIBIT A

LEGAL DESCRIPTION OF PROPERTY

[TO BE ATTACHED AT EXECUTION]

EXHIBIT B

SUBLEASE

[TO BE ATTACHED AT EXECUTION]

EXHIBIT C

AMENDED AND RESTATED OPTION AGREEMENT

THIS AMENDED AND RESTATED OPTION AGREEMENT (this "**Agreement**") is made and entered into on this _____ by and between **DYNAMIC MATERIALS CORPORATION**, a Delaware corporation ("**DMC**"), and **SPIN FORGE, LLC**, a California limited liability company ("**Owner**"), with respect to the following facts:

- A. The Owner owns real property (the "**Owned Land**") located in Los Angeles County, California with a street address of 1700 East Grand Avenue, El Segundo, California 90245 and more particularly described on **Exhibit A** attached hereto and incorporated herein by this reference. The Owned Land, together with all appurtenant easements and other appurtenances thereto, together with all buildings, structures, and other improvements located thereon and all fixtures attached thereto (collectively, the "**Building**"), is referred to herein collectively as the "**Property**."
- B. The Property is currently subject to that certain Operating Lease dated as of March 18, 1998 (the "**Operating Lease**") between Owner and DMC providing for the lease of the Property by DMC from Owner.
- C. DMC and Owner have entered into an Option Agreement dated as of March 18, 1998, which agreement (as heretofore modified, the "**Option Agreement**") has been previously modified by written Amendments One through Five inclusive.
- D. The Option Agreement was entered into concurrently with that certain Asset Purchase Agreement (the "**Purchase Agreement**") dated as of March 18, 1998. Capitalized terms used in this Agreement and not otherwise defined in this Agreement shall have the meanings ascribed thereto in the Purchase Agreement.
- E. DMC has subleased the Property to **Aerojet-General Corporation** ("**Aerojet**") pursuant to the provisions of a Sublease dated September 17, 2004 (the "**Sublease**").
- F. DMC and Owner wish to further amend the Option Agreement and to restate the contents thereof in its entirety as set forth herein.

NOW, THEREFORE, in consideration of the payment by DMC to Owner of the Option Fee and the Extension Fee and in consideration of the promises and agreements of the parties set forth herein, the sufficiency of which is hereby acknowledged by both Owner and DMC, Owner and DMC hereby promise and agree as follows:

1. **Option.** Owner hereby grants to DMC an exclusive option (the "**Option**") to purchase the Property on the terms and subject to the conditions set forth in this Agreement.
-

- A. **Term.** The term of the Option (the “**Term**”) commenced as of March 18, 1998 and shall terminate on January 1, 2012.
- B. **Time of Exercise.** The Option may be exercised by DMC at any time from and after November 1, 2006 12:01 a.m. P.S.T. until the expiration of the Term.
- C. **Procedure for Exercise.** The Option may be exercised during the time specified in Section 1(B) by delivering to Owner a written notice of exercise (the “**Exercise Notice**”) stating that DMC is thereby exercising the Option.

2. **Purchase Price.**

The purchase price for the Property upon exercise of the Option (the “**Purchase Price**”) shall be Two Million Eight Hundred Eighty Thousand Dollars (\$2,880,000.00); provided, however, that if the Option is exercised after January 31, 2007, the Purchase Price shall be the greater of (A) the fair market value of the Property at the time the Option is exercised (as determined in accordance with the procedures set forth in Article 1, Section C of the Operating Lease for the determination of “**Extended Term Base Rent**”) or (B) Two Million Eight Hundred Eighty Thousand Dollars (\$2,880,000.00); and provided further that if the Option is exercised on or before January 31, 2007 but the purchase of the Property is not closed on or before January 31, 2007 due to the default of the Owner or the fact that the sixty (60) day period called for in Section 11 hereof has not yet passed, the Purchase Price shall be Two Million Eight Hundred Eighty Thousand Dollars (\$2,880,000.00), provided that the purchase of the Property is closed within a reasonable period of time after Owner has cured such default.

3. **Documents Received by DMC.** DMC hereby acknowledges that, as of the date of this Agreement, DMC has received copies of the following documents:

- A. The Land Title Survey of the Property prepared by Guy J. Olsen, dated June 27, 1997.
- B. The Owner’s Policy of Title Insurance Number 7130117X49 covering the Property dated effective February 26, 1998 issued by Chicago Title Insurance Company to Owner; and Owner’s Policy of Title Insurance Number 9632400-8 covering the Property dated effective December 11, 1996 issued by First American Title Insurance Company (the “**Current Policy**”).

