

**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 March 31, 2006

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large accelerated filer  Accelerated filer  Non-accelerated filer

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 11,788,670 as of April 25, 2006.

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 and shipment; 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; current or future limits on manufacturing capacity at our various operations; the availability and cost of funds; and general economic conditions, both domestic and foreign, impacting our business and the business of the end-market users we serve. 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.

[Item 1 - Condensed Consolidated Financial Statements](#)

[Consolidated Balance Sheets as of March 31, 2006 \(unaudited\) and December 31, 2005](#)  
[Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005 \(unaudited\)](#)  
[Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2006 \(unaudited\)](#)  
[Consolidated Statements of Cash Flows for the three months ended March 31, 2006 and 2005 \(unaudited\)](#)  
[Notes to Condensed Consolidated Financial Statements \(unaudited\)](#)

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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>March 31,</u> <u>2006</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2005</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 13,114	\$ 5,763
Marketable securities	—	1,950
Loan to related party	1,211	—
Accounts receivable, net of allowance for doubtful accounts of \$329 and \$301, respectively	15,002	15,576
Inventories	12,644	11,869
Prepaid expenses and other	1,820	822
Current portion of other receivables related to discontinued operations	678	—
Current deferred tax assets	597	572
Total current assets	45,066	36,552
PROPERTY, PLANT AND EQUIPMENT	23,205	22,635
Less - Accumulated depreciation	(10,415)	(10,063)
Property, plant and equipment, net	12,790	12,572
GOODWILL, net	847	847
DEFERRED TAX ASSETS	1,824	819
OTHER ASSETS, net	79	101
OTHER RECEIVABLES RELATED TO DISCONTINUED OPERATIONS	—	681
ASSETS OF DISCONTINUED OPERATIONS	789	3,739
<b>TOTAL ASSETS</b>	<b>\$ 61,395</b>	<b>\$ 55,311</b>

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, Except Share Data)

	March 31, 2006 (unaudited)	December 31, 2005
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 7,486	\$ 7,278
Accrued expenses	1,833	1,615
Accrued income taxes	4,109	979
Accrued employee compensation and benefits	2,164	2,508
Customer advances	2,033	1,885
Related party debt	—	45
Current maturities on long-term debt	540	528
Total current liabilities	18,165	14,838
LONG-TERM DEBT	2,185	2,221
DEFERRED TAX LIABILITIES	1,525	195
OTHER LONG-TERM LIABILITIES	231	222
LIABILITIES OF DISCONTINUED OPERATIONS	—	2,880
COMMITMENTS AND CONTINGENT LIABILITIES	—	—
Total liabilities	22,106	20,356
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.05 par value; 4,000,000 shares authorized; no issued and outstanding shares	—	—
Common stock, \$.05 par value; 15,000,000 shares authorized; 11,782,420 and 11,758,920 shares issued and outstanding, respectively	589	588
Additional paid-in capital	20,241	19,778
Retained earnings	17,834	14,104
Other cumulative comprehensive income	625	485
Total stockholders' equity	39,289	34,955
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 61,395</b>	<b>\$ 55,311</b>

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005  
(Dollars in Thousands, Except Share Data)  
(unaudited)

	2006	2005
NET SALES	\$ 25,175	\$ 17,510
COST OF PRODUCTS SOLD	15,894	12,860
Gross profit	9,281	4,650
<b>COSTS AND EXPENSES:</b>		
General and administrative expenses	1,527	809
Selling expenses	1,324	1,126
Total costs and expenses	2,851	1,935
INCOME FROM OPERATIONS OF CONTINUING OPERATIONS	6,430	2,715
<b>OTHER INCOME (EXPENSE):</b>		
Other income (expense), net	(6)	5
Interest expense	(29)	(86)
Interest income	123	4
INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	6,518	2,638
INCOME TAX PROVISION	2,379	990
INCOME FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS	4,139	1,648
<b>DISCONTINUED OPERATIONS:</b>		
Income from discontinued operations, net of tax	1,357	—
Income from discontinued operations	1,357	—
NET INCOME	\$ 5,496	\$ 1,648
<b>INCOME PER SHARE - BASIC:</b>		
Continuing operations	\$ 0.35	\$ 0.15
Discontinued operations	0.12	—
Net income	\$ 0.47	\$ 0.15
<b>INCOME PER SHARE - DILUTED:</b>		
Continuing operations	\$ 0.34	\$ 0.14
Discontinued operations	0.11	—
Net income	\$ 0.45	\$ 0.14

## WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING -

Basic	11,768,098	10,694,260
Diluted	12,217,547	11,861,100

ANNUAL DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.15	\$ —
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The accompanying notes are an integral part of these Condensed Consolidated Financial Statements

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE THREE MONTHS ENDED MARCH 31, 2006  
(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Income	Total	Comprehensive Income for the Period
	Shares	Amount					
Balances, December 31, 2005	11,759	\$ 588	\$ 19,778	\$ 14,104	\$ 485	\$ 34,955	
Shares issued for stock option exercises	23	1	73	—	—	74	
Tax benefit related to stock options	—	—	54	—	—	54	
Stock-based compensation	—	—	336	—	—	336	
Dividends paid	—	—	—	(1,766)	—	(1,766)	
Net income	—	—	—	5,496	—	5,496	5,496
Change in cumulative foreign currency translation adjustment	—	—	—	—	140	140	140
Balances, March 31, 2006	11,782	589	20,241	17,834	625	39,289	5,636

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 THREE MONTHS ENDED MARCH 31, 2006 AND 2005  
(Dollars in Thousands)  
(unaudited)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 5,496	\$ 1,648
Adjustments to reconcile net income to net cash provided by operating activities -		
Income from discontinued operations, net of tax	(1,357)	—
Depreciation	313	362
Amortization	4	4
Amortization of capitalized debt issuance costs	7	13
Stock-based compensation	336	—
Provision for deferred income taxes	320	(14)
Tax benefit related to exercise of stock options	—	214
Change in -		
Accounts receivable, net	689	852
Inventories	(531)	(283)
Prepaid expenses and other	(803)	(218)
Accounts payable	120	145
Accrued expenses and other liabilities	1,899	(469)
Net cash provided by operating activities	6,493	2,254
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	(469)	(577)
Sale of marketable securities	1,950	—
Loan to related party	(1,206)	—
Change in other non-current assets	79	78
Payment received on other receivables related to discontinued operations	3	874
Cash flows provided by investing activities of discontinued operations	2,197	—
Net cash flows provided by investing activities	2,554	375

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

	2006	2005
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments on bank lines of credit, net	—	(3,041)
Repayments on related party lines of credit, net	(45)	(129)
Payment on SNPE, Inc. term loan	—	(667)
Payment on industrial development revenue bond	(45)	(240)
Payment of dividends	(1,766)	—
Change in other long-term liabilities	7	4
Net proceeds from issuance of common stock to employees and directors	74	620
Tax benefit related to exercise of stock options	54	—
Net cash flows used in financing activities	(1,721)	(3,453)
<b>EFFECTS OF EXCHANGE RATES ON CASH</b>	<b>25</b>	<b>(57)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>7,351</b>	<b>(881)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the period</b>	<b>5,763</b>	<b>2,404</b>
<b>CASH AND CASH EQUIVALENTS, end of the period</b>	<b>\$ 13,114</b>	<b>\$ 1,523</b>

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

## 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, 2005.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of the Company and a 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 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. 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 conform 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 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.

##### Loan to Related Party

Nobelclad Europe, S.A. ("Nobelclad") has a Euro-denominated cash management agreement with SNPE that provides for loans to or from either party of up to approximately \$3.4 million, based on the December 31, 2005 exchange rates. Amounts outstanding under this agreement bear interest at EURIBOR plus 1.5% annually. Due to Nobelclad's excess cash position during the first quarter of 2006, it began advancing cash to Groupe SNPE through this intercompany cash agreement. At March 31, 2006, these advances to Groupe SNPE totaled 1,003 Euros (\$1,211). The interest rate earned on these advances exceeded the interest rate that Nobelclad could earn on excess cash and cash equivalents held at its local bank. The agreement allowed Nobelclad to request repayment on the advances at any time. The balance outstanding at March 31, 2006 was subsequently repaid in full.

#### Earnings Per Share

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

	<u>For the three months ended March 31, 2006</u>		
	<u>Net Income</u>	<u>Shares</u>	<u>Per share Amount</u>
Basic earnings per share	\$ 5,496	11,768,098	\$ 0.47
Dilutive effect of options to purchase common stock	—	449,449	
Dilutive earnings per share	\$ 5,496	12,217,547	\$ 0.45

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	<u>For the three months ended March 31, 2005</u>		
	<u>Net Income</u>	<u>Shares</u>	<u>Per share Amount</u>
Basic earnings per share	\$ 1,648	10,694,260	\$ 0.15
Dilutive effect of options to purchase common stock	—	766,840	
Dilutive effect of convertible subordinated note, net of tax	12	400,000	
Dilutive earnings per share	\$ 1,660	11,861,100	\$ 0.14

#### Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), which is a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). SFAS 123R requires measurement of all employee stock-based compensation awards using a fair-value method and the recording of such expense in the consolidated financial statements. In addition, the adoption of SFAS 123R requires additional accounting related to the income tax effects and disclosure regarding the cash flow effects resulting from share-based payment arrangements. In January 2005, the SEC issued Staff Accounting Bulletin No. 107, which provides supplemental implementation guidance for SFAS 123R. We selected the Black-Scholes option-pricing model as the most appropriate fair-value method for our awards and will recognize compensation cost on a straight-line basis over our awards' vesting periods. We adopted SFAS 123R in the first quarter of 2006. See Note 3 for further detail.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, *Inventory Costs* ("SFAS 151"), which amends the guidance in Accounting Research Bulletin 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. We adopted the standard on January 1, 2006 and it did not have an impact on our Condensed Consolidated Financial Statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* ("SFAS 154"), 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 154 maintains existing guidance with respect to accounting estimate changes and corrections of errors. The Statement was effective on January 1, 2006. Our adoption of this Statement on January 1, 2006 did not have an impact on our Condensed Consolidated Financial Statements.

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### **3. STOCK-BASED COMPENSATION**

The Company maintains a stock option plan that provides for grants of both incentive stock options and non-statutory stock options. Incentive stock options are granted at exercise prices that equal the fair market value of the stock at date of grant based upon the closing sales price of the Company's common stock on that date. Incentive stock options generally vest 25% annually and expire ten years from the date of grant. Non-statutory stock options are generally granted at exercise prices that equal the fair market value of the stock at date of grant. These options vest over periods ranging from one to four years and have expiration dates ten years from the date of grant.

Prior to January 1, 2006, the Company accounted for its stock-based compensation plan under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations, as permitted by SFAS 123. Accordingly, no stock-based compensation expense was recognized in the Consolidated Statements of Operations for the three months ended March 31, 2005 as the options granted under the Company's stock option plan had exercise prices equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R using the modified prospective transition method. Under that transition method, compensation cost recognized in the three months ended March 31, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on grant date fair value estimated in accordance with SFAS 123R.

The fair value for each option was estimated on the date of grant using a Black-Scholes option-pricing model with the following assumptions used for the single grant during the three months ended March 31, 2006: a risk free interest rate of 4.35%; an expected volatility factor of 86.6%; an expected dividend yield of .375%; and an expected life of 4 years. Our computation of expected volatility for the quarter ended March 31, 2006 is based on historical volatility from the past four years, based on the current expected life of outstanding options. Our computation of expected life is based on historical exercise patterns. The interest rate for periods within the contractual life of the

award is based on the U.S. Treasury yield curve in effect at the time of grant. The fair value of the options granted during the three months ended March 31, 2006 was \$22.30 per underlying share. Each grant is valued as a single award and compensation expense is recognized on a straight-line basis over the vesting period. In accordance with the modified prospective transition method, results for prior periods have not been restated.

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As a result of adopting SFAS 123R on January 1, 2006, the Company's pretax income and net income for the three months ended March 31, 2006 were \$336 and \$240 lower, respectively, than if it had continued to account for stock-based compensation under APB 25. Basic and diluted earnings per share for the three months ended March 31, 2006 would have been \$0.49 and \$0.47, respectively, if the Company had not adopted SFAS 123R, compared to reporting basic and diluted earnings per share of \$0.47 and \$0.45, respectively. The following table sets forth the total stock-based compensation expense included in the Consolidated Statements of Operations:

	<b>Three Months Ended March 31, 2006</b>	
Cost of products sold	\$	11
General and administrative expense		307
Selling expense		18
Stock-based compensation expense before income taxes		336
Income tax benefit		(96)
Stock-based compensation expense, net of income taxes	\$	240

Prior to the adoption of SFAS 123R, the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS 123R requires the tax benefits resulting from deductions in excess of the compensation cost recognized for those options ("excess tax benefits") to be classified as financing cash flows. The \$54 excess tax benefit classified as a financing cash inflow in the Consolidated Statements of Cash Flows for the three months ended March 31, 2006 would have been classified as an operating cash inflow if the Company had not adopted SFAS 123R.

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The following table illustrates the effect on net income and basic and diluted earnings per share if the Company had applied the fair value recognition provisions of SFAS 123R to stock-based compensation for the three months ended March 31, 2005. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing model and amortized to expense over the options' vesting periods. The following assumptions were used in the options pricing model: a risk free interest rate of 3.6%; an expected volatility factor of 89.4%; an expected dividend yield of 0.0%; and an expected life of 4 years.

	<b>Three Months Ended March 31, 2005</b>	
Net income-as reported	\$	1,648
Deduct stock-based compensation expense determined under fair value method, net of related tax effects		(81)
Pro forma net income	\$	1,567
Earnings per share:		
Basic-as reported	\$	0.15
Basic-pro forma	\$	0.15
Diluted-as reported	\$	0.14
Diluted-pro forma	\$	0.13

The following table summarizes the stock options outstanding as of March 31, 2006 as well as activity for the three months then ended:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at beginning of period	588,426	\$ 4.77		
Granted	20,000	35.21		
Exercised	(23,500)	3.16		
Outstanding at end of period	584,926	\$ 5.88	7.87	\$ 17,409
Exercisable at end of period	228,672	\$ 1.94	7.35	\$ 7,705

The intrinsic value of options exercised for the three months ended March 31, 2006 was \$713. As of March 31, 2006, there was \$1,052 of total unrecognized stock-based compensation cost related to unvested stock options. The cost is expected to be recognized over a weighted average period of 1.09 years.

