

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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 11,948,735 as of October 31, 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; 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 September 30, 2006 \(unaudited\) and December 31, 2005](#)
[Consolidated Statements of Operations for the three and nine months ended September 30, 2006 and 2005 \(unaudited\)](#)
[Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2006 \(unaudited\)](#)
[Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 and 2005 \(unaudited\)](#)
[Notes to Condensed Consolidated Financial Statements \(unaudited\)](#)

[Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

[Item 3 - Quantitative and Qualitative Disclosures about Market Risk](#)

[Item 4 - Controls and Procedures](#)

PART II - OTHER INFORMATION

[Item 1 - Legal Proceedings](#)

[Item 1A - Risk Factors](#)

[Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds](#)

[Item 3 - Defaults Upon Senior Securities](#)

[Item 4 - Submission of Matters to a Vote of Security Holders](#)

[Item 5 - Other Information](#)

[Item 6 - Exhibits](#)

[Signatures](#)

3

Part I - FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

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

	<u>September 30,</u> <u>2006</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2005</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 19,161	\$ 5,763
Marketable securities	—	1,950
Accounts receivable, net of allowance for doubtful accounts of \$400 and \$301, respectively	19,884	15,576
Inventories	14,025	11,869
Prepaid expenses and other	788	822
Current portion of other receivables related to discontinued operations	678	—
Current deferred tax assets	665	572
Total current assets	55,201	36,552
PROPERTY, PLANT AND EQUIPMENT	28,179	22,635
Less - Accumulated depreciation	(11,247)	(10,063)
Property, plant and equipment, net	16,932	12,572
GOODWILL, net	847	847
DEFERRED TAX ASSETS	39	819
OTHER ASSETS, net	25	101
OTHER RECEIVABLES RELATED TO DISCONTINUED OPERATIONS	—	681
ASSETS OF DISCONTINUED OPERATIONS	651	3,739
TOTAL ASSETS	<u>\$ 73,695</u>	<u>\$ 55,311</u>

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

4

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Share Data)

	<u>September 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
	(unaudited)	
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 8,182	\$ 7,278
Accrued expenses	1,977	1,615
Accrued income taxes	1,780	979
Accrued employee compensation and benefits	2,486	2,508
Customer advances	8,026	1,885
Related party debt	—	45
Current maturities on long-term debt	368	528
Total current liabilities	22,819	14,838
LONG-TERM DEBT	368	2,221
DEFERRED TAX LIABILITIES	329	195
OTHER LONG-TERM LIABILITIES	236	222
LIABILITIES OF DISCONTINUED OPERATIONS	—	2,880
COMMITMENTS AND CONTINGENT LIABILITIES	—	—
Total liabilities	23,752	20,356
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.05 par value; 4,000,000 shares authorized; no issued and outstanding shares	—	—
Common stock, \$.05 par value; 15,000,000 shares authorized; 11,948,735 and 11,758,920 shares issued and outstanding, respectively	597	588
Additional paid-in capital	21,676	19,778
Retained earnings	26,526	14,104
Other cumulative comprehensive income	1,144	485
Total stockholders' equity	49,943	34,955
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 73,695	\$ 55,311

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(Dollars in Thousands, Except Share Data)
(unaudited)

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
NET SALES	\$ 24,852	\$ 20,238	\$ 77,781	\$ 56,124
COST OF PRODUCTS SOLD	16,542	13,970	50,270	39,990
Gross profit	8,310	6,268	27,511	16,134
COSTS AND EXPENSES:				
General and administrative expenses	1,267	1,020	3,948	2,726
Selling expenses	904	849	3,174	2,845
Total costs and expenses	2,171	1,869	7,122	5,571
INCOME FROM OPERATIONS OF CONTINUING OPERATIONS	6,139	4,399	20,389	10,563
OTHER INCOME (EXPENSE):				
Other income (expense), net	(23)	(8)	(40)	9
Interest expense	(42)	(65)	(108)	(233)
Interest income	163	2	455	22
INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	6,237	4,328	20,696	10,361
INCOME TAX PROVISION	2,547	1,176	7,865	3,445
INCOME FROM CONTINUING OPERATIONS	3,690	3,152	12,831	6,916
DISCONTINUED OPERATIONS:				
Income from discontinued operations, net of tax	—	—	1,357	—