4. **Owner’s Affirmative Operating Covenants.** Until the earliest to occur of the end of the Term, the purchase of the Property by DMC (or any assignee of DMC’s interest in the Option), or the termination of this Agreement, Owner shall operate, maintain, and repair the Property in a manner required under the Operating Lease. In addition, Owner agrees to further cooperate with DMC as follows:

A. Owner hereby agrees that DMC (and/or its nominee(s)) and their agents (“**Authorized Parties**”) shall have the right during the Term to access all and any part of the Property to undertake such inspections, investigations, tests, studies (including, but not limited to, entitlement and/or economic and feasibility studies and the environmental condition of the

Property), review materials and determine the feasibility of obtaining such permits (including, without limitation, those related to title, lawful subdivision, economic and feasibility studies, zoning, building codes, setback and other similar requirements and other governmental regulations, engineering tests, government entitlements, economic feasibility and the existence and location of utilities), as DMC or other Authorized Party may elect to obtain. The activities envisioned and authorized by this Section 4 (A) are sometimes referred to herein as “**Section 4 (A) Activities.**”

B. The rights granted in Section 4 (A) above are expressly conditioned upon fulfillment of the following requirements:

- (i) The Authorized Parties shall not unreasonably interfere with Aerojet’s or any authorized third party’s use or operation of the Property;
- (ii) Representatives of Owner shall be notified at least two (2) business days prior to the time when any Authorized Party will be on the Property and Owner’s representatives shall have the right to accompany the Authorized Party at all times when the same are on the Property and to take “split samples” of any tests conducted;
- (iii) No Authorized Party shall invade, alter or destroy the Property, nor any improvement thereon in any manner whatsoever, except as expressly agreed by Owner; provided, however, Authorized Parties may do such invasive environmental, soils and geological testing as may be commercially reasonable so long as the requirements of subsection (e) and Section 3 below are satisfied;
- (iv) DMC shall obtain and maintain (i) liability insurance in the amount of, at least, One Million Dollars (\$1,000,000) for property damage coverage and in the amount of, at least, One Million Dollars (\$1,000,000) for personal injury coverage, and (ii) such workers’ compensation insurance and disability insurance, as required by law, all of which insurance shall name Owner as an additional insured party with respect to DMC and any other Authorized Party. DMC (or any Authorized Party desiring to enter upon the Property to undertake Section 4 (A) Activities) shall provide to Owner one or more certificates of insurance evidencing such coverage prior to entering upon the Property for the purpose of conducting any Section 4 (A) Activities; and
- (v) Except as expressly noted herein, any Section 4 (A) Activity performed on, or in connection with the Property by DMC, or any other Authorized Party, shall be at that party’s sole cost and expense. DMC, for itself and any Authorized Party, covenants and agrees to pay, or caused to be paid, in full all persons who perform labor upon or furnish materials to the Property and not to permit or suffer any mechanic’s or materialman’s lien(s) of any kind or nature to be asserted or enforced against the Property, for any work done or materials furnished thereon or thereto at the instance or request of, or on behalf of DMC, or any other Authorized Party. Moreover, DMC shall have the responsibility to remove, or cause to be removed, from the Property and lawfully dispose of all cuttings, debris, core samples, test borings, materials, and any other remains or samples resulting from any Section 4 (A) Activities, at its sole cost and expense.

C. DMC, for itself and any Authorized Party, hereby agrees to indemnify, defend and hold Owner, its agents, representatives and assigns, free and harmless from and against any and all losses, costs, liabilities, claims, damages or expenses of any kind (including, without imitation, reasonable attorney fees and costs) arising out of any Section 4 (A) Activities, or any other acts or omissions caused, suffered, authorized or permitted by DMC, or any other Authorized Party, on or in connection with the Property in connection with the carrying out of any Section 4 (A) Activities. Moreover, DMC hereby agrees, at its sole cost and expense, to promptly restore, or cause to be restored, the Property substantially to its condition immediately prior to the performance of the Section 4 (A) Activities by DMC or any other Authorized Party.

D. Owner understands that DMC and/or another Authorized Party may undertake the necessary processes and investigations with the cognizant government authorities for the master planning of the Property (“**Master Planning Activities**”), including, but not limited to, obtaining from the City of El Segundo and any other cognizant governmental entities, a vesting tentative map, environmental impact reports, conditional use permits, and/or any other entitlement(s) deemed necessary or appropriate by DMC or any Authorized Party to enhance the developability of the Property.

E. Owner hereby authorizes DMC and any other Authorized Party to undertake the Master Planning Activities with respect to the Property and, subject to the restrictions herein contained, authorizes DMC and such other Authorized Party to exercise such powers in its name and stead as may be necessary and

appropriate in connection therewith.