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#### 4. INVENTORY

The components of inventory are as follows at March 31, 2006 and December 31, 2005:

	<b>March 31, 2006 (unaudited)</b>	<b>December 31, 2005</b>
Raw materials	\$ 5,565	\$ 5,767
Work-in-process	6,683	5,878
Supplies	396	224
	\$ 12,644	\$ 11,869

## 5. DEBT

Long-term debt consists of the following at March 31, 2006 and December 31, 2005:

	March 31, 2006 (unaudited)	December 31, 2005
Term loan - French bank	\$ 1,050	\$ 1,029
Industrial development revenue bonds	1,675	1,720
	2,725	2,749
Less current maturities	(540)	(528)
Long-term debt	<u>\$ 2,185</u>	<u>\$ 2,221</u>

### Loan Covenants and Restrictions

The Company's existing loan agreements include various covenants and restrictions, certain of which relate to the incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets, limits on capital expenditures and maintenance of specified financial ratios. As of March 31, 2006, the Company was in compliance with all financial covenants and other provisions of its debt agreements.

## 6. BUSINESS SEGMENTS

The Company is organized in the following two segments: the Explosive Metalworking segment and AMK Welding. The Explosive Metalworking segment uses explosives to perform metal cladding and shock synthesis. The most significant product of this group is clad metal, which is used in the fabrication of pressure vessels, heat exchangers and transition joints for various industries, including upstream oil and gas, oil refinery, petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and similar industries. AMK Welding utilizes a number of welding technologies to weld components for manufacturers of jet engine 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 months ended March 31, 2006 and 2005 as follows:

	Explosive Metalworking Group	AMK Welding	Total
For the three months ended March 31, 2006:			
Net sales	\$ 24,176	\$ 999	\$ 25,175
Depreciation and amortization	\$ 262	\$ 55	\$ 317
Segment income from operations of continuing operations	\$ 6,658	\$ 108	\$ 6,766
Unallocated amounts:			
Stock-based compensation			(336)
Other expense			(6)
Interest income, net			94
Consolidated income before income taxes and discontinued operations			<u>\$ 6,518</u>

	Explosive Metalworking Group	AMK Welding	Total
For the three months ended March 31, 2005:			
Net sales	\$ 16,967	\$ 543	\$ 17,510
Depreciation and amortization	\$ 320	\$ 46	\$ 366
Segment income (loss) from operations of continuing operations	\$ 2,830	\$ (115)	\$ 2,715
Unallocated amounts:			
Other income			5
Interest expense, net			(82)
Consolidated income before income taxes and discontinued operations			<u>\$ 2,638</u>

During the three months ended March 31, 2006, sales to one customer represented approximately \$3,665 (15%) of total net sales. During the three months ended March 31, 2005, sales to no one customer accounted for more than 10% of total net sales.

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## 7. COMPREHENSIVE INCOME

DMC's comprehensive income for the three months ended March 31, 2006 and 2005 was as follows:

	Three Months Ended March 31,	
	2006	2005
Net income for the period	\$ 5,496	\$ 1,648
Foreign currency translation adjustment	140	(284)
Comprehensive income	<u>\$ 5,636</u>	<u>\$ 1,364</u>



As of March 31, 2006 and December 31, 2005 other cumulative comprehensive income of \$625 and \$485, respectively, consists entirely of cumulative foreign currency translation adjustment.

## 8. 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. Under the master agreement relating to this divestiture transaction, DMC sold all inventory, books and records, intangible personal property, business information and technology, customer contracts, and licenses and permits relating to the Spin Forge business to this third party for a sales price of approximately \$1,700. The third party also assumed full responsibility for the Spin Forge business activities and operating expenses. Despite the fact that the Company retained ownership of the equipment and continued to carry a capital lease asset of \$2,880 on its books, the Company concluded that the Spin Forge divestiture transaction qualified for treatment as discontinued operations since the Company had completely exited the Spin Forge operating business and has no intent to ever again operate any of the leased assets. To the extent that the third party purchaser of the Spin Forge business does not exercise its option to purchase all or a portion of the leased equipment and tooling when the lease term expires on January 1, 2007, DMC plans to immediately liquidate such equipment.

On January 10, 2006, the Company sold its purchase option on the Spin Forge real estate to the property owner for \$2,300. The completion of this transaction resulted in a pretax gain of \$2,197, which was recorded as discontinued operations in the first quarter of 2006. In connection with the sale of the purchase option, the underlying lease agreement was terminated. Accordingly, the capital lease asset of \$2,880 and the related lease obligation of the same amount were removed from the Company's balance sheet in the first quarter of 2006.

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Assets of discontinued operations are comprised of the following:

	March 31, 2006 (unaudited)	December 31, 2005
Leased manufacturing equipment	789	859
Capital lease asset - real estate	—	2,880
<b>Total assets of discontinued operations</b>	<b>\$ 789</b>	<b>\$ 3,739</b>

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 \$1,697 and the sale of this inventory was reflected in other receivables. As of March 31, 2006, the unpaid balance of this receivable, which is due no later than January 1, 2007, is \$678 and is classified as short-term based on the payment schedule specified in the divestiture agreement. As of December 31, 2005, this receivable totaled \$681 and was classified as long-term.

Discontinued operations for the three months ended March 31, 2006 is summarized as follows:

	Three Months Ended March 31, 2006	
Gain on sale of real estate purchase option	\$	2,197
Related income tax expense		(840)
<b>Income from discontinued operations, net of tax</b>	<b>\$</b>	<b>1,357</b>

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

The following discussion should be read in conjunction with our historical consolidated financial statements and notes, as well as the selected historical consolidated financial data that are included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2005.

Unless stated otherwise, all dollar figures in this discussion are presented in thousands (000's).

### Executive Overview

Our business is organized into two segments: Explosive Metalworking (which we also refer to as DMC Clad) and AMK Welding. For the three months ended March 31, 2006, Explosive Metalworking accounted for 96% of our net sales and 98% of our income from operations of continuing operations before consideration of stock-based compensation expense, which is not allocated to our business segments.

Our first quarter 2006 net sales increased 43.8% compared to the first quarter of 2005, reflecting Explosive Metalworking quarter-to-quarter net sales increases in our U.S.-based and European operations of 50.3% and 27.6%, respectively. Our operating income from continuing operations increased 136.8%, to \$6,430 in the first quarter of 2006 from \$2,715 in the first quarter of 2005, reflecting a \$3,828 improvement in Explosive Metalworking's operating income and a \$223 improvement in AMK Welding's operating income. Income from continuing operations before discontinued operations increased 151.2%, to \$4,139 in the first quarter of 2006 from \$1,648 in the first quarter of 2005. Our net income increased to \$5,496 in the first quarter of 2006 from \$1,648 in the first quarter of 2005. First quarter 2006 net income included \$1,357 of income from discontinued operations, net of tax, relating to the sale of the Spin Forge real estate option as further discussed below.

### Net sales

Explosive Metalworking's net sales are generated principally from sales of clad metal plates and sales of transition joints, which are made from clad plates, to fabricator customers that fabricate industrial equipment for various industries, including upstream oil and gas, oil refinery, petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and similar industries. Demand for our clad metal products in the United States is driven by plant maintenance and retrofit projects at existing chemical processing, petrochemical processing and oil refining facilities, as well as new plants and large plant expansion projects. In contrast to the U.S. market, demand for our clad products in Europe and Asia is more dependent on new construction projects, such as the building of new purified terephthalic acid ("PTA") plants in different parts of the world, including China, and on sales of electrical transition joints that are used in the aluminum production industry.

AMK Welding's net sales are generated from welding, heat treatment and inspection services that are provided with respect to customer-supplied parts for customers primarily involved in the power generation industry and aircraft engine markets.

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A significant portion of our net 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. We attempt to minimize the risk of losing customers or specific contracts by continually improving product quality and delivering product on time.

DMC Clad's business is cyclical since it is linked to its customers' end-market activity. The construction cycle for new manufacturing capacity in the chemical industry has historically been quite pronounced. It is driven both by world economic demand growth and capacity utilization. As capacity starts to become tight for various chemicals and prices begin to rise, new manufacturing capacity is added in relatively large incremental amounts. Excess capacity drives prices down and capacity utilization drops.

#### *Gross profit and cost of products sold*

Cost of products sold for Explosive Metalworking include the cost of metals and alloys used to manufacture clad metal plates, the cost of explosives, employee compensation and benefits, freight, outside processing costs, depreciation of manufacturing facilities and equipment, manufacturing supplies and other manufacturing overhead expenses.

AMK Welding's cost of products sold consists principally of employee compensation and benefits, welding supplies (wire and gas), depreciation of manufacturing facilities and equipment, outside services and other manufacturing overhead expenses.

#### *Discontinued operations*

In September 2004, we completed the sale of our Spin Forge division. On January 10, 2006, we sold our option rights to purchase the Spin Forge real estate to the property owner for \$2,300. We recorded a pre-tax gain of approximately \$2,197 on this transaction, which was reported as discontinued operations, net of related taxes, in the first quarter of 2006.

#### *Income taxes*

Our effective income tax rate decreased to 36.5% in the first quarter of 2006 from 37.5% in the first quarter of 2005. Income tax provisions on the earnings of Nobelclad and Nitro Metall AB ("Nitro Metall") have been provided based upon the respective French and Swedish statutory tax rates. Our first quarter 2006 effective tax rate is higher than the full year 2005 and 2004 effective income tax rates of 33.5% and 30.8%, respectively, as a result of the recognition in 2005 and 2004 of U.S. tax benefits relating to research and development tax credits, extraterritorial income exclusions and foreign tax credits. Going forward, based upon existing tax regulations and current federal, state and foreign statutory tax rates, we expect our effective tax rate on our consolidated pre-tax income to range between 36% and 38%.

#### *Backlog*

We use backlog as a primary means to measure the immediate outlook for our business. We define "backlog" at any given point in time to consist of all firm, unfulfilled purchase orders and commitments at that time. Generally speaking, we expect to fill most items of backlog within the following 12 months. From experience, most firm purchase orders and commitments are realized. However, since orders may be rescheduled or canceled, and a significant portion of our net sales is derived from a small number of customers, backlog is not necessarily indicative of future sales levels. Moreover, we cannot be sure of when during the future 12-month period we will be able to recognize revenue corresponding to our backlog; nor can we be sure that revenues corresponding to our backlog will not fall into periods beyond the 12-month horizon.

Our backlog with respect to the Explosion Metalworking segment was approximately \$41,966 at December 31, 2005.

### **Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005**

#### *Net sales*

	Three Months Ended March 31,		Change	Percentage Change
	2006	2005		
Net sales	\$ 25,175	\$ 17,510	\$ 7,665	43.8%

Net sales for the first quarter of 2006 increased 43.8% to \$25,175 from \$17,510 in the first quarter of 2005. Explosive Metalworking sales increased 42.5% to \$24,176 in the first three months of 2006 (96% of total sales) from \$16,967 in the same period of 2005 (97% of total sales). The Explosive Metalworking sales increase reflects a 50.3% increase in sales by our U.S.-based operations and a 27.6% U.S. dollar sales increase at Nobelclad Europe. The year-to-year increase in worldwide Explosive Metalworking sales is principally attributable to the improved economic condition of the industries that this business segment serves. Our net sales are likely to continue to fluctuate from quarter-to-quarter and, in light of the record results posted in the first quarter of 2006, we expect that our net sales for the second quarter may be somewhat lower than they were in the first quarter.

AMK Welding contributed \$999 to first quarter 2006 sales (4% of total sales) versus sales of \$543 in the first quarter of 2005 (3% of total sales).

#### *Gross profit*

	Three Months Ended March 31,		Change	Percentage Change
	2006	2005		
Gross profit	\$ 9,281	\$ 4,650	\$ 4,631	99.6%
Consolidated gross profit margin rate	36.9%	26.6%		

Gross profit increased by 99.6% to \$9,281 for the three months ended March 31, 2006 from \$4,650 for the three months ended March 31, 2005. Our first quarter 2006 consolidated gross profit margin rate increased to 36.9% from 26.6% in the first quarter of 2005. The gross profit margin for Explosive Metalworking increased from 27.7% in the first three months of 2005 to 37.4% in the first three months of 2006 and the gross profit margin for AMK Welding increased to 24.9% in the first quarter of 2006 from a negative 7.9% in the first quarter of 2005. The increased gross profit margin rate for Explosive Metalworking reflects gross margin rates of 39.1% and 33.5% in the first quarter of 2006 for our U.S.-based clad operations and Nobelclad Europe, respectively, as compared to gross margin rates of 30.1% and 22.9%, respectively, in 2005. The

gross margin improvements for both Explosive Metalworking and AMK Welding relate primarily to the sales increases discussed above and the resultant more favorable absorption of fixed manufacturing overhead expenses. The Explosive Metalworking gross margin increase also reflects favorable changes in product mix and higher average prices in 2006, particularly with respect to our European operations. The gross profit margin typically fluctuates from one quarter to the next for various reasons, including a change in product mix. Our gross margins are likely to continue to fluctuate from quarter-to-quarter and, in light of the record results posted in the first quarter of 2006, we expect that our gross margins for the second quarter and the remainder of the year may be somewhat lower than they were in the first quarter.

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*General and administrative expenses*

	Three Months Ended March 31,		Change	Percentage Change
	2006	2005		
General & administrative expenses	\$ 1,527	\$ 809	\$ 718	88.8%
Percentage of net sales	6.1%	4.6%		

General and administrative expenses increased by \$718, or 88.8%, to \$1,527 in the first quarter of 2006 from \$809 in the first quarter of 2005. This increase in general and administrative expenses reflects a \$733 increase in our U.S. operations, which was partially offset by a \$15 decrease in our European general and administrative expenses. Increases in our U.S. operations, which currently absorb all corporate headquarters expenses, reflect stock-based compensation of \$307, an aggregate increase of \$152 in audit, tax consulting and investor relations expenses, a \$116 increase in accrued incentive compensation expense, and the impact of annual salary adjustments. The 2006 increases in audit, tax advisory, consulting and investor relations expenses relate primarily to continued compliance with the Sarbanes-Oxley Act of 2002, tax planning initiatives and increased investor relations activities. As a percentage of net sales, general and administrative expenses increased to 6.1% in the first quarter of 2006 from 4.6% in the first quarter of 2005.