Income from discontinued operations	—	—	1,357	—
NET INCOME	\$ 3,690	\$ 3,152	\$ 14,188	\$ 6,916
INCOME PER SHARE - BASIC:				
Continuing operations	\$ 0.31	\$ 0.27	\$ 1.09	\$ 0.62
Discontinued operations	—	—	0.11	—
Net income	\$ 0.31	\$ 0.27	\$ 1.20	\$ 0.62
INCOME PER SHARE - DILUTED:				
Continuing operations	\$ 0.30	\$ 0.26	\$ 1.05	\$ 0.58
Discontinued operations	—	—	0.11	—
Net income	\$ 0.30	\$ 0.26	\$ 1.16	\$ 0.58
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING -				
Basic	11,865,336	11,648,502	11,813,371	11,141,394
Diluted	12,210,791	12,135,142	12,216,283	12,028,562
ANNUAL DIVIDENDS DECLARED PER COMMON SHARE				
	\$ —	\$ 0.10	\$ 0.15	\$ 0.10

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

6

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006
(Amounts in Thousands)
(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Income	Total	Comprehensive Income for the Period
	Shares	Amount					
Balances, December 31, 2005	11,759	\$ 588	\$ 19,778	\$ 14,104	\$ 485	\$ 34,955	
Shares issued in connection with stock-based compensation	189	9	486	—	—	495	
Shares issued in connection with the employee stock purchase plan	1	—	28	—	—	28	
Tax benefit related to stock options	—	—	948	—	—	948	
Stock-based compensation	—	—	436	—	—	436	
Dividends paid	—	—	—	(1,766)	—	(1,766)	
Net income	—	—	—	14,188	—	14,188	14,188
Change in cumulative foreign currency translation adjustment	—	—	—	—	659	659	659
Balances, September 30, 2006	<u>11,949</u>	<u>597</u>	<u>21,676</u>	<u>26,526</u>	<u>1,144</u>	<u>49,943</u>	<u>14,847</u>

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

7

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(Dollars in Thousands)
(unaudited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 14,188	\$ 6,916
Adjustments to reconcile net income to net cash provided by operating activities -		
Income from discontinued operations, net of tax	(1,357)	—
Depreciation	1,020	1,132
Amortization of capitalized debt issuance costs	50	33
Stock-based compensation	436	—
Provision for deferred income taxes	923	(171)

Tax benefit related to exercise of stock options	—	2,477
Change in -		
Accounts receivable, net	(3,885)	(1,003)
Inventories	(1,608)	(5,126)
Prepaid expenses and other	150	(1,585)
Accounts payable	568	421
Customer advances	5,961	264
Accrued expenses and other liabilities	(189)	1,186
Net cash provided by operating activities	16,257	4,544
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(5,154)	(1,966)
Sale of marketable securities	1,950	—
Loan to related party	(1,206)	—
Repayment on loan to related party	1,206	—
Change in other non-current assets	219	218
Payment received on other receivables related to discontinued operations	3	1,016
Cash flows provided by investing activities of discontinued operations	2,197	—
Net cash flows used in investing activities	(785)	(732)

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

8

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on bank lines of credit, net	—	(3,216)
Repayments on related party lines of credit, net	(47)	(86)
Payment on SNPE, Inc. term loan	—	(667)
Payment on industrial development revenue bond	(1,720)	(745)
Payment on term loan with French bank	(361)	(366)
Payment of dividends	(1,766)	(1,155)
Change in other long-term liabilities	22	23
Net proceeds from issuance of common stock to employees and directors	523	1,481
Tax benefit related to exercise of stock options	948	—
Net cash flows used in financing activities	(2,401)	(4,731)
EFFECTS OF EXCHANGE RATES ON CASH	327	(117)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,398	(1,036)
CASH AND CASH EQUIVALENTS, beginning of the period	5,763	2,404
CASH AND CASH EQUIVALENTS, end of the period	<u>\$ 19,161</u>	<u>\$ 1,368</u>
NON-CASH FINANCING ACTIVITY:		
Conversion of SNPE convertible subordinated note into common stock	<u>\$ —</u>	<u>\$ 1,200</u>

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

9

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.