F. Owner hereby agrees to join in executing any applications for governmental approvals and/or entitlements reasonably as may be requested by DMC from time to time in connection with such Master Planning Activities, but with no personal obligation being assumed by Owner beyond that of executing applications or other documents prepared by DMC or an Authorized Party in connection with the Property. DMC will reimburse, or cause the relevant Authorized Party to reimburse, Owner's reasonable out-of-pocket expenses, if any, incurred in cooperating with such attempts to obtain governmental approvals.

G. The agreement by Owner to cooperate with such Master Planning Activities and any other provision of this Agreement shall not be construed as making either a partner or joint venturer of the other.

H. If for any reason DMC or another Authorized Party does not acquire the Property from Owner, DMC shall deliver to Owner, at no cost or expense to Owner, such written work product, except that which is subject to a recognized legal privilege, pertaining to the development and improvement of the Property as it has in its possession or control.

5. **Owner's Negative Operating Covenant.** Until the earliest to occur of the end of the Term, the purchase of the Property by DMC (or any assignee of DMC's interest in the Option) or the termination of this Agreement, Owner shall not, without the prior written consent of DMC, which consent shall not be unreasonably withheld, sell, convey, further option, lease, or otherwise cloud title to the Property or any portion thereof or contract to do any of the foregoing.

6. **Title.** Title to the Property shall be subject to the following matters:

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- A. The lien for general real property taxes, general assessments, and all installments of special assessments against the Property for the year of Closing and all subsequent years.
 - B. The matters set forth in the Current Policy other than monetary liens that are approved pursuant to Section 6 (A) or 6 (C).
 - C. Any and all matters accepted or deemed accepted by DMC pursuant to Section 8 of this Agreement.

The foregoing title exceptions are collectively referred to herein as the "**Permitted Exceptions.**"

7. **Title Commitment.** Owner shall within ten (10) days after its receipt of the Exercise Notice, furnish to DMC a preliminary report (the "**Preliminary Report**") from a title insurance company reasonably acceptable to both Owner and DMC (the "**Title Company**") showing title to the Property vested in Owner. Contemporaneous with the delivery of the Preliminary Report, the Title Company shall deliver to DMC copies of all instruments referred to in the Preliminary Report.

8. **Title Matters.**

A. **Objection by DMC.** Within ten (10) days after DMC's receipt of the Preliminary Report, DMC shall give Owner notice of all title defects to which it objects disclosed by the Preliminary Report ("**Title Defects**") that are not already deemed approved pursuant to Section 6 (A) and (B) hereof. Any and all Title Defects which are not objected to by notice from DMC to Owner given within said ten (10) day period shall be deemed accepted by DMC and shall constitute Permitted Exceptions.

B. **Owner's Option to Cure.** In the event DMC gives Owner timely notice of DMC's objection to any Title Defects, Owner shall have the right to cure such Title Defects at or prior to the Closing as provided in this Section 8 (B) but shall not be obligated hereby to cure any such Title Defects or to incur any expense in connection with any such cure. For purposes hereof, a Title Defects shall be deemed cured if (i) the Title Company deletes the Title Defects from the Preliminary Report and the Policy; or (ii) the Title Company undertakes in writing to add a provision to the Policy obligating the Title Company, within the limits of such Policy, to protect DMC against loss or damage incurred on account of such Title Defects.

C. **Termination by DMC.** If each of the Title Defects timely objected to by DMC has not been cured prior to the date of the Closing, DMC shall have the right, as its sole and exclusive remedy, to be exercised by written notice given to Owner at or prior to the Closing, to: (i) terminate this Agreement; (ii) waive its objection to such Title Defects and accept the same as Permitted Exceptions; or (iii) reduce the Purchase Price to reflect the detriment to the Property caused by the Title Defects as mutually agreed by Owner and DMC, provided that Owner and DMC shall have no obligation to agree on such amount. In the event DMC does not notify Owner and the Escrow Holder at or prior to the Closing (i) of its decision to terminate this

Agreement, (ii) that the Owner and DMC have not reached agreement on the reduction of the Purchase Price, or (iii) DMC has decided not to waive its objection(s) to any non-cured Title Defects, DMC shall be deemed to have waived its objection to such Title Defects and to have accepted such Title Defects as Permitted Exceptions. In the event this Agreement is terminated by DMC pursuant to this Section 8 (C) both parties shall thereupon be relieved of all further obligations hereunder.