*Selling expenses*

	Three Months Ended March 31,		Change	Percentage Change
	2006	2005		
Selling expenses	\$ 1,324	\$ 1,126	\$ 198	17.6%
Percentage of net sales	5.3%	6.4%		

Selling expenses increased by 17.6% to \$1,324 in the first quarter of 2006 from \$1,126 in the first quarter of 2005. The \$198 increase in selling expenses reflects increases of \$175 and \$23 for our U.S. operations and European operations, respectively. Increased spending in our U.S. operations reflects \$145 for sales commissions on a large export order, the impact of annual salary adjustments and higher travel expenses during the first quarter of 2006. As a result of the significant increase in 2006 net sales, selling expenses as a percentage of net sales decreased to 5.3% in the first quarter of 2006 from 6.4% in the first quarter of 2005.

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*Income from operations of continuing operations*

	Three Months Ended March 31,		Change	Percentage Change
	2006	2005		
Income from operations of continuing operations	\$ 6,430	\$ 2,715	\$ 3,715	136.8%

Income from operations increased by 136.8% to \$6,430 in the first three months of 2006 from \$2,715 in the first three months of 2005. Explosive Metalworking reported income from operations of \$6,658 in the first quarter of 2006 as compared to \$2,830 in the first quarter of 2005. This 135.3% increase is largely attributable to the 42.5% sales increase discussed above.

AMK Welding reported income from operations of \$108 in the first three months of 2006, compared to the loss of \$115 that it reported for the first three months of 2005, which increase follows the 84.0% sales increase.

Income from operations of continuing operations for the three months ended March 31, 2006 includes \$336 of stock-based compensation expense that is not allocated to our two business segments and thus not included in the above first quarter 2006 operating totals for Explosive Metalworking and AMK Welding.

*Interest income (expense), net*

	Three Months Ended March 31,		Change	Percentage Change
	2006	2005		
Interest income (expense), net	\$ 94	\$ (82)	\$ 176	NM

Net interest income (expense) improved by \$176, to a net of \$94 in interest income for the first quarter 2006 from a net of \$82 in interest expense in the first quarter of 2005. This change in net interest income (expense) reflects a significant decrease in average outstanding borrowings year-to-year and the large cash balances we are currently carrying.

*Income tax provision*

	Three Months Ended March 31,		Change	Percentage Change
	2006	2005		
Income tax provision	\$ 2,379	\$ 990	\$ 1,389	140.3%
Effective tax rate	36.5%	37.5%		

We recorded an income tax provision of \$2,379 in the first quarter of 2006 compared to \$990 in the first quarter of 2005. The effective tax rate decreased to 36.5% in the first quarter of 2006 from 37.5% in the first quarter of 2005. The income tax provisions for the three months ended March 31, 2006 and 2005 include \$1,844 and \$779, respectively, related to U.S. taxes,

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with the remainder relating to foreign taxes associated with the operations of Nobelclad and its Swedish subsidiary, Nitro Metall.

*Income from discontinued operations*

	Three Months Ended		Change	Percentage Change
	March 31,			
	2006	2005		
Income from discontinued operations	\$ 1,357	\$ —	\$ 1,357	NM

We completed the divestiture of our Spin Forge division in September 2004. Under the principal divestiture agreement, we sold the assets of the Spin Forge division to a third party, excluding certain equipment and real estate which were leased or subleased to the buyer, for a sales price of approximately \$1,665 to be paid in cash according to the arrangement set forth in the divestiture agreement. With respect to the Spin Forge manufacturing equipment and tooling, we recorded an after tax impairment loss of \$619 based upon the difference between the carrying value of the equipment and the present value of the future minimum equipment lease payments from the lessee plus estimated liquidation proceeds at the end of the minimum lease term.

We held a purchase option on the Spin Forge real estate that allowed us to purchase the real estate for \$2,880, a price that was below the real estate's appraised value. We completed the sale of the purchase option on the Spin Forge real estate on January 10, 2006. The option rights were sold to the property owner for \$2,300. We recorded a pre-tax gain of approximately \$2,197 on this transaction, which was reported in discontinued operations, net of related taxes. We continue to own the Spin Forge manufacturing equipment and tooling and lease it to the third party purchaser of the Spin Forge business. To the extent that this third party does not exercise its option to purchase all or a portion of the leased equipment and tooling when the lease term expires on January 1, 2007, we plan to immediately liquidate such equipment.

**Liquidity and Capital Resources**

We have historically financed our operations from a combination of internally generated cash flow, revolving credit borrowings, various long-term debt arrangements and the issuance of common stock. We believe that cash flow from operations and funds available under our current credit facilities and any future replacement thereof will be sufficient to fund the working capital, debt service and capital expenditure requirements of our current business operations for the foreseeable future, including the budgeted \$8,000 expansion of our Mount Braddock, Pennsylvania facility. Nevertheless, our ability to generate sufficient cash flows from operations will depend upon our success in executing our strategies, including our ability to secure new customer orders at our operating divisions, and to continue to implement cost-effective internal processes.

*Debt and other contractual obligations and commitments*

Any restriction on the availability of borrowing under our credit facilities could negatively affect our ability to meet future cash requirements. Our existing loan agreements include various covenants and restrictions, certain of which relate to the incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets and maintenance of specified

financial ratios. As of March 31, 2006, we were in compliance with all financial covenants and other provisions of our debt agreements.

The Company's principal cash flows related to debt obligations and other contractual obligations and commitments have not materially changed since December 31, 2005.

*Cash flows from operating activities*

Net cash flows provided by operating activities for the first quarter 2006 totaled \$6,493. Significant sources of operating cash flow included income from continuing operations of \$4,139, non-cash depreciation and amortization expense of \$324, stock-based compensation of \$336, \$320 from provision for deferred income taxes and positive net changes in various components of working capital in the amount of \$1,374. Net positive changes in working capital included a decrease in accounts receivable of \$689 and an increase in accounts payable and accrued expenses and other liabilities of \$120 and \$1,899, respectively. These positive changes in working capital were partially offset by an increase in inventories and prepaid expenses of \$531 and \$803 respectively.

Net cash flows provided by operating activities for the first quarter of 2005 totaled \$2,254. Significant sources of operating cash flow included net income of \$1,648, non-cash depreciation and amortization expense of \$379, and \$214 from the tax benefit related to stock options exercised during the year. Net positive changes in working capital during the first quarter of 2005 totaled \$27, reflecting the positive effects of a decrease in accounts receivable of \$852 and an increase in accounts payable of \$145 that were almost entirely offset by increases in inventory and prepaid expenses of \$283 and \$218, respectively, and a \$469 decrease in accrued expenses and other liabilities.

*Cash flows from investing activities*

Net cash flows provided by investing activities for the first quarter of 2006 were \$2,554 and consisted primarily of \$1,950 from the sale of marketable securities and \$2,197 for investment activities of discontinued operations that consisted of the sale of the Spin Forge real estate purchase option. These cash inflows were partially offset by \$469 in capital expenditures and \$1,206 for a loan to a related party.

Net cash flows provided by investing activities for the first quarter of 2005 totaled \$375 and consisted primarily of an \$874 payment received on a portion of the outstanding receivable relating to the Spin Forge divestiture that was partially offset by the first quarter capital expenditures in the amount of \$577.

*Cash flows from financing activities*

Net cash flows used in financing activities for the first quarter of 2006 were \$1,721. Significant uses of cash for financing activities included a \$1,766 payment of annual dividends, \$45 repayment on related party line of credit and industrial development revenue bond principal payments of \$45. Sources of cash flow from financing activities include \$74 in net proceeds from the issuance of common stock relating to the exercise of stock options and \$54 for an excess tax benefit related to the exercise of stock options.

Net cash flows used in financing activities for the first quarter of 2005 were \$3,453. Significant uses of cash for financing activities included net repayments on bank lines of credit of \$3,041, final principal payments on the SNPE term loan of \$667, industrial development revenue bond principal payments of \$240 and repayment on related party lines of credit of \$129. Sources of cash flow from financing activities included \$620 in net proceeds from the issuance of common stock relating to the exercise of stock options and employee stock purchases under our employee stock purchase plan.

### *Payment of Dividends*

We may pay annual dividends subject to capital availability and periodic determinations that cash dividends are in the best interests of our stockholders, but we cannot assure you that such payments will continue. Future dividends may be affected by, among other items, our views on potential future capital requirements, future business prospects, changes in federal income tax law and any other factors that our board of directors deems relevant. Any determination to pay cash dividends is and will continue to be at the discretion of the board of directors.

### **Critical Accounting Policies**

Our historical consolidated financial statements and notes to our historical consolidated financial statements contain information that is pertinent to our management's discussion and analysis of financial condition and results of operations. Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that our management make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. However, the accounting principles used by us generally do not change our reported cash flows or liquidity. Interpretation of the existing rules must be done and judgments made on how the specifics of a given rule apply to us.

In management's opinion, the more significant reporting areas impacted by management's judgments and estimates are revenue recognition, asset impairments, impact of foreign currency exchange rate risks, income taxes and stock-based compensation. Management's judgments and estimates in these areas are based on information available from both internal and external sources, and actual results could differ from the estimates, as additional information becomes known. We believe the following to be our most critical accounting policies.

#### *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

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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*

We review our long-lived assets and certain identifiable intangibles to be held and used by us for impairment whenever events or changes in circumstances indicate their carrying amount may not be recoverable. In so doing, we estimate 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. Our 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 our balance sheet as of March 31, 2006, relates to our U.S. operations of the Explosive Metalworking segment. Based on the analysis performed in the fourth quarter of 2005, no impairment was recorded to the carrying value of goodwill.

#### *Impact of foreign currency exchange rate risks*

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

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#### *Income taxes*

We account 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 our 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. We routinely evaluate deferred tax assets to determine if they will more likely than not be recovered from future projected taxable income and record a valuation allowance accordingly.

During 2005, we completed an analysis of prior year tax credits and related items. As a result of the analysis, we filed amended federal and state income tax returns. The amended state returns reported additional net operating losses and credits above the amounts we had previously recorded on our books and records. In assessing these additional losses and credits, we determined that the utilization of a portion of these was not probable, due to potential changes in the states in which we have income tax nexus. Thus, we recorded a net valuation allowance of approximately \$177 against the deferred tax assets during 2005. Due to our earnings in the first quarter of 2006, our projected utilization of the net operating losses and tax credits is more favorable and, as a result, the valuation at March 31, 2006 has been reduced to \$105.

We account for stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"). Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is estimated at the grant date based on the value of the award and is recognized as expense ratably over the requisite service period of the award. Determining the appropriate fair value model and calculating the fair value of stock-based awards at the grant date requires judgment, including estimating stock price volatility, forfeiture rates and expected option life.

#### Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 123R, which is a revision of Statement of Financial Accounting Standards No. 123 ("SFAS 123"). SFAS 123R requires measurement of all employee stock-based compensation awards using a fair-value method and the recording of such expense in the consolidated financial statements. In addition, the adoption of SFAS 123R requires additional accounting related to the income tax effects and disclosure regarding the cash flow effects resulting from share-based payment arrangements. In January 2005, the SEC issued Staff Accounting Bulletin No. 107, which provides supplemental implementation guidance for SFAS 123R. We selected the Black-Scholes option-pricing model as the most appropriate fair-value method for our awards and will recognize compensation cost on a straight-line basis over our awards' vesting periods. We adopted SFAS 123R in the first quarter of 2006, which resulted in an after tax reduction in net income of \$240 for the first quarter of 2006.

In November 2004, the FASB issued Statement of Accounting Standards No. 151, *Inventory Costs* ("SFAS 151"), 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. We adopted the standard on January 1, 2006 and it did not have an impact on our Condensed Consolidated Financial Statements.

In May 2005, the FASB issued Statement of Accounting Standards No. 154, *Accounting Changes and Error Corrections* ("SFAS 154"), 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 154 maintains existing guidance with respect to accounting estimate changes and corrections of errors. The Statement was effective on January 1, 2006. Our adoption of this Statement on January 1, 2006 did not have an impact on our Condensed Consolidated Financial Statements.

#### 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, 2005.

#### 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 March 31, 2006, 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.

## Part II - OTHER INFORMATION

### Item 1. Legal Proceedings

None.

### Item 1A. Risk Factors

Our 2005 Annual Report on Form 10-K includes a detailed discussion of our risk factors. The information presented below updates and should be read in conjunction with the risk factors and information disclosed in our Form 10-K.

**Our backlog figures may not accurately predict future sales.**

We define “backlog” at any given point in time to consist of all firm, unfulfilled purchase orders and commitments at that time. Generally speaking, we expect to fill most items of backlog within the following 12 months. However, since orders may be rescheduled or canceled, and a significant portion of our net sales is derived from a small number of customers, backlog is not necessarily indicative of future sales levels. Moreover, we cannot be sure of when during the future 12-month period we will be able to recognize revenue corresponding to our backlog; nor can we be sure that revenues corresponding to our backlog will not fall into periods beyond the 12-month horizon.

**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**

None.

**Item 6.**

**Exhibits**

- 10.1 - Lease, dated September 21, 2000, between the heirs to the Daniel Harper Estate and Mypodiamond, Inc.
- 10.2 - Sublease, dated December 16, 2000, between Mypodiamond, Inc. and the Company.

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- 10.3 - Notice of intent to exercise the extension option of the Sublease for a first additional term of five years, dated July 29, 2004.
- 10.4 - First Amendment to Credit Agreement dated as of March 31, 2006 (incorporated by reference to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 5, 2006.
- 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 Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**DYNAMIC MATERIALS CORPORATION**  
(Registrant)

Date: April 26, 2006

/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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LEASE

THIS INDENTURE OF LEASE made this 21st day of September, 2000, by and between the heirs to the Daniel Harper Estate, as set forth hereunder, hereinafter referred to as "Lessors", and Mypodiamond Inc., a corporation of the State of Delaware, with its principal offices at 200 North Repauno Avenue, Gibbstown, New Jersey 08027, hereinafter referred to as "Mypodiamond".