On May 15, 2006, SNPE, Inc., the Company's former majority stockholder, sold in an underwritten public offering 5,926,982 shares of the Company's common stock, which represented all shares held by SNPE, Inc. Following the sale, four members of the Company's board of directors, each of whom had represented SNPE, Inc., resigned from the board. All transaction expenses were paid by SNPE, Inc.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. 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.

10

Revenue Recognition

Sales of clad metal products and welding services are generally based upon customer specifications set forth in customer purchase orders and require the Company 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, the Company recognizes such anticipated loss at such time.

Loan to Related Party

Nobelclad Europe, S.A. ("Nobelclad") had a Euro-denominated cash management agreement with SNPE, the parent company of SNPE, Inc., the Company's former majority stockholder, which provided for loans to or from either party of up to approximately \$3,400, based on the December 31, 2005 exchange rates. Amounts outstanding under this agreement bore 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 SNPE through this intercompany cash agreement. At March 31, 2006, these advances to 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 repaid in full in April 2006.

Earnings Per Share

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

	For the three months ended September 30, 2006		
	Net Income	Shares	Per share Amount
Basic earnings per share	\$ 3,690	11,865,336	\$ 0.31
Dilutive effect of options to purchase common stock	—	345,455	
Dilutive earnings per share	\$ 3,690	12,210,791	\$ 0.30

11

	For the three months ended September 30, 2005		
	Net Income	Shares	Per share Amount
Basic earnings per share	\$ 3,152	11,648,502	\$ 0.27
Dilutive effect of options to purchase common stock	—	486,640	
Dilutive effect of convertible subordinated note, net of tax	—	—	
Dilutive earnings per share	\$ 3,152	12,135,142	\$ 0.26

	For the nine months ended September 30, 2006		
	Net Income	Shares	Per share Amount
Basic earnings per share	\$ 14,188	11,813,371	\$ 1.20
Dilutive effect of options to purchase common stock	—	402,912	

Dilutive earnings per share	\$ 14,188	12,216,283	\$ 1.16
For the nine months ended September 30, 2005			
	Net Income	Shares	Per share Amount
Basic earnings per share	\$ 6,916	11,141,394	\$ 0.62
Dilutive effect of options to purchase common stock	—	654,202	
Dilutive effect of convertible subordinated note, net of tax	23	232,966	
Dilutive earnings per share	\$ 6,939	12,028,562	\$ 0.58

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. The Company selected the Black-Scholes option-pricing model as the most appropriate fair-value method for its awards and will recognize compensation cost on a straight-line basis over the awards’ vesting periods. The Company adopted SFAS 123R in the first quarter of 2006. See Note 3 for further detail.

12

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB No. 109* (“FIN 48”), which clarifies the accounting and disclosure for uncertainty in tax positions. FIN 48 seeks to harmonize certain accounting practices associated with the recognition and measurement of income taxes. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company has not yet determined the impact this interpretation will have on its results from operations or financial position.

3. STOCK-BASED COMPENSATION

Through its 1997 Equity Incentive Plan (“1997 Plan”), the Company had provided for grants of both incentive stock options and non-statutory stock options. On September 21, 2006, the Company’s stockholders approved, and the Company adopted, the 2006 Stock Incentive Plan (“2006 Plan”). Upon the adoption of the 2006 Plan, the 1997 Plan was terminated with respect to new grants of stock options; however, all unexercised options previously granted under the 1997 Plan remain outstanding. The 2006 Plan provides for the grant of various types of equity-based incentives, including stock options, restricted stock, restricted stock units, stock appreciation rights, performance shares, performance units and other stock-based awards. As of September 30, 2006, the only awards granted under the 2006 Plan were 25,000 shares of restricted stock.

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 and nine months ended September 30, 2005 because the options granted under the Company’s stock-based compensation 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 the transition method, compensation cost recognized in the three and nine months ended September 30, 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 the grant date fair value estimated in accordance with SFAS 123R.

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 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 \$948 excess tax benefit classified as a financing cash inflow in the Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 would have been classified as an operating cash inflow if the Company had not adopted SFAS 123R.