9. **As-Is Sale.** DMC is thoroughly familiar with the condition of the Property. DMC IS NOT RELYING ON ANY REPRESENTATION, WARRANTY, WRITTEN INFORMATION, DATA, REPORT OR STATEMENT OF OWNER OR ITS AGENTS AS TO THE CONDITION OF THE PROPERTY AND IS PURCHASING THE PROPERTY IN ITS "AS-IS" "WHERE-IS" CONDITION, WITH ALL FAULTS, BASED SOLELY UPON DMC'S KNOWLEDGE OF THE PROPERTY AND ITS OWN INDEPENDENT INSPECTION AND REVIEW OF THE PROPERTY. BY CONSUMMATING THE CLOSING, DMC SHALL BE DEEMED TO HAVE BEEN SATISFIED WITH ALL ASPECTS OF THE PROPERTY, INCLUDING, WITHOUT LIMITATION, THE CONDITION AND PHYSICAL ASPECTS OF THE BUILDING, THE CONDITION OF THE PROPERTY, THE AVAILABILITY OF UTILITIES AND SANITARY FACILITIES AND THE SUITABILITY OF THE PROPERTY FOR ITS INTENDED USE.

10. **Prorations.** Real property taxes, assessments, and current installments of special assessments on the Property shall be prorated to the date of Closing. All other items of income and expense for the Property shall be prorated to the date of the Closing based upon the best information available on the date of the Closing. Prorations under this Section 10 based upon estimated amounts or deferred until further information becomes available shall be re-prorated between the parties after the Closing as soon as the information required to make a definitive proration becomes available.

11. **Closing.** The purchase and sale of the Property, and each of the deliveries contemplated below, shall be consummated on or before sixty (60) calendar days after the date of the Exercise Notice through an escrow (the "**Escrow**") with an escrow company located in Los Angeles County that is reasonably satisfactory to Owner and DMC (the "**Escrow Holder**"). Escrow shall be opened as soon as practicable following DMC's exercise of the Option. This Agreement, as well as any escrow instructions executed by DMC and Owner at the request of the Escrow Holder shall constitute the Escrow Holder's instructions. In the event of any conflict or inconsistency between this Agreement and any other instructions delivered to the Escrow Holder, the terms of this Agreement shall govern the duties of the Escrow Holder and the rights and obligations of DMC and Owner. At the Closing:

- A. DMC (or any assignee of DMC's interest in the Option) shall pay to Owner the Purchase Price as well in cash or other immediately available funds

B. Owner shall convey the fee simple absolute of the Property to DMC (or any assignee of DMC's interest in the Option) by grant deed, free and clear of all liens and encumbrances, subject only to the Permitted Exceptions.

C. Owner shall assign, deliver and otherwise transfer (as appropriate) to DMC (or any assignee of DMC's interest in the Option) and DMC (or any assignee of DMC's interest in the Option) shall assume (as appropriate) all obligations of Owner under, any and all service, maintenance and management agreements, if any, affecting the Property unless DMC (or any assignee of DMC's interest in the Option) have requested that Owner terminate any such prior to the Closing, and all plans, specifications, surveys, studies, warranties, licenses, permits, certificates of occupancy and all other similar items in Owner's possession or control affecting the Property.

D. Owner shall obtain the unconditional commitment of the Title Company to issue to DMC its ALTA extended coverage policy of title insurance (the "Policy") insuring title to the Property in DMC (or any assignee of DMC's interest in the Option) in the amount of the Purchase Price.

E. The parties shall each do or cause to be done such other matters and things as shall be necessary or appropriate to consummate the Closing.

F. Each party shall pay (through deliver into the Escrow or from funds derived from a portion of the Purchase Price) one-half of any charges imposed by the Escrow Company for its services, Owner shall pay the premium charged by the Title Company for the Policy, the cost of any survey or survey update necessary for the Title Company to issue the Policy, the cost of any Documentary Transfer Tax, and the cost of discharging any monetary encumbrance that is a lien on the Property, and DMC (or any assignee of DMC's interest in the Option) shall pay all recording fees.

12. **Sales Commissions.** Owner and DMC shall each indemnify, defend and hold the other harmless from and against any and all claims for commissions, fees or other compensation made by any real estate broker, agent, salesman, finder, or other person as a result of the sale of the Property herein contemplates on account of any implied or express commitment or undertaking to pay such a commission or fee made by the indemnifying party.

13. **Assignment.** This Agreement shall be binding and effective on and inure to the benefit of the successors and assigns of the parties hereto. Either party shall have the right to assign its rights under this Agreement to any person or entity without obtaining the consent of the other party. Upon any such assignment and the assumption in writing by the assignee of all obligations and benefits under this Agreement by the assignee (with a copy of such assignment and assumption being delivered to the non-assigning party hereunder) the assignor shall be relieved of any further financial or other obligation to the other party under this Agreement.