WITNESSETH:

Lessors do hereby let and lease unto Mypodiamond and Mypodiamond does hereby hire and take from Lessors:

ALL THAT CERTAIN TRACT OR PARCEL OF LAND situate in the Township of Dunbar, County of Fayette and Commonwealth of Pennsylvania, containing 322 acres, more or less, together with the former Blue Stone Mine located thereon; said tract is as shown on surveys attached hereto, made a part hereof and marked Exhibits "A" and "B".

## SUBJECT TO:

- (1) Existing oil and gas leases on the Leased Premises, under which Lessees are not permitted to drill within the area actually occupied by the said former Blue Stone Mine; and
- (2) Reserving to the Lessors the exclusive right to enter upon the Leased Premises to cut and remove timber. The Lessee is specifically prohibited from cutting or allowing the cutting of any timber unless necessary to their operations on the premises.

TO HAVE AND TO HOLD the Leased Premises unto Mypodiamond for an initial term of five (5) years, commencing on the 16th day of December, 2000 and ending at midnight on the 15th day of December, 2005; provided, however, that this Lease may be extended at Mypodiamond's option as follows: for a first additional term of five (5) years from December 16, 2005 to December 15, 2010; for a second additional five (5) year term from December 16, 2010 to

December 15, 2015; for a third additional five (5) year term from December 16, 2015 to December 15, 2020; for a fourth additional five (5) year term from December 16, 2020 to December 15, 2025; and for a fifth four (4) year term from December 16, 2025 to December 15, 2029, upon Mypodiamond giving written notice for each additional five (5) year extension at least one hundred twenty (120) days prior to the expiration of the initial period or any extension period.

In addition, the parties agree that this Lease replaces the existing master lease between DuPont and the Daniel Harper Heirs. The existing master lease is hereby terminated as of the date of this Lease. The Parties agree that paragraphs 5 and 11 of the existing master lease shall remain in effect as to any losses, costs, damages, claims or liability prior to the execution of this lease.

This Lease is made subject to the following terms and conditions, which the parties hereto do hereby covenant and agree to keep and perform:

1. During the first year of the initial period (December 16, 2000 to December 15, 2001), Mypodiamond shall pay to Lessors as rental for the Leased Premises the sum of Seventy Five Thousand Dollars and 00/100 (\$75,000.00) to be paid in twelve equal monthly installments commencing on December 16, 2000 and continuing thereafter as provided herein. This rental rate is referred to as the "Annual Rental" and is subject to increase as provided herein. Rental for every year thereafter during the term of this Lease shall be in an amount determined with the following:

- (1) As used in this Section:

- (a) "Index" shall mean the "Consumer Price Index for Urban Wage Earners and Clerical Workers" "(1967=100)" specified for "All Items", relating to PA-NJ-DE-MD and issued by the Bureau of Labor Statistics of the United States Department of Labor. In the event the Index shall hereafter be converted to a different standard reference base or otherwise revised, the determination of the Percentage Increase (defined below) shall be made with the use of such conversion factor, formula or table for converting the Index as may be published by the Bureau of Labor Statistics or, if said Bureau shall not publish the same, then with the use of such conversion factor, formula or table as may be published by Prentice Hall, Inc., or, failing such

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publication, by any other nationally recognized publisher of similar statistical information. In the event the Index shall cease to be published, then there shall be substituted for the Index such other index as Lessors and Mypodiamond shall agree upon, and, if they are unable to agree within ninety (90) days after the Index ceases to be published, such matter shall be determined in Philadelphia by arbitration in accordance with the Rules of the American Arbitration Association.

- (b) "New Index" shall mean the index derived for the November immediately preceding each Anniversary Date.

- (c) "Current Index" shall mean the index derived for the November of the year immediately preceding the year in which a New Index is derived.

- (d) "Anniversary Date" shall mean December 16, 2001 and each successive December 16<sup>th</sup> during the lease or any extensions thereof.

- (e) "Percentage Increase" shall mean the percentage equal to the fraction, the numerator of which shall be the New Index less the Current Index, and the denominator of which shall be the Current Index.

- (2) The Annual Rental shall be increased on each Anniversary Date by the Percentage increase, if any, as provided above. It is the intention of the parties that increases in the Base Rate shall be compounded as indicated in Section 1.

Twenty percent (20%) of the rent shall be payable by Mypodiamond directly to the successors of Anna C. Harper for her proportionate share with the balance of the rent to be payable to Edmund C. Harper or his successor, as agent for the other Lessors, less that percentage representing the percentage ownership of any non-subscribing cotenants of the Leased Premises. Edmund C. Harper or his successor will be responsible for disbursing said rent to said other Lessors. Mypodiamond assumes no liability for such disbursement by Edmund C. Harper or his successor, and said other Lessors release Mypodiamond from liability for rental payments once rent is paid by Mypodiamond to Edmund C. Harper or his successor under the terms set forth herein.

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2. Lessors warrant that they possess a fee simple ownership interest in the Leased Premises and that shall Warrant and Defend Lessee's peaceful and quiet occupation against all parties.

3. Lessee shall use the Leased Premises for its cladding and diamond operations, which shall be conducted in accordance with all applicable Federal, State and Local laws and regulations and shall secure all necessary permits and licenses at its own expense.

4. Mypodiamond shall have the right to construct, operate and maintain on the Leased Premises any and all improvements deemed necessary or convenient in connection with its operations and shall have the further right at any time to remove any substantial buildings or other structures of like nature that it may have placed thereon within ninety (90) days of expiration of this Lease within the terms set forth herein. Facilities, such as protective fencing and permanently installed gates, electrical wiring and air-flow baffle walls are to be left in place at the termination of this Lease or removed, at Lessors' option, by Mypodiamond at Mypodiamond's expense.

5. Lessee shall indemnify and hold Lessors harmless from and against any loss, costs, damages, claims and/or liability, including reasonable attorney fees, on account of any death or injury to any persons or damage to any property (including surrounding properties and also damage to the former Blue Stone Mine which is situated on the Leased Premises) except reasonable wear and tear to the Leased Premises in connection with the Lessee's lawful use of said premises. Lessee further agrees to indemnify and hold Lessors harmless from and against any loss, costs, damages, claims and/or liability, including reasonable attorney fees, in connection with any environmental contamination or compliance with environmental regulations, past or present.

6. In the event Mypodiamond's operations within the Blue Stone Mine result in necessary removal of rocks from the mine, Mypodiamond shall pile said rocks so removed in a nearby place to be designated by Lessors for disposal by Lessors. Mypodiamond is to have no right to the rocks thus removed nor to any proceeds therefrom. Lessors shall have the right of

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ingress and egress in order to remove such rocks with written notice to Mypodiamond.

7. Mypodiamond shall pay any increase in the real estate taxes (including school taxes) levied against the Leased Premises over and above the amount of real estate taxes for the year 1985 ("Base Year under the existing lease"), together with any increase in said taxes levied on account of improvements placed on the Leased Premises by Mypodiamond. Such payment shall be made to Edmund C. Harper or his successor, who, on behalf of the Lessors, shall pay the real estate taxes levied against the Leased Premises for so long as this Lease shall remain in effect. It is understood that, since this Lease is not on a calendar year basis, Mypodiamond's payment of any increase in real estate taxes levied against the Leased Premises over and above the taxes for the Base Year will be made on a pro rata basis for the last year that this Lease remains in effect.

8. Mypodiamond shall have no right to sublet all or any portion of the Leased Premises nor to assign this Lease, without the prior written consent of Edmund C. Harper or Lessor's subsequent designee(s), provided, however, that no consent shall be required for Lessor to sublet all or a portion of the Leased Premises to any of the following parties: (1) Dynamic Materials Corporation ("DMC") or (2) Ametek, Inc. Notwithstanding anything to the contrary in this paragraph, Mypodiamond shall have the right to assign or sublet all or any portion of the Leased Premises including, without limitation, the right to assign this Lease or sublet all or a portion of the Leased Premises to any subsequent purchaser of DMC's cladding business with the consent of the Lessors, which the Lessors agree shall not be unreasonably withheld.

9. Lessee shall have the right to terminate this Lease on December 15, 2005 or at any time thereafter upon giving written notice to Edmund C. Harper at 1823 Martin Avenue, Fremont, OH 43420 (or at any other address that may be supplied in writing to Mypodiamond from time to time) to that effect at least twelve (12) months prior to the effective date of termination. If however, Lessee terminates this lease at any time prior to December 15, 2025, then Lessee shall pay to Lessors a sum equal to five (5) times the annual rental in effect at the time of termination, in sixty equal monthly installments commencing on the fifteenth day of the

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month immediately following termination. If Mypodiamond provides such termination notice to Lessor, then Lessor shall provide notice of such termination notice to all permitted Sublessees, if any, and any permitted sublessees shall have the option, within fifteen (15) days of receiving such notice from Lessors, to assume all of Mypodiamond's rights and obligations under this Lease.

10. Lessor agrees that should Mypodiamond either: (1) terminate or notify Lessor of its intention to terminate this Lease prior to the end of the initial term (ending December 15, 2005) or any subsequent extension period as required hereunder, (2) fail to provide advance written notice to Lessor of its intention to extend the initial period or any extension period or (3) fails to make the rental payments described in Section 1 for a continuous 3 month period and the Lease, for whatever reason, is not assigned by Mypodiamond to the Sublessee, then the Lessor shall notify Mypodiamond of such condition and Mypodiamond will have 10 days to remedy the condition. If Mypodiamond does not remedy the condition, then Sublessee shall have the option, within 15 days of receiving notice from the Lessor of Mypodiamond's action, to assume all of Mypodiamond's rights and obligations under the Lease as if none of the foregoing events had occurred.

11. Upon the expiration or prior termination of this Lease, Mypodiamond shall surrender possession of the Leased Premises to Lessors with the former Blue Stone Mine situate thereon to be in substantially the same condition as it was on the date hereof.

12. This Lease shall inure to the benefit of and be binding upon the parties hereto, their heirs, executors, administrators, successors and assigns, and may be executed in counterparts.

13. If Mypodiamond negotiates directly or indirectly with any or all nonsubscribing cotenants of the Leased Premises and Mypodiamond increases remuneration to them so that such is proportionally greater (relative to their ownership percentage), than that given the subscribing cotenants (including those signing through a power of attorney) in order to secure their approval of a lease of their cotenancy then the rent hereunder shall increase so that all of the subscribing

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cotenants hereto will receive the same proportionally increased rent.

IN WITNESS WHEREOF, the parties hereto have executed this Indenture of Lease on this the day and year first above written.

WITNESS:

MYPODIAMOND INC.

By:

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LESSORS:

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Alice Stile

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Anne H. Liberati

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Beatrice Kostelac

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Bruce D. Kushner

---

Carol E. Eckman

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Estate of Carol H. Collins

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Charles & Elaine Hughes

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Daniel B. Haggerty

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Dolores Harper

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Donald F. Smith

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Douglas C. Kusher

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Edwin Robbins

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Estate of Andrew E. Reilly

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By Michael Reilly

---

Emma Jean Moeller

---

Marnie Real

---

John C. Harper

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Evenly Bunting

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Frank G. Harper

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Jack W. Snyder

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Mary M. Reilly

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James T. Harper

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James Welch

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\_\_\_\_\_  
John D. Reilly

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Dr. John J. Harper

\_\_\_\_\_  
Joseph R. Dominac

\_\_\_\_\_  
Josephine Petty

\_\_\_\_\_  
Karen Powell

\_\_\_\_\_  
Kathleen M. Reilly

\_\_\_\_\_  
Lula E. Keffer

\_\_\_\_\_  
Lynn F. Davis

\_\_\_\_\_  
Madeline Hampton

\_\_\_\_\_  
Marianne Spiker

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\_\_\_\_\_  
Marjorie Carlton

\_\_\_\_\_  
Linda Lacey Jones

\_\_\_\_\_  
Charlene E. Harper

\_\_\_\_\_  
Reid K. Smith

\_\_\_\_\_  
Robert B. Lynch

\_\_\_\_\_  
William R. Snyder

\_\_\_\_\_  
William S. Harper

\_\_\_\_\_  
William W. Harper

\_\_\_\_\_  
Wilma Jean Stewart

\_\_\_\_\_  
Lila Lynch

\_\_\_\_\_  
By Eleanora Pike, Administrator

\_\_\_\_\_  
David D. Lacey

\_\_\_\_\_  
William R. Lacey

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\_\_\_\_\_  
Edmund C. Harper

\_\_\_\_\_  
Linda Carlton Allen

\_\_\_\_\_  
Estate of Anna C. Harper



**SUBLEASE**

THIS SUBLEASE (the "Sublease"), entered into as of this 16th day of December, 2000, is by and between Mypodiamond, Inc., a Delaware corporation, having its principal office and place of business at 200 North Repauno Ave., Gibbstown, New Jersey 08027 ("SUBLANDLORD"), and Dynamic Materials Corporation, a Delaware corporation, having its principal office and place of business at 551 Aspen Ridge Drive, Lafayette, Colorado 80026 ("SUBTENANT").

**BACKGROUND**

(a) On March 31, 1999, SUBLANDLORD purchased the assets of the polycrystalline industrial diamond business (the "Business") from E.I. Dupont de Nemours & Company ("Dupont");

(b) Dupont is a tenant with respect to a lease dated October 19, 1985 (the "Owner Lease") with the Daniel Harper Estate as fee simple owners ("Owners") of an approximately 378 acre tract of land situate in Fayette County, Pennsylvania (the "Dunbar Facility"), of which approximately 27 acres (which includes the right to use the Blue Stone Mine ("Blue Stone Mine") located thereon (collectively with the Blue Stone Mine the "Leased Premises") is used in the Business;

(b) On July 22, 1996, Dupont sold its explosion bonding clad metal business ("Explosion Business") to SUBTENANT and entered into a sublease with SUBTENANT for the Leased Premises (the "Dupont Sublease");

(c) Dupont and Owners have terminated the Owner Lease as of December 16, 2000;

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(d) SUBLANDLORD entered into a new lease with Owners effective December 16, 2000 ("Master Lease") for the Dunbar Facility.

(e) SUBLANDLORD wishes to enter into a new sublease with the SUBTENANT.