13

The following table sets forth the total stock-based compensation expense included in the Consolidated Statements of Operations as a result of adopting SFAS 123R on January 1, 2006, and the related decrease in pretax income and net income and earnings per share compared to what it would have reported had it continued to account for stock-based compensation under APB 25:

	<u>Three Months Ended September 30, 2006</u>	<u>Nine Months Ended September 30, 2006</u>
Cost of products sold	\$ 9	\$ 36
General and administrative expense	59	353
Selling expense	15	47
Stock-based compensation expense before income taxes	83	436
Income tax benefit	(16)	(85)
Stock-based compensation expense, net of income taxes	<u>\$ 67</u>	<u>\$ 351</u>
Earnings per share:		
Basic - income before income taxes	\$ 0.01	\$ 0.04
Basic - net income	<u>\$ 0.01</u>	<u>\$ 0.03</u>
Diluted - income before income taxes	\$ 0.01	\$ 0.04
Diluted - net income	<u>\$ 0.01</u>	<u>\$ 0.03</u>

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 and nine months ended September 30, 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. No options were granted for the three months ended September 30, 2005. The following assumptions were used in the options pricing model for the nine months ended September 30, 2005: a risk free interest rate of 3.7%; an expected volatility factor of 91.1%; an expected dividend yield of 0.5%; and an expected life of 4 years.

	<u>Three Months Ended September 30, 2005</u>	<u>Nine Months Ended September 30, 2005</u>
Net income-as reported	\$ 3,152	\$ 6,916
Deduct stock-based compensation expense determined under fair value method, net of related tax effects	(326)	(586)
Pro forma net income	<u>\$ 2,826</u>	<u>\$ 6,330</u>
Earnings per share:		
Basic-as reported	<u>\$ 0.27</u>	<u>\$ 0.62</u>
Basic-pro forma	<u>\$ 0.24</u>	<u>\$ 0.57</u>
Diluted-as reported	<u>\$ 0.26</u>	<u>\$ 0.58</u>
Diluted-pro forma	<u>\$ 0.23</u>	<u>\$ 0.53</u>

14

The Company's stock-based compensation expense relates to both stock option grants and restricted stock awards.

Stock Options: Under the 1997 Plan, incentive stock options were granted at exercise prices that equaled the fair market value of the stock at the date of grant based upon the closing sales price of the Company's common stock on that date. Incentive stock options generally vested 25% annually and expired ten years from the date of grant. Non-statutory stock options were generally granted at exercise prices that equaled the fair market value of the stock at the date of grant. These options vested over periods ranging from one to four years and had expiration dates ten years from the date of grant. As of September 30, 2006, no options have been granted under the 2006 plan.

The fair value for the single option granted since January 1, 2006 was estimated on the date of grant using a Black-Scholes option-pricing model with the following assumptions: 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. No options were granted during the three months ended September 30, 2006. The computation of expected volatility is based on historical volatility from the past four years, based on the current expected life of outstanding options. The 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 nine months ended September 30, 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.

The following table summarizes the stock options outstanding as of September 30, 2006 as well as activity for the nine months then ended:

	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of period	588,426	\$ 4.77		
Granted	20,000	35.21		
Exercised	(163,750)	3.02		
Cancelled	(74,426)	12.08		
Outstanding at end of period	<u>370,250</u>	<u>\$ 5.72</u>	<u>7.66</u>	<u>\$ 9,942</u>
Exercisable at end of period	<u>139,000</u>	<u>\$ 4.86</u>	<u>7.24</u>	<u>\$ 3,832</u>

The intrinsic value of options exercised for the three and nine months ended September 30, 2006 was \$2,563 and \$5,040, respectively. As of September 30, 2006, there was \$722 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 1.11 years.

Restricted Stock Awards: Restricted stock granted to the executive officers of the Company vest in one-third increments on the first, second and third anniversary of the grant. Restricted stock granted to directors of the Company vest on the date of the second annual meeting following the date of grant. The fair value of the restricted stock awards is based on the fair value

15

of the Company's stock on the date of grant and is amortized to compensation expense over the vesting period on a straight line basis.