14. **Recording.** Owner and DMC shall promptly upon the request of either of them execute a short form memorandum of this Agreement in form and substance acceptable to both Owner and DMC and suitable for recording and, at the option of either party, may file such memorandum for record in the Official Records of Los Angeles County, California.

15. **Specific Performance.** The parties agree that it is impossible to measure in money the damages which would accrue to DMC by reason of a failure by Owner to perform any of the obligations as set forth in this Agreement. Accordingly, Owner agrees that DMC

may have specific performance of this Agreement in any court of competent jurisdiction. Furthermore, if DMC or any successor-in-interest institutes any action or proceeding to enforce the provisions of this Agreement, any person (including Owner) against whom such action or proceeding is brought hereby waives the claim or defense therein that DMC or any successor-in-interest has an adequate remedy at law.

16. **Attorneys' Fees.** In the event that a law suit is brought to enforce or interpret all or any portion of this Agreement, the prevailing party in such suit shall be entitled to recover, in addition to any other relief available to such party, reasonable costs and expenses, including, without limitation, attorneys' fees, incurred in connection with such suit.

17. **Notices.** All notices provided for herein shall be in writing and shall be deemed given to a party when a copy thereof, addressed to such party as provided herein, is actually delivered by personal delivery, by overnight courier service, by facsimile transmission, or by certified or registered mail, return receipt requested, to the address of such party. All notices to Owner shall be addressed to Owner at the following address and facsimile number or such other address and facsimile number of which Owner gives DMC notice hereunder:

If to Owner:	Spin Forge, LLC 2 Evergreen Road Severna Park, Maryland 21146 Attention: Joseph Allwein Facsimile: (410) 431-7050
With a copy to:	Van Etten Suzumoto & Becket LLP 1620 26 th Street, Suite 600 North Santa Monica, California 90404 Attention: Richard S. Grant, Esq. Facsimile: (310) 315-8210

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All notices to DMC shall be addressed to DMC at the following address and facsimile number or such other address and facsimile number of which DMC gives Owner notice hereunder:

If to DMC:	Dynamic Materials Corporation 5405 Spine road Boulder, Colorado 80301 Attention: Richard Santa Facsimile: (303) 604-1897
With a copy to:	Milan D. Smith, Jr., Esq. Smith Crane Robinson & Parker, LLP Suite 500, 21515 Hawthorne Boulevard Torrance, California 90503 Fax: (310) 543-4507

Either party may change its address for notice purposes by giving notice thereof to the other party in accordance with the provisions of this Section 17.

18. **Governing Law and Venue.** The validity and effect of this Agreement shall be determined in accordance with the laws of the State of California (without regard to its conflict of law doctrine) and the venue for any action to enforce or interpret this Agreement shall be in a court of competent jurisdiction located in the State of California and each of the parties consents to the jurisdiction of such court in any such action or proceeding and waives any objection to venue laid therein.

19. **Survival.** This Agreement and all obligations provided herein shall, to the extent not fully satisfied and performed by or through the Closing, survive the Closing and the conveyance of title to the Property.

20. **Computation of Time.** If any event or performance hereunder is scheduled or required to occur on a date which is on a Saturday, Sunday, or legal state or federal holiday in Los Angeles, California, the event or performance shall be required to occur on the next day which is not a Saturday, Sunday, or legal state or federal holiday in Los Angeles, California.

21. **Entire Agreement.** This Agreement contains the entire understanding and agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, commitments, understandings, warranties, and negotiations, all of which are by the execution hereof rendered null and void. No amendment or modification of this Agreement shall be made or deemed to have been made unless in writing, executed by the party or parties to be bound thereby.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the dates indicated below intending that it be valid and effective from and after the date first above written.

DYNAMIC MATERIALS CORPORATION,
a Delaware corporation

By: _____
Its: _____
Date: _____

SPIN FORGE, LLC,
a California limited liability company

By: _____
Its: _____
Date: _____

EXHIBIT D

SUBLEASE ASSIGNMENT

[TO BE ATTACHED AT EXECUTION]

EXHIBIT E

AEROJET DEED

[TO BE ATTACHED AT EXECUTION]

EXHIBIT F

DMC DEED

[TO BE ATTACHED AT EXECUTION]

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: November 9, 2005

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

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

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- 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: November 9, 2005

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

**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 September 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) 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

November 9, 2005

**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 September 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) 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

November 9, 2005