Therefore, it is the intent of the parties hereto that SUBLANDLORD shall sublease the Leased Premises to SUBTENANT upon and subject to the conditions and limitations herein.

NOW, THEREFORE, incorporating the foregoing Background herein by this reference, the parties hereto, intending to be legally bound, agree as follows:

1. **MASTER LEASE.** By the MASTER LEASE dated as of September 21, 2000 and effective on December 16, 2000 (the "Effective Date") by and between the Owners and SUBLANDLORD, as tenant, Owners have leased to SUBLANDLORD the Dunbar Facility. This Sublease is made subject to the MASTER LEASE except where the provisions of the MASTER LEASE are inconsistent with the provisions of this Sublease, in which case the provisions of this Sublease will control. Where in the MASTER LEASE there are duties owed by Owners to SUBLANDLORD which are necessary for the proper enjoyment of this Sublease, SUBLANDLORD will make all commercially reasonable efforts to obtain the performance of such duties by Owners in favor of SUBTENANT, but SUBLANDLORD shall not be liable for the failure of Owners under the terms of MASTER LEASE to perform said duties nor for the result of such failure. If Owners are in default of its obligations and SUBLANDLORD is unsuccessful in obtaining Owners' performance, then upon SUBTENANT's written request, SUBLANDLORD shall assign to SUBTENANT its rights to enforce such defaulted obligations of the MASTER LEASE against Owners. SUBTENANT hereby agrees to faithfully and

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promptly perform all of the obligations and duties of SUBLANDLORD to Owners under the MASTER LEASE with respect only to the Leased Premises except the obligation of SUBLANDLORD to pay rent, which obligation SUBLANDLORD agrees to continue to perform during the term hereof.

2. **LEASED PREMISES.** SUBLANDLORD, for and in consideration of the rents, covenants and agreements hereinafter reserved, mentioned and contained on the part of SUBTENANT, its successors and permitted assigns, does hereby lease, rent and demise unto SUBTENANT, and SUBTENANT does hereby take and hire, upon and subject to the conditions and limitations hereinafter expressed, a portion of the Dunbar Facility .

The Dunbar Facility comprises the tract of land described as follows:

ALL THAT CERTAIN TRACT OR PARCEL OF LAND situate in the Township of Dunbar, County of Fayette and Commonwealth of Pennsylvania, containing approximately 378 acres, more or less; said tract is as shown on the Mine Survey of the former New Castle Lime & Stone Company Mine, prepared by Sucevic Engineering, Hopwood, PA, in September 1979 (the "Plan") attached hereto, made a part hereof and marked Exhibit "A-1."

The Leased Premises is the portion of the Dunbar Facility containing approximately 27 acres shown on the Plan attached hereto as Exhibit "A-2" and described as follows: the surface land bounded by (a) a 2,700 foot length of the Dunbar-Ohiopyle Road (L.R. 26047) (at its centerline) to the Southwest; (b) a line extending from the intersection of the mine access road and Dunbar-Ohiopyle Road approximately 800 feet to the edge of the mine face; (c) the mine face starting from the edge of the mine face and extending along the mine face to a point beyond the explosives magazine that is approximately 600 feet from the centerline of the easternmost mine portal; and (d) a line from the mine face (as extended) traveling approximately 700 feet to the Dunbar-Ohiopyle Road (L.R. 26047).

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In addition, SUBLANDLORD hereby leases, rents and demises unto SUBTENANT as part of the Leased Premises the right to enter and use certain of the underground passages of the Blue Stone Mine, such passages being shown on the Plan attached as Exhibit "A-2," upon and subject to the limitations hereinafter expressed. The Plan is marked to show the primary access and operating areas, the emergency access areas, and the areas for explosions (the "Explosion Areas"). Except as expressly provided herein, SUBTENANT shall have no right to the surface portion of the Blue Stone Mine or to the underground passages which are not a part of the Leased Premises.

The Leased Premises are subleased subject to the following, in addition to the MASTER LEASE:

- (1) all matters of record concerning use of the Leased Premises and any state of facts that an inspection or survey of the Leased Premises would disclose;
- (2) present and future zoning laws, ordinances, resolutions, and regulations of all boards, bureaus, or commissions and bodies of any municipal, county, state, or federal sovereign now or hereafter having or acquiring jurisdiction of the Leased Premises and the use and improvements thereof;

- (3) the effect of all present and future laws and ordinances relating to SUBTENANT's use of the Leased Premises;
- (4) violations of laws and ordinances that might be disclosed by an examination and inspection or search of the Leased Premises as of the date first above written;

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- (5) except as set forth in Section 12, the condition and state of repair of the Leased Premises as the same may be on the Effective Date;
- (6) all taxes, assessments, water meter, and water charges, sewer rents commencing as of the Effective Date.
- (7) existing oil and gas leases on the Leased Premises, under which SUBTENANT is not permitted to drill within the area actually occupied by the hereinbefore referred to Blue Stone Mine; and
- (8) the right of the Owners to enter on the surfaceland of Leased Premises to cut and remove timber (provided however that SUBLANDLORD AND SUBTENANT agree that each will use reasonable efforts to prevent such activities within the Leased Premises).

3. TOLL MANUFACTURING AGREEMENT. Pursuant to an assignment from Dupont dated as of March 31, 2000, SUBLANDLORD was assigned the Tolling/Services Agreement for Industrial Diamonds dated as of July 22, 1996 between Dupont and the SUBTENANT (the "Tolling Agreement"), pursuant to which SUBTENANT has agreed to perform certain services for the Business supplied originally by Dupont and now by SUBTENANT, involving detonating materials on the Leased Premises to make industrial diamonds with each party acknowledges is in full force and effect as of the date of this Sublease..

4. REQUIREMENTS OF PUBLIC AUTHORITY. During the term of this Sublease, SUBTENANT, at its own cost and expense, shall promptly observe and comply with all present and future laws, ordinances, requirements, orders, directives, rules, and regulations of the Federal, State, County, Town, Village, and City Governments, and of all other governmental authorities affecting the Leased Premises or any part thereof whether the same are in force at the

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commencement of the term of this Sublease or may in the future be passed, enacted or directed, and, except as set forth in Section 12 herein, SUBTENANT shall pay all costs, expenses, liabilities, losses, damages, fines, penalties, claims, and demands, including reasonable counsel fees, that may in any manner arise out of or be imposed upon SUBLANDLORD because of the failure of SUBTENANT to comply with the covenants of this Paragraph. Without limiting the foregoing, SUBTENANT, at SUBTENANT's cost and expense, shall obtain and maintain all licenses, permits and approvals necessary to perform explosion bonding operations and services under the Tolling Agreement and SUBLANDLORD shall take all reasonable actions (so long as no out-of-pocket costs are incurred on its part) to assist SUBTENANT in obtaining the same.

5. TERM. Unless sooner terminated as provided herein, the term of this Sublease shall commence on December 16, 2000, said date being hereinafter referred to as the "Commencement Date," and shall expire at 11:59 p.m., eastern standard time, on December 15, 2005, provided, however, that assuming there is no Event of Default existing, or with the passage of time would exist, the term of this Sublease may be extended at SUBTENANT'S option as follows: for a first additional term of five (5) years from December 16, 2005 to expire at 11:59 p.m., eastern standard time, on December 15, 2010; for a second additional term of five (5) years from December 16, 2010 to expire at 11:59 p.m., eastern standard time on December 15, 2015; for a third additional five (5) year term from December 16, 2015 to expire at 11:59 eastern standard time on December 15, 2020; for a fourth additional term from December 16, 2020 to expire at 11:59 eastern standard time on December 15, 2025; and for a fifth four(4) year term to commence on December 16, 2025 to expire at 11:59 p.m. eastern standard time on December 15, 2029 in each case by SUBTENANT giving SUBLANDLORD written notice of the exercise of such extension option prior to August 1<sup>st</sup> of the year prior to the year of expiration.

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6. RENT. The rent for the Leased Premises shall be as follows: From and after the Commencement Date and to the expiration or earlier termination of this Sublease, SUBTENANT shall pay monthly, in advance, the following sums: From the date hereof to December 15, 2001, the yearly rental shall be SEVENTY-EIGHT THOUSAND SEVEN HUNDRED AND FIFTY and 00/100 (\$78,750.00) DOLLARS to be paid in twelve equal monthly installments commencing on December 16, 2000 and continuing thereafter as provided herein. This rental rate is referred to as the "Annual Rent" and is subject to increase as provided herein. As used in this Section:

(a) "Index" shall mean the "Consumer Price Index for Urban Wage Earners and Clerical Workers" "(1967=100)" specified for "All Items", relating to PA-NJ-DE-MD and issued by the Bureau of Labor Statistics of the United States Department of Labor. In the event the Index shall hereafter be converted to a different standard reference base or otherwise revised, the determination of the Percentage Increase (defined below) shall be made with the use of such conversion factor, formula or table for converting the Index as may be published by the Bureau of Labor Statistics or, if said Bureau shall not publish the same, then with the use of such conversion factor, formula or table as may be published by Prentice Hall, Inc., or, failing such publication, by any other nationally recognized publisher of similar statistical information. In the event the Index shall cease to be published, then there shall be substituted for the Index such other index as SUBLANDLORD and SUBTENANT shall agree upon, and, if they are unable to agree within ninety (90) days after the Index ceases to be published, such matter shall be determined in Philadelphia, Pennsylvania by arbitration in accordance with the Rules of the American Arbitration Association.

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- (b) "New Index" shall mean the Index reported for the November immediately preceding each Anniversary Date.
- (c) "Current Index" shall mean the index derived for the November of the year immediately preceding the year in which a New Index is derived.
- (d) "Anniversary Date" shall mean December 16, 2001 and each successive December 16<sup>th</sup> during the term of this Sublease.
- (e) "Percentage Increase" shall mean the percentage equal to the fraction, the numerator of which shall be the New Index less the Current Index, and the denominator of which shall be the Current Index.

The Annual Rent shall be increased on each Anniversary Date by the Percentage Increase, if any, as provided above. It is the intention of the parties that increases in the Annual Rent shall be determined based upon applying the Percentage Increase to the Annual Rent as adjusted in this Section 6. All other sums, charges or amounts which SUBTENANT has agreed to pay to SUBLANDLORD pursuant to this Sublease shall be hereinafter referred to as "Additional Rent," and shall be collectible as rent. The Annual Rent and Additional Rent shall be payable at the office of SUBLANDLORD at the address herein contained or at such other place or places as SUBLANDLORD

shall from time to time give SUBTENANT written notice. In the event that the New Index is not available by the Anniversary Date, SUBTENANT shall pay the Annual Rent at the then current rate until such New Index is available, and shall, with the next scheduled payment thereafter, pay all amounts that would have otherwise been due had the New Index been available.

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7. USE.

(a) The Leased Premises shall be used only for (i) the operation of the Explosion Business, including the explosion bonding of clad metals, and (ii) performance of services pursuant to the Tolling Agreement (together, the "Permitted Use"). SUBTENANT shall not use or occupy the Leased Premises, or permit the same to be used or occupied, for any purpose other than the Permitted Use. In particular, SUBTENANT shall have no rights to mine or extract minerals from any portion of the Leased Premises. Only the Explosion Areas may be used for explosions.

(b) In the event SUBTENANT's operations within the limestone mine situated on the Leased Premises result in necessary removal of rocks from the Blue Stone Mine, SUBTENANT shall pile said rocks so removed in a nearby place to be designated by SUBLANDLORD for disposal by Owners. SUBTENANT shall have no right to the rock thus removed nor to the proceeds therefrom. Owners and SUBLANDLORD shall have the right of egress and ingress in order to remove such rocks at their own risk.

(c) SUBTENANT acknowledges that the Blue Stone Mine can become damaged by overuse or improper use, in which case the Blue Stone Mine may be required to be closed or the frequency of explosions performed in the Blue Stone Mine may be required to be limited. In order to prolong the life of the Blue Stone Mine, SUBTENANT agrees to use no more than 17,500 lbs. of Explosive (as hereinafter defined) per detonation. As used in this Sublease, "Explosive" means the ammonium nitrate explosive material produced by SUBTENANT or such other materials that are approved by SUBLANDLORD from time to time in accordance with the operating procedures used by SUBTENANT, as amended from time to time by SUBTENANT in consultation with and approval from SUBLANDLORD which

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approval shall not be unreasonably withheld (the "Procedures"). SUBTENANT shall not manufacture, test, use, or destroy any chemical or explosive materials on the Leased Premises, other than the Explosive identified in the Procedures, without the express written consent of SUBLANDLORD, which consent shall not be unreasonably withheld. SUBTENANT agrees to use and maintain the Blue Stone Mine in such a condition that maintains and maximally prolongs its integrity and useful life, provided, however, that SUBTENANT shall have no responsibility to SUBLANDLORD for adverse effects to the integrity or useful life of the Blue Stone Mine caused by (i) SUBTENANT's use of Explosives as specified in this paragraph, or (ii) SUBTENANT's operations according to the Procedures. SUBTENANT agrees to promptly notify SUBLANDLORD of any actions which it knows or reasonably believes may result in, or is likely to have resulted in, soil or groundwater contamination. In addition, SUBTENANT agrees to periodically inspect and repair the Blue Stone Mine, including without limitation the underhangs in the Blue Stone Mine, so that the Blue Stone Mine is (i) maintained in a safe, lawful condition during the term of this Sublease, and (ii) in substantially the same condition at the end of the term of this Sublease as it was at the commencement date of the DuPont Sublease, subject to normal wear and tear.

(d) SUBTENANT acknowledges that hazards may be involved in conducting explosions in the Blue Stone Mine, including providing the services under the Tolling Agreement. Accordingly, SUBTENANT agrees to perform all work at the Leased Premises in a careful and workmanlike manner and to take all reasonably necessary precautions in the processing, handling, transportation, and disposal of Explosives, to avoid damage to property or pollution and in compliance with all applicable laws, rules and regulations. In that

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regard, SUBTENANT shall provide security precautions reasonably required by SUBLANDLORD or Owners to safely process, handle, transport, and dispose of the Explosives.