The only restricted stock awards outstanding as of September 30, 2006, were 25,000 shares granted under the 2006 Plan on September 21, 2006. These shares, none of which were vested as of September 30, 2006, had a weighted-average grant date fair value of \$34.39 per share. As of September 30, 2006, there was \$852 of total unrecognized stock-based compensation cost related to unvested restricted stock awards. The cost is expected to be recognized over a weighted average period of 1.92 years.

4. INVENTORY

The components of inventory are as follows at September 30, 2006 and December 31, 2005:

	<u>September 30, 2006 (unaudited)</u>	<u>December 31, 2005</u>
Raw materials	\$ 6,213	\$ 5,767

Work-in-process	7,272	5,878
Supplies	540	224
	<u>\$ 14,025</u>	<u>\$ 11,869</u>

5. DEBT

Long-term debt consists of the following at September 30, 2006 and December 31, 2005:

	September 30, 2006 (unaudited)	December 31, 2005
Term loan - French bank	\$ 736	\$ 1,029
Industrial development revenue bonds	—	1,720
	736	2,749
Less current maturities	<u>(368)</u>	<u>(528)</u>
Long-term debt	<u>\$ 368</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 September 30, 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

16

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 units that offer different products and services and are separately managed. Each segment is marketed to different customer types and requires different manufacturing processes and technologies. Segment information is presented for the three and nine months ended September 30, 2006 and 2005 as follows:

	Explosive Metalworking Group	AMK Welding	Total
For the three months ended September 30, 2006:			
Net sales	\$ 23,511	\$ 1,341	\$ 24,852
Depreciation	\$ 320	\$ 55	\$ 375
Segment income from operations of continuing operations	\$ 5,831	\$ 391	\$ 6,222
Unallocated amounts:			
Stock-based compensation			(83)
Other expense			(23)
Interest income, net			121
Consolidated income before income taxes and discontinued operations			<u>\$ 6,237</u>

	Explosive Metalworking Group	AMK Welding	Total
For the three months ended September 30, 2005:			
Net sales	\$ 19,188	\$ 1,050	\$ 20,238
Depreciation	\$ 361	\$ 54	\$ 415
Segment income from operations of continuing operations	\$ 4,141	\$ 258	\$ 4,399
Unallocated amounts:			
Other expense			(8)
Interest expense, net			(63)
Consolidated income before income taxes and discontinued operations			<u>\$ 4,328</u>

17

	Explosive Metalworking Group	AMK Welding	Total
For the nine months ended September 30, 2006:			
Net sales	\$ 74,336	\$ 3,445	\$ 77,781
Depreciation	\$ 854	\$ 166	\$ 1,020

Segment income from operations of continuing operations	<u>\$ 20,204</u>	<u>\$ 621</u>	<u>\$ 20,825</u>
Unallocated amounts:			
Stock-based compensation			(436)
Other expense			(40)
Interest income, net			347
Consolidated income before income taxes and discontinued operations			<u>\$ 20,696</u>

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

During the three and nine months ended September 30, 2006, no sales to any one customer accounted for more than 10% of total net sales. During the three months ended September 30, 2005, sales to one customer represented approximately \$2,225 (11%) of total net sales and sales to another customer represented approximately \$3,125 (15%) of total net sales. During the nine months ended September 30, 2005, no sales to any one customer accounted for more than 10% of total net sales.

18

7. COMPREHENSIVE INCOME

The Company's comprehensive income for the three and nine months ended September 30, 2006 and 2005 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income for the period	<u>\$ 3,690</u>	<u>\$ 3,152</u>	<u>\$ 14,188</u>	<u>\$ 6,916</u>
Foreign currency translation adjustment	<u>137</u>	<u>(2)</u>	<u>659</u>	<u>(692)</u>
Comprehensive income	<u>\$ 3,827</u>	<u>\$ 3,150</u>	<u>\$ 14,847</u>	<u>\$ 6,224</u>

As of September 30, 2006 and December 31, 2005 other cumulative comprehensive income of \$1,144 and \$485, respectively, consists entirely of cumulative foreign currency translation adjustment.

8. DISCONTINUED OPERATIONS

On September 17, 2004, the Company 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, the Company 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, the Company 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.