(e) SUBLANDLORD shall have the right to immediately require the suspension of the explosions on the Leased Premises upon written notice to SUBTENANT, without liability on the part of SUBLANDLORD to SUBTENANT, if at any time SUBLANDLORD in its reasonable judgment determines that SUBTENANT has materially violated any material provision of this Section 7. The right to conduct explosions should remain suspended until SUBTENANT corrects such violation; provided that SUBTENANT shall have a right of access to the Leased Premises to correct such violations. If SUBTENANT fails to correct any such violation within the time periods set forth in Section 13(a)(iii), an Event of Default shall exist.

8. TAXES AND ASSESSMENTS.

(a) For the purpose of this Sublease, the term "Taxes" shall mean all real estate taxes and assessments, including substitutes therefor or supplements thereto, assessed upon, levied against or imposed on the Leased Premises and any improvements, fixtures, and equipment located thereon.

(b) During the term of this Sublease, SUBTENANT shall pay to SUBLANDLORD, as Additional Rent, for each year during the term of this Sublease, any increase in the real estate taxes levied against the Dunbar Facility over and above the amount of said real estate taxes for the year 1995. Such payment shall be made to SUBLANDLORD, who shall pay such increase in real estate taxes to Owners. It is understood that, because this Sublease is not on a calendar year basis, SUBTENANT's payment of any increase in real estate

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taxes levied against the Dunbar Facility over and above the 1995 taxes will be made on a prorata basis.

(c) SUBTENANT shall pay any and all taxes on its personal property located on Leased Premises directly to the taxing authority.

9. REPAIR AND MAINTENANCE. SUBTENANT shall have the right to construct, operate, and maintain on the Leased Premises any and all improvements deemed necessary or convenient in connection with the Permitted Use, and shall have the further right at any time to remove any improvements, buildings or other structures of like nature. Facilities, such as protective fencing and gates permanently installed, electrical wiring and air-flow baffle walls are to be left in place at the termination of this Sublease or removed by SUBTENANT at its expense, at SUBLANDLORD's option.

SUBTENANT agrees that, at its sole cost and expense, it shall keep and maintain the surface area of the Leased Premises (located adjacent to the entrance of the Blue Stone Mine), including all improvements constructed thereon by SUBTENANT, in good repair, replacement, and appearance during the term of this Sublease and

will with reasonable promptness make all structural and nonstructural, foreseen and unforeseen, and ordinary and extraordinary changes and repairs of every kind and nature which may be required to be made upon or in connection with Leased Premises or any part thereof in order to keep and maintain Leased Premises in such good repair, replacement and appearance, so that the Leased Premises are in substantially the same condition at the end of the term of this Sublease as they were at the commencement of this Sublease, subject to normal wear and tear. Except as may be required pursuant to Section 12 herein, SUBLANDLORD shall not be required to maintain, repair, or rebuild, or to make any alterations, replacements, or renewals of any nature or description to

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Leased Premises or any part thereof, whether ordinary or extraordinary, structural or nonstructural, foreseen or unforeseen or to maintain Leased Premises or any part thereof in any way, and except as may be required pursuant to Section 12 herein, SUBTENANT hereby expressly waives any right to make repairs or replacements at the expense of SUBLANDLORD which may be provided for in any statute or law in effect at the time of the execution of this Sublease or any statute or law which may thereafter be enacted.

10. ACCESS-LEASED PREMISES, RECORDS AND INSPECTIONS. SUBLANDLORD or SUBLANDLORD's agents and designees, upon notice to SUBTENANT, shall have the right to enter upon the Leased Premises, including without limitation, the underground passages of the Blue Stone Mine, at all reasonable times with reasonable advance notice to SUBTENANT, to examine same or to perform any obligation it may have hereunder or with SUBLANDLORD, including without limitation, cleanup of residue from the underground passages of the Blue Stone Mine as provided in Section 12.5; or for any reasons pursuant to any rights under the Tolling Agreement; provided such access rights shall not interfere unreasonably with SUBTENANT's operation of the Leased Premises or performance of its obligations under the Tolling Agreement.

SUBTENANT agrees to maintain a record of all explosions performed at the Leased Premises in such form and content as SUBLANDLORD reasonably determines from time to time by notice to SUBTENANT. Such records shall include, without limitation, (a) the type and quantity of explosives, and (b) the results of inspections of the Leased Premises and scaling operations inside the Blue Stone Mine. SUBLANDLORD or its designee shall have the right from time to time, at SUBLANDLORD's cost, to inspect and verify the records kept by SUBTENANT in connection with this Sublease.

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11. REPRESENTATIONS AND WARRANTIES. Except as expressly provided in this Sublease, SUBLANDLORD makes no representations, warranties, or guarantees to SUBTENANT, either expressed or implied, with respect to the subject matter of this Sublease. SUBLANDLORD makes no representations or warranties as to the condition of the underground passages that are not part of the Leased Premises. SUBLANDLORD warrants and represents (a) that the MASTER LEASE is subsisting and is in full force and effect, (b) SUBLANDLORD is not in default under the MASTER LEASE, (c) all rents and charges due thereunder are and shall be paid in accordance with the terms thereof, and (d) that SUBLANDLORD has full right, power and authority to enter into this Sublease. SUBLANDLORD is aware of no reason why the Leased Premises cannot be used by SUBTENANT for the Permitted Use. SUBLANDLORD covenants that, so long as SUBTENANT is not in breach of the terms and conditions of this Sublease, SUBTENANT shall peaceably and quietly have, hold, and enjoy the Leased Premises for the term hereof and any extensions to the term. Except as expressly provided herein, SUBLANDLORD covenants and agrees faithfully to observe and perform all of the terms, covenants, and conditions of the MASTER LEASE on the part of SUBLANDLORD to be performed with respect to the Leased Premises (except as required to be performed by SUBTENANT hereunder), and neither to do nor cause to be done, nor suffer, nor permit any act or thing to be done which would or might cause the MASTER LEASE TO BE canceled, terminated, forfeited, or surrendered or which shall make SUBLANDLORD liable for any damages, claims, or penalties under the provisions of the MASTER LEASE. SUBLANDLORD covenants and agrees to keep the MASTER LEASE in good standing for the term hereof and any extension hereof.

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**EACH PARTY DISCLAIMS AND WAIVES ALL OTHER WARRANTIES NOT EXPRESSLY SET FORTH HEREIN INCLUDING ANY IMPLIED WARRANTIES AND WARRANTIES IMPOSED BY LAW, INCLUDING WARRANTIES OF MERCHANTABILITY, AND WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE.**

The parties acknowledge that the MASTER LEASE has not been signed by all Owners of the Dunbar Facility. SUBLANDLORD has no reason to believe that any of such Owners will disturb SUBTENANT's use or adversely affect SUBTENANT's peaceful, quiet enjoyment and possession of the Leased Premises. In the event that any of such Owners' attempt to disturb SUBTENANT's use of the Leased Premises or adversely impact SUBTENANT's peaceful, quiet enjoyment and possession of the Leased Premises, SUBLANDLORD and SUBTENANT shall cooperate to promptly seek to discontinue the acts of such Owners.

12. INDEMNIFICATION AND LIMITATION OF LIABILITY. The following indemnification and limitations of liability shall apply:

12.1 (a) SUBTENANT agrees to defend, indemnify and hold harmless SUBLANDLORD (including, its officers, directors, employees, subcontractors and agents) from and against any and all liability, claims, injuries (including death resulting therefrom), property damage, fine, penalty or assessment by any public agency, cost or expense (including costs of defense, settlement and reasonable attorneys' fees), which (1) except as provided in Section 12.2 below, are solely and directly caused by the SUBTENANT's acts including without limitation, acts of negligence, gross negligence or willful misconduct of SUBTENANT, its agents, employees or subcontractors associated with, or arising out of the use of the Leased Premises under this Sublease or the Dupont Sublease, or the performance of this

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Sublease or the Dupont Sublease, including any failure to comply with any pertinent Federal, State or local law, statute, regulation, rule, or (2) are caused jointly by acts of SUBTENANT including without limitation, negligence, gross negligence or willful misconduct by SUBTENANT, its agents, employees or subcontractors and any acts by any third party or parties. The term "liability" employed in the preceding sentence, and SUBTENANT's indemnification obligation, includes any strict liability imposed at law, asserted against SUBLANDLORD. SUBTENANT's obligations under this Section 12.1(a) shall survive the expiration or termination of the Dupont Sublease or this Sublease.

(b) SUBLANDLORD agrees to defend, indemnify and hold harmless SUBTENANT (including its officers, directors, employees and agents) from and against any and all liability, claim, injury (including death resulting therefrom), property damage, fine, penalty or assessment by any public agency, cost or expense (including costs of defense, settlement and reasonable attorneys' fees), which (1) are solely and directly caused by the negligence, gross negligence or willful misconduct of SUBLANDLORD, its agents, employees or subcontractors associated with, or arising from SUBLANDLORD's obligations under this Agreement, or (2) are caused jointly by acts of SUBLANDLORD including without limitation negligence, gross negligence or willful misconduct by SUBLANDLORD, its agents, employees or subcontractors and any acts by any third party or parties. The term "liabilities" employed in the preceding sentence, and SUBLANDLORD's indemnification obligation, includes any strict liability imposed at law asserted against SUBTENANT.



(c) Where acts or omissions of the nature referred to in paragraphs 12.1(a) and (b) by both SUBTENANT and SUBLANDLORD (including their respective officers, directors, employees, subcontractors or agents) have caused any liabilities,

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damages, fines, penalties, costs, claims, demands and expenses, whether or not a third party's acts or omissions also were causal (other than those arising out of or relating to any date prior to the date of this Sublease), SUBTENANT and SUBLANDLORD shall contribute to their common liability a pro rata share based upon the relative degree of fault of each. In such a case the parties shall share all costs equally until (i) there is a final court judgment allocating fault between the parties, or (ii) the parties agree to such an allocation.

SUBLANDLORD's indemnity shall not extend to acts or omissions of SUBLANDLORD or any third party with respect to the underground passages of the Blue Stone Mine that are not part of the Leased Premises.

(d) The provisions of this paragraph 12 shall survive the termination of this Sublease.

12.2 Notwithstanding paragraph 12.1, with respect to any environmental issue (e.g., any environmental contamination, hazardous wastes or substances, or compliance with any environmental law, regulation, and/or ordinance), the following indemnifications shall apply:

(a) Except as expressly provided in this Agreement, SUBTENANT agrees to defend, indemnify and hold harmless SUBLANDLORD (including, its officers, directors, employees and agents) from and against all liabilities (including third party liabilities) losses, claims, damages, property damage, demands, judgments, fines or penalties insofar as not prohibited by law, costs and expenses (including, without limitation, clean-up costs and reasonable attorneys' fees and disbursements) which arise, or are alleged to arise from and after July 22, 1996, from or in connection with (1) SUBTENANT's violation of, or SUBTENANT's non-compliance with, any federal, state or local environmental law relating to

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or arising out of SUBTENANT's operation of the Explosion Business or operations under the Tolling Agreement at the Leased Premises. The foregoing shall survive the expiration or termination of this Sublease.

(b) Except as provided for in Section 12.5, SUBLANDLORD agrees to defend, indemnify and hold harmless SUBTENANT (including its officers, directors, employees, agents and partners, and the respective officers, directors, employees and agents of said partners) from and against all liabilities (including third party liabilities), losses, claims, damages, property damage, demands, judgments, fines or penalties insofar as not prohibited by law, costs and expenses (including, without limitation, clean-up costs and reasonable attorneys' fees and disbursements) which arise, or are alleged to arise after the date hereof and from or in connection with (1) SUBLANDLORD's violation of any federal, state or local environmental law, or (2) SUBLANDLORD's non-compliance with any federal, state or local environmental law relating to the Leased Premises.

12.3 Notwithstanding any other provisions in this Sublease to the contrary, neither party nor its shareholders, partners, agents, contractors, vendors or their employees, shall be liable to the other for consequential or indirect loss or damage, including loss of profit, loss of use, loss of operating time, loss of revenue, increased costs of producing revenues, cost of capital, or loss of goodwill, even if such party has been advised of the possibility of such damages. The parties further agree that the waivers and disclaimers of liability, indemnities, releases from liability, sole remedy provisions and limitations on liability expressed in this Sublease shall survive termination or expiration of this Sublease, and shall apply (unless otherwise expressly indicated), whether in contract, equity, tort or otherwise, even in the event of the fault, negligence, including sole negligence, strict liability, or breach of

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warranty of the party indemnified, released or whose liabilities are limited, and shall extend to the partners, contractors, subcontractors, suppliers, directors, officers and employees, agents and related or affiliated entities of such party, and their partners, directors, officers and employees.

12.4 If the expiration or earlier termination of this Sublease activates any environmental law requiring audits and/or filings, (except as provided in Paragraph 12.5 and 12.6 below) SUBTENANT shall bear the cost of any such audits and filings required by such laws insofar as they effect the Leased Premises unless such termination is due to the fault of the SUBLANDLORD.

12.5 SUBLANDLORD and SUBTENANT acknowledge and agree that Dupont has been conducting explosive operations in the underground passages of the Leased Premises for thirty (30) years prior to the date of the Dupont Sublease, and that such underground passages contain residue resulting from the detonation of Explosives or other explosive materials (the "Explosive Residue"). Dupont has agreed to remove and dispose of the Explosive Residue at a reasonable time prior to expiration or termination of the MASTER LEASE, or as required by law, whichever is earlier. Dupont shall in consultation with SUBTENANT prepare a plan for removal and disposal of the Explosive Residue. Dupont and SUBTENANT agree to share the costs and expenses of removal and disposal of the Explosive Residue pro rata based on the number of years that the parties have been operating at the Leased Premises. The parties acknowledge that SUBTENANT may, at SUBTENANT's option and at SUBTENANT's cost and expense, partially remove and dispose of the Explosive Residue in order to facilitate operations of the Permitted Use at the Leased Premises. SUBLANDLORD shall have no responsibility for (a) the presence of the Explosive Residue in the underground passages of the Leased Premises, or (b) any removal and disposal of Explosive Residue.

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SUBTENANT shall indemnify SUBLANDLORD for SUBTENANT's obligation with respect to the foregoing to the full extent set forth in Section 12.1.

### 13. DEFAULT.

(a) Any of the following occurrences, conditions or acts shall constitute an "Event of Default" under this Sublease:

(i) If SUBTENANT defaults in making payment when due of any installment of Annual Rent, Additional Rent or other amount payable hereunder by SUBTENANT to SUBLANDLORD, and such default continues for a period of fifteen (15) days after SUBLANDLORD shall have given notice to SUBTENANT specifying such default;

(ii) If SUBTENANT makes an assignment of this Sublease or sublets all or a portion of the Leased Premises, except as is provided

in Paragraph 17 herein; or

(iii) If SUBTENANT defaults in the observance or performance of any provision of this Sublease (other than those provisions referenced hereinabove under subparagraph (a)(i) and (ii)), or fails to take the action required by Section 7, and such default continues for a period of thirty (30) days after SUBLANDLORD shall have given notice to SUBTENANT specifying such default; provided, however, if such default cannot be wholly cured within such thirty (30) day period, then SUBTENANT shall not be deemed to be in default so long as SUBTENANT has commenced the cure of such default within said thirty (30) day period and continues, with due diligence, to prosecute said cure;

(b) If an Event of Default shall occur, the following provisions shall apply and SUBLANDLORD shall have, in addition to all other rights and remedies available at law or in equity, the rights and remedies set forth therein, which rights and remedies may be exercised upon or at any time following the occurrence of an Event of Default unless, prior to

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such exercise, SUBLANDLORD shall agree in writing with SUBTENANT that the Event(s) of Default has been cured by SUBTENANT in all respects.

(i) Acceleration of Rent. By notice to SUBTENANT, SUBLANDLORD shall have the right to accelerate all Annual Rent and any other amount due hereunder and otherwise payable in installments over the remainder of the Term, and, at SUBLANDLORD's option, any other Additional Rent to the extent that such Additional Rent can be determined and calculated to a fixed sum; and the amount of accelerated rent to the termination date, without further notice or demand for payment, shall be due and payable by SUBTENANT within five (5) days after SUBLANDLORD has so notified SUBTENANT, such amount collected from SUBTENANT shall be discounted to present value using an interest rate of six percent (6%) per annum. Additional Rent which has not been included, in whole or in part, in accelerated rent, shall be due and payable by SUBTENANT during the remainder of the Term, in the amounts and at the times otherwise provided for in this Sublease.

Notwithstanding the foregoing or the application of any rule of law based on election of remedies or otherwise, if SUBTENANT fails to pay the accelerated rent in full when due, SUBLANDLORD thereafter shall have the right by notice to SUBTENANT, (i) to terminate SUBTENANT's further right to possession of the Leased Premises and (ii) to terminate this Sublease under subparagraph (b) below; and if SUBTENANT shall have paid part but not all of the accelerated rent, the portion thereof attributable to the period equivalent to the part of the Term remaining after SUBLANDLORD's termination of possession or termination of this Sublease shall be applied by SUBLANDLORD against SUBTENANT's obligations owing to SUBLANDLORD, as determined by the applicable provisions of subparagraphs (c) and (d) below.

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(ii) Termination of Sublease. By notice to SUBTENANT, SUBLANDLORD shall have the right to terminate this Sublease as of a date specified in the notice of termination and in such case, SUBTENANT's rights, including any based on any option to renew, to the possession and use of the Leased Premises shall end absolutely as of the termination date; and this Sublease shall also terminate in all respects except for the provisions hereof regarding SUBLANDLORD's damages and SUBTENANT's liabilities arising prior to, out of and following the Event of Default and the ensuing termination.

Following such termination and the notice of same provided above (as well as upon any other termination of this Sublease by expiration of the Term or otherwise) SUBLANDLORD immediately shall have the right to recover possession of the Leased Premises; and to that end, SUBLANDLORD may enter the Leased Premises and take possession, without the necessity of giving SUBTENANT any notice to quit or any other further notice, with or without legal process or proceedings, and in so doing SUBLANDLORD may remove SUBTENANT's property (including any improvements or additions to the Leased Premises which SUBTENANT made, unless made with SUBLANDLORD's consent which expressly permitted SUBTENANT to not remove the same upon expiration of the Term), as well as the property of others as may be in the Leased Premises, and make disposition thereof in such manner as SUBLANDLORD may deem to be commercially reasonable and necessary under the circumstances.

(c) Subtenant's Continuing Obligations/Sublandlord's Reletting Rights.

(i) Unless and until SUBLANDLORD shall have terminated this Sublease under subparagraph (b) above, SUBTENANT shall remain fully liable and responsible to perform all of the covenants and to observe all the conditions of this Sublease

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throughout the remainder of the Term to the early termination date; and, in addition, SUBTENANT shall pay to SUBLANDLORD, upon demand and as Additional Rent, the total sum of all damages in (d) below, as SUBLANDLORD incurs, because of any Event of Default having occurred.

(ii) If SUBLANDLORD either terminates SUBTENANT's right to possession without terminating this Sublease or terminates this Sublease and SUBTENANT's leasehold estate as above provided, then, subject to the provisions below, SUBLANDLORD shall have the unrestricted right to relet the Leased Premises or any part(s) thereof to such tenant(s) on such provisions and for such period(s) as SUBLANDLORD may deem appropriate. If SUBLANDLORD relets the Leased Premises after such a default, the costs recovered from SUBTENANT shall be reallocated to take into consideration any additional rent which SUBLANDLORD receives from the new tenant which is in excess to that which was owed by SUBTENANT.

(d) Sublandlord's Damages.

(i) Upon the occurrence of an Event of Default, the damages which SUBLANDLORD shall be entitled to recover from SUBTENANT shall be the sum of:

(A) all Annual Rent and Additional Rent accrued and unpaid as of the termination date; and

(B) (1) all costs and expenses incurred by SUBLANDLORD in recovering possession of the Leased Premises, including removal and storage of SUBTENANT's property, (2) the costs and expenses of restoring the Leased Premises to the condition in which the same were to have been surrendered by SUBTENANT as of the expiration of the Term, and (3) the costs of reletting commissions; and

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(C) all Annual Rent and Additional Rent (to the extent that the amount(s) of Additional Rent has been then determined)

otherwise payable by SUBTENANT over the remainder of the Term as reduced to present value.

Less deducting from the total determined under subparagraphs (A), (B) and (C) all Annual Rent and all other Additional Rent to the extent determinable as aforesaid, (to the extent that like charges would have been payable by SUBTENANT) which SUBLANDLORD receives from other tenant(s) by reason of the leasing of the Leased Premises or part during or attributable to any period falling within the otherwise remainder of the Term.

(ii) The damage sums payable by SUBTENANT under the preceding provisions of this paragraph (d) shall be payable on demand from time to time as the amounts are determined; and if from SUBLANDLORD's subsequent receipt of rent as aforesaid from reletting, there be any excess payment(s) by SUBTENANT by reason of the crediting of such rent thereafter received, the excess payment(s) shall be refunded by SUBLANDLORD to SUBTENANT, without interest.

(iii) SUBLANDLORD may enforce and protect the rights of SUBLANDLORD hereunder by a suit or suits in equity or at law for the specific performance of any covenant or agreement contained herein, and for the enforcement of any other appropriate legal or equitable remedy, including, without limitation, injunctive relief, and for recovery of all moneys due or to become due from SUBTENANT under any of the provisions of this Sublease.

(e) Sublandlord's Right to Cure. Without limiting the generality of the foregoing, if SUBTENANT shall be in default in the performance of any of its obligations hereunder, SUBLANDLORD, without being required to give SUBTENANT any notice or opportunity to cure, may (but shall not be obligated to do so), in addition to any other rights it

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may have in law or in equity, cure such default on behalf of SUBTENANT, and SUBTENANT shall reimburse SUBLANDLORD upon demand for any sums paid or costs incurred by SUBLANDLORD in curing such default, including reasonable attorneys' fees and other legal expenses, together with interest at 10% per annum Rate from the dates of SUBLANDLORD's incurring of costs or expenses.

SUBTENANT further waives the right to any notices to quit as may be specified in the SUBLANDLORD and SUBTENANT Act of Pennsylvania, Act of April 6, 1951, as amended, or any similar or successor provision of law, and agrees that five (5) days notice shall be sufficient in any case where a longer period may be statutorily specified.

(i) Additional Remedies. In addition to, and not in lieu of any of the foregoing rights granted to SUBLANDLORD **WHEN THIS SUBLEASE OR TENANT'S RIGHT OF POSSESSION SHALL BE TERMINATED BY COVENANT OR CONDITION BROKEN, OR FOR ANY OTHER REASON, EITHER DURING THE TERM OF THIS SUBLEASE OR ANY RENEWAL OR EXTENSION THEREOF, AND ALSO WHEN AND AS SOON AS THE TERM HEREBY CREATED OR ANY EXTENSION THEREOF SHALL HAVE EXPIRED, IT SHALL BE LAWFUL FOR ANY ATTORNEY AS ATTORNEY FOR TENANT TO FILE AN AGREEMENT FOR ENTERING IN ANY COMPETENT COURT AN ACTION TO CONFESS JUDGMENT IN EJECTION AGAINST TENANT AND ALL PERSONS CLAIMING UNDER SUBTENANT, WHEREUPON, IF SUBLANDLORD SO DESIRES, A WRIT OF EXECUTION OR OF POSSESSION MAY ISSUE FORTHWITH, WITHOUT ANY PRIOR WRIT OF PROCEEDINGS, WHATSOEVER, AND PROVIDED THAT IF FOR ANY REASON AFTER SUCH ACTION SHALL HAVE BEEN COMMENCED THE**

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**SAME SHALL BE DETERMINED AND THE POSSESSION OF THE PREMISES HEREBY DEMISED REMAIN IN OR BE RESTORED TO SUBTENANT, SUBLANDLORD SHALL HAVE THE RIGHT UPON ANY SUBSEQUENT DEFAULT OR DEFAULTS, OR UPON THE TERMINATION OF THIS SUBLEASE AS HEREINBEFORE SET FORTH, TO BRING ONE OR MORE ACTION OR ACTIONS AS HEREINBEFORE SET FORTH TO RECOVER POSSESSION OF THE SAID PREMISES.**

In any action to confess judgment in ejection, SUBLANDLORD shall first cause to be filed in such action an affidavit made by it or someone acting for it setting forth the facts necessary to authorize the entry of judgment, of which facts such affidavit shall be conclusive evidence, and if a true copy of this Sublease (and of the truth of the copy such affidavit shall be sufficient evidence) be filed in such action, it shall not be necessary to file the original as a warrant of attorney, any rule of Court, custom or practice to the contrary notwithstanding.

**(INITIAL). SUBTENANT WAIVER. SUBTENANT SPECIFICALLY ACKNOWLEDGES THAT SUBTENANT HAS VOLUNTARILY, KNOWINGLY AND INTELLIGENTLY WAIVED CERTAIN DUE PROCESS RIGHTS TO A PREJUDGMENT HEARING BY AGREEING TO THE TERMS OF THE FOREGOING PARAGRAPHS REGARDING CONFESSION OF JUDGMENT IN EJECTION. SUBTENANT FURTHER SPECIFICALLY AGREES THAT IN THE EVENT OF DEFAULT, SUBLANDLORD MAY PURSUE MULTIPLE REMEDIES INCLUDING OBTAINING POSSESSION PURSUANT TO A JUDGMENT BY CONFESSION OF EJECTION AND ALSO OBTAINING A MONEY JUDGMENT FOR PAST DUE AND**

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**ACCELERATED AMOUNTS AND EXECUTING UPON SUCH JUDGMENT. SUBTENANT SPECIFICALLY WAIVES ANY CLAIM AGAINST SUBLANDLORD AND SUBLANDLORD'S COUNSEL FOR VIOLATION OF SUBTENANT'S CONSTITUTIONAL RIGHTS IN THE EVENT THAT EJECTION IS CONFESSED PURSUANT TO THIS SUBLEASE.**

(f) Interest on Damage Amounts. Any sums payable by SUBTENANT hereunder, which are not paid after the same shall be due, shall bear interest from that day until paid at the rate of four (4%) percent over the then Prime Rate as published daily under the heading "Money Rates" in The Wall Street Journal, unless such rate be usurious as applied to SUBTENANT, in which case the highest permitted legal rate shall apply (the "Default Rate").

(g) SUBLANDLORD's Statutory Rights. SUBLANDLORD shall have all rights and remedies now or hereafter existing at law or in equity with respect to the enforcement of SUBTENANT's obligations hereunder and the recovery of the Leased Premises. No right or remedy herein conferred upon or reserved to SUBLANDLORD shall be exclusive of any other right or remedy, but shall be cumulative and in addition to all other rights and remedies given hereunder or now or hereafter existing at law. SUBLANDLORD shall be entitled to injunctive relief in case of the violation, or attempted or threatened violation, of any covenant, agreement, condition or provision of this Sublease, or to a decree compelling performance of any covenant, agreement, condition or provision of this Sublease.

(h) Remedies Not Limited. Nothing herein contained shall limit or prejudice the right of SUBLANDLORD to exercise any or all rights and remedies available to SUBLANDLORD by reason of default or to prove for and obtain in proceedings under any

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bankruptcy or insolvency laws, an amount equal to the maximum allowed by any law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater, equal to, or less than the amount of the loss or damage referred to above.

(i) No Waiver by SUBLANDLORD. No delay or forbearance by SUBLANDLORD in exercising any right or remedy hereunder, or SUBLANDLORD's undertaking or performing any act or matter which is not expressly required to be undertaken by SUBLANDLORD shall be construed, respectively, to be a waiver of SUBLANDLORD's rights or to represent any agreement by SUBLANDLORD to undertake or perform such act or matter thereafter. Waiver by SUBLANDLORD of any breach by SUBTENANT of any covenant or condition herein contained (which waiver shall be effective only if so expressed in writing by SUBLANDLORD) or failure by SUBLANDLORD to exercise any right or remedy in respect of any such breach shall not constitute a waiver or relinquishment for the future of SUBLANDLORD's right to have any such covenant or condition duly performed or observed by SUBTENANT, or of SUBLANDLORD's rights arising because of any subsequent breach of any such covenant or condition nor bar any right or remedy of SUBLANDLORD in respect of such breach or any subsequent breach. SUBLANDLORD's receipt and acceptance of any payment from SUBTENANT which is tendered not in conformity with the provisions of this Sublease or following an Event of Default (regardless of any endorsement or notation on any check or any statement in any letter accompanying any payment) shall not operate as an accord and satisfaction or a waiver of the right of SUBLANDLORD to recover any payments then owing by SUBTENANT which are not paid in full, or act as a bar to the termination of this Sublease and the recovery of the Leased Premises because of SUBTENANT's previous default.

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#### 14. INSURANCE.

(a) SUBTENANT shall at its expense obtain and maintain, or cause to be obtained and maintained, insurance during the term of this Sublease. Comprehensive or Commercial General Liability Insurance with bodily injury and property damage combined single limits of at least Ten Million Dollars (\$10,000,000) per occurrence, with a deductible of not more than One Hundred Thousand Dollars (\$100,000). Such insurance shall include, but not necessarily be limited to, specific coverage for contractual liability encompassing the indemnification provisions in Paragraph 12, broad form property damage liability, personal injury liability, explosion and collapse hazard coverage, and products/completed operations liability.

(b) The amounts of insurance required in this Paragraph 14 may be satisfied by SUBTENANT purchasing primary coverage in the amounts specified or by buying a separate excess Umbrella Liability policy together with lower limit primary underlying coverage. The structure of the coverage is SUBTENANT's option, so long as the total amount of insurance meets the requirements of this Paragraph 14. The coverages described above and any Umbrella or Excess coverage should be "occurrence" form policies. The insurance requirements listed above are minimum requirements. SUBLANDLORD and SUBTENANT shall annually renegotiate these minimum insurance requirements to reflect increases in insured values where applicable. Further, neither failure to comply nor full compliance by either party with the insurance provisions of this Agreement shall limit or relieve SUBTENANT OR SUBLANDLORD from indemnifying and holding harmless SUBLANDLORD OR SUBTENANT, as the case may be, in compliance with the provisions of this Agreement.

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(c) SUBLANDLORD shall at its expense obtain and maintain, or cause to be obtained and maintained, insurance covering its interests during the term of this Sublease.

(d) Upon SUBLANDLORD's request, certificates of insurance evidencing the coverages required above of SUBTENANT shall be filed with SUBLANDLORD. Such certificates shall provide that the insurer will give SUBLANDLORD thirty (30) days advance notice of any changes in or cancellation of coverage. SUBTENANT shall name SUBLANDLORD as an additional insured under all policies of insurance relating to the Leased Premises

Neither failure of SUBTENANT or SUBLANDLORD to comply with any or all of the insurance provisions of the Agreement, nor the failure to secure endorsements on the policies as may be necessary to carry out the terms and provisions of the Agreement, shall be construed to limit or relieve SUBTENANT or SUBLANDLORD from any of its obligations under the Agreement, including the Insurance Article.

15. WAIVER OF SUBROGATION. Each party hereto, and anyone claiming through or under them by way of subrogation, waives and releases any cause of action it might have against the other party and their respective employees, officers, members, shareholders, partners, trustees and agents, on account of any loss or damage that is insured against under any insurance policy required to be obtained hereunder (to the extent that such loss or damage is recoverable under such insurance policy) that covers the Leased Premises, SUBLANDLORD's or SUBTENANT's fixtures, personal property, leasehold improvements or business and which names SUBLANDLORD or SUBTENANT, as the case may be, as a party insured. Each party hereto agrees that it will cause its insurance carrier to endorse all applicable policies waiving the

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carrier's right of recovery under subrogation or otherwise against the other party. During any period while such waiver of right of recovery is in effect, each party shall look solely to the proceeds of such policies for compensation for loss, to the extent such proceeds are paid under such policies.

16. CASUALTY. If, during the term of this Sublease, the Leased Premises, including the Blue Stone Mine, shall be destroyed, or so injured or damaged by fire, the elements, acts of God, or other insurable casualty, structural defects or from any other cause so as to be unfit for occupancy and not be economically feasible for the operation of the Explosion Business, this Sublease shall, at SUBTENANT's option, terminate and SUBTENANT shall not be liable to pay rent after such occurrence. If the injury or damage is such that SUBTENANT notifies SUBLANDLORD as soon as reasonably possible (but in no event more than ninety (90) days after such injury) that the SUBTENANT is diligently pursuing plans for restoration of the Leased Premises and within ninety (90) working days from the delivery of such notice, either restores the Leased Premises, or, if such restoration cannot be completed in ninety (90) working days, commences and diligently pursues such restoration, this Sublease shall not be terminated but the rent shall be suspended as to that portion of the Leased Premises rendered untenable or unsuitable for the operation of SUBTENANT's business and in such case any rent paid in advance but unearned shall be refunded to SUBTENANT. If SUBTENANT does not notify SUBLANDLORD within the time hereinabove specified or if as soon as possible (but in no event longer than ninety (90) working days after the date of the injury), SUBTENANT (a) is not diligently pursuing the necessary repairs, or (b) the Parties agree that the repairs cannot be completed within one hundred eighty (180) days following the date of such notice, then this

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Sublease may immediately be terminated by SUBLANDLORD and neither party shall have any further obligations hereunder, except those specifically intended to survive termination.

17. QUIET ENJOYMENT. SUBLANDLORD covenants and warrants that, as long as no Event of Default shall have occurred and be continuing under this Sublease, SUBLANDLORD or persons claiming by, through or under SUBLANDLORD will take no action or neglect to take any action which interferes with the peaceful and quiet enjoyment and possession of the Leased Premises by SUBTENANT for the term hereof and any extensions to the term.

18. ASSIGNMENT AND SUBLETTING.

(a) SUBTENANT shall have the right to assign its rights and duties under this Sublease, either as collateral security or to an affiliate of SUBTENANT created in connection with the financing arrangements entered into by SUBTENANT or otherwise, by notifying SUBLANDLORD of such assignment. In the event of any such assignment, SUBTENANT shall continue to remain primarily liable for performance hereunder for the term of this Sublease, including any renewals. "Affiliate" means an entity controlled by or under the control of SUBTENANT or SUBTENANT's parent, SNPE, Inc. "Control" or "Controlled" means ownership of more than 50% of the ownership interests of such entity or the ability to elect a majority of the board or other governing body of such entity.

(b) Except as provided in this Sublease, neither party may assign this Sublease in whole or in part, or any rights granted hereunder, without the prior written consent of the other party, which consent shall not be unreasonably withheld so long as no Event of Default shall have occurred and then be continuing. Except as provided in this Sublease, any transfer, assignment, delegation or attempted transfer, assignment or delegation under this Sublease or of

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any of such rights or duties herein granted or imposed whether voluntary, by operation of law or otherwise, without consent in writing, shall cause this Sublease to be terminated at the election of the party whose written consent has not been obtained. SUBTENANT shall not, without the prior written consent of SUBLANDLORD, sublet any portion of the Leased Premises. Subject to the foregoing, this Sublease shall be binding upon and shall inure to the benefit of the parties and their successors and assigns.

Notwithstanding anything to the contrary contained herein, SUBLANDLORD may assign this Sublease to the purchaser of all or substantially all of SUBLANDLORD's Business.

19. GOVERNING LAW. This Sublease and the performance thereof shall be governed, interpreted, construed and regulated by the laws of the Commonwealth of Pennsylvania.

20. CONSENT TO JURISDICTION. SUBTENANT hereby consents to the exclusive jurisdiction of the state and federal courts located in any county in the Commonwealth of Pennsylvania to resolve any dispute arising under this Sublease or in connection with SUBTENANT's use, occupancy or enjoyment of the Leased Premises.

21. SURRENDER. SUBTENANT hereby agrees to surrender the Leased Premises in good condition and repair, normal wear and tear excepted. Notwithstanding anything herein to the contrary (except if required by law), SUBTENANT shall be required to have performed a Phase 1 environmental audit upon the termination or expiration of this Sublease at its sole expense. SUBTENANT shall have no right to hold over beyond the expiration of the Term and in the event SUBTENANT shall fail to deliver possession of the Leased Premises as herein provided, such occupancy shall not be construed to effect or constitute

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other than a tenancy at sufferance. During any period of occupancy beyond the expiration of the Term the amount of rent owed to SUBLANDLORD by SUBTENANT shall automatically become one hundred fifty percent (150%) the Annual Rent as those sums are at that time calculated under the provisions of the Sublease. If SUBTENANT fails to surrender the space within thirty (30) days of the termination date, SUBLANDLORD may elect to automatically extend the Term for an additional month or additional year, at SUBLANDLORD's option, with an Annual Rent of one hundred and fifty percent (150%) the sum of the Annual Rent as those sums are at that time calculated under the provisions of the Sublease. The acceptance of rent by SUBLANDLORD or the failure or delay of SUBLANDLORD in notifying or evicting SUBTENANT following the expiration or sooner termination of the Term shall not create any tenancy rights in SUBTENANT and any such payments by SUBTENANT may be applied by SUBLANDLORD against its costs and expenses, including attorney's fees incurred by SUBLANDLORD as a result of such holdover. The provisions of this Paragraph shall survive the expiration or sooner termination of this Sublease.

22. AMENDMENT AND RECORDATION. This Sublease may not be amended, supplemented, or modified, except by an instrument in writing, signed by SUBLANDLORD and SUBTENANT. This Sublease may not be recorded by either party provided that either party may record a memorandum of lease of this Sublease.

23. WAIVER. Failure of SUBLANDLORD or SUBTENANT to complain of any act or omission on the part of the other party, no matter how long the same may continue, shall not be deemed to be a waiver by said party of any of its rights hereunder. No waiver by SUBLANDLORD or SUBTENANT at any time, express or implied, of any breach of any

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provision of this Sublease shall be deemed a waiver of a breach of any other provision of this Sublease or a consent to any subsequent breach of the same or any other provision.

24. BROKER. Each party hereby represents and warrants to the other party that it has not dealt with any real estate broker or finder in connection with the transaction evidenced by this Sublease, and said party agrees to indemnify, defend and hold harmless the other party from and against any threatened or asserted claims, liabilities, losses or judgments (including reasonable attorneys' fees and disbursements) by any such broker or finder claiming to have dealt with the indemnifying party. This provision shall survive the termination or expiration of this Sublease.

25. NOTICES. Every notice, approval, consent or other communication required or permitted under this Sublease shall be in writing, shall be deemed to have been duly given three days after mailing by US Mail and or next day if by nationally known overnight carrier for priority next day delivery, and shall be valid only if either served personally on the party to whom notice is to be given, or mailed to the party to whom notice is to be given, by first class registered or certified mail, return receipt requested, or by nationally recognized overnight carrier for next day priority delivery, in each case postage prepaid, and addressed to the addressee at the address stated opposite its name below, or at the most recent address specified by written notice given to the other party in the manner provided in this Paragraph.

To SUBLANDLORD  
Mypodiamond, Inc.  
200 North Repauno Ave.  
Gibbstown, NJ 08027

with a copy to:

Richard P. Eckman  
Pepper Hamilton LLP  
1201 Market Street  
Suite 1600  
Wilmington, DE 19801

To SUBTENANT

Dynamic Materials Corporation  
551 Aspen Ridge Drive  
Lafayette, CO 80026  
Attn: Chief Executive Officer

26. PARTIAL INVALIDITY. If any term, covenant, condition or provision of this Sublease or the application thereof to any person or circumstance shall, at any time or to any extent, be invalid or unenforceable, the remainder of this Sublease, 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 term, covenant, condition and provision of this Sublease shall be valid and be enforced to the fullest extent permitted by law. Any provision of this Sublease which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent to which it is held invalid or unenforceable, but any such invalidity or unenforceability shall not invalidate or render unenforceable such provision in any other jurisdiction.

27. NO PARTNERSHIP. Nothing in this Sublease or the transaction for which it is written shall constitute or create a joint venture, partnership, agency or any other similar arrangement between SUBLANDLORD and SUBTENANT, and neither party is authorized to act as agent for the other party.

28. CAPTIONS. Titles or captions of Paragraphs contained in this Sublease are inserted only as a matter of convenience and for reference, and in no way define, limit,

extend, describe or otherwise affect the scope or meaning of this Sublease or the intent of any provision hereof. All Exhibits attached hereto shall be considered a part hereof as though fully set forth herein.

29. COUNTERPARTS. The parties may execute this Sublease in two (2) or more counterparts, which shall, in the aggregate, be signed by both the parties; and each counterpart shall be deemed an original instrument as against any party who has signed it.

30. SUCCESSION. All of the covenants, agreements, conditions and undertakings of this Sublease shall extend and inure to and be binding upon the successors and permitted assigns of the respective parties hereto.

31. WAIVER OF JURY TRIAL. EACH PARTY KNOWINGLY WAIVES THEIR RIGHT TO A JURY TRIAL.

32. THIRD PARTY BENEFICIARIES. There are no third party beneficiaries to this Sublease.

33. TIME OF THE ESSENCE. Time is of the essence under this Sublease.

IN WITNESS WHEREOF, the parties hereunto have caused this Agreement to be executed on the day and year first above written.

MYPODIAMOND, INC.

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

Print Name: \_\_\_\_\_

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

Date: \_\_\_\_\_

DYNAMIC MATERIALS CORPORATION

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

Print Name: \_\_\_\_\_

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

Date: \_\_\_\_\_



July 29, 2004

Mypodiamond, Inc.  
Fayette Business Park  
1101 Mt. View Drive  
Smithfield, PA 15478

To SUBLANDLORD:

Pursuant to Section 5 of the Sublease dated December 16, 2000 between Mypodiamond, Inc. and Dynamic Materials Corporation ("DMC"), DMC hereby provides written notice of its intent to exercise the extension option for a first additional term of five (5) years that will extend the term of the Sublease from December 16, 2005 until 11:59 p.m., eastern standard time, on December 15, 2010.

Sincerely,

A handwritten signature in blue ink, which appears to read "Richard A. Santa", is positioned below the word "Sincerely,".

Richard A. Santa  
Vice President and CFO

cc: Richard P. Eckman, Pepper Hamilton LLP

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## 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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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: April 26, 2006

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

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## 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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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: April 26, 2006

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

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

In connection with the Quarterly Report of Dynamic Materials Corporation (the "Company") on Form 10-Q for the period ended March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yvon Pierre Cariou, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

April 26, 2006

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

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

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

In connection with the Quarterly Report of Dynamic Materials Corporation (the "Company") on Form 10-Q for the period ended March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard A. Santa, Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

April 26, 2006

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

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

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