19

Assets of discontinued operations are comprised of the following:

	September 30, 2006	December 31, 2005
	(unaudited)	
Leased manufacturing equipment	<u>651</u>	<u>859</u>
Capital lease asset - real estate	<u>—</u>	<u>2,880</u>
Total assets of discontinued operations	<u>\$ 651</u>	<u>\$ 3,739</u>

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 September 30, 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 and nine months ended September 30, 2006 is summarized as follows:

Three Months Ended

Nine Months Ended

	September 30, 2006	September 30, 2006
Gain on sale of real estate purchase option	\$ —	\$ 2,197
Related income tax expense	—	(840)
Income from discontinued operations, net of tax	\$ —	\$ 1,357

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 (to which we also refer as DMC Clad) and AMK Welding. For the three months ended September 30, 2006, Explosive Metalworking accounted for 95% of our net sales and 94% of our income from operations of continuing operations before consideration of stock-based compensation expense, which is not allocated to our business segments. For the nine months ended September 30, 2006, Explosive Metalworking accounted for 96% of our net sales and 97% of our income from operations of continuing operations before consideration of stock-based compensation expense.

For the nine months ended September 30, 2006, net sales increased 38.6% compared to the first nine months of 2005, reflecting year-to-year net sales increases of 39.2% and 26.6% for our Explosive Metalworking and AMK Welding segments, respectively. Our operating income from continuing operations increased 93.0% to \$20,389 in the first nine months of 2006 from \$10,563 in the first nine months of 2005, reflecting a \$10,126 improvement in Explosive Metalworking's operating income and a \$136 improvement in AMK Welding's operating income. Income from continuing operations increased 85.5%, to \$12,831 for the nine months ended September 30, 2006 from \$6,916 in the same period of 2005. Our net income increased to \$14,188 in the first nine months of 2006 from \$6,916 in the first nine months of 2005. For the nine months ended September 30, 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. The large increase in our net income for the first nine months of 2006 compared to the first nine months of 2005 is attributable to a strong demand from the end users of our products due to increased capital investment in the industries we serve.

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 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.

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 because it is linked to its customers' end-market activity. For example, the construction cycle for new manufacturing capacity in the chemical industry has historically been one characterized by significant amplitude. It is driven both by global 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 increased to 38.0% for the first nine months of 2006 from 33.2% for the first nine months 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 effective tax rate for the nine months ended September 30, 2006 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,

Backlog

We use backlog as a primary means of measuring 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 backlog orders 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 Explosive Metalworking segment increased to approximately \$68.5 million at September 30, 2006 from approximately \$52.4 million at June 30, 2006 and \$42.0 million at December 31, 2005. The record backlog as of September 30, 2006 includes our largest ever order in the amount of approximately \$11.0 million that was booked in May and relates to an Eastern European refinery project and two orders aggregating \$8.7 million that were booked in September for a nickel hydrometallurgy project in Madagascar. We expect to ship the majority of the Eastern European refinery order during the fourth quarter of 2006 and the nickel hydrometallurgy orders are expected to ship during the first half of 2007.

Three and Nine Months Ended September 30, 2006 Compared to Three and Nine Months Ended September 30, 2005

Net sales

	Three Months Ended September 30,		Change	Percentage Change
	2006	2005		
Net sales	\$ 24,852	\$ 20,238	\$ 4,614	22.8%

	Nine Months Ended September 30,		Change	Percentage Change
	2006	2005		
Net sales	\$ 77,781	\$ 56,124	\$ 21,657	38.6%

Net sales for the third quarter of 2006 increased 22.8% to \$24,852 from \$20,238 in the third quarter of 2005. Explosive Metalworking sales increased 22.5% to \$23,511 in the three months ended September 30, 2006 (95% of total sales) from \$19,188 in the same period of 2005 (95% of total sales). AMK Welding contributed \$1,341 to third quarter 2006 sales (5% of total sales) which represented a 27.7% increase versus sales of \$1,050 in the third quarter of 2005 (5% of total sales).

Net sales for the nine months ended September 30, 2006 increased 38.6% to \$77,781 from \$56,124 in the same period of 2005. Sales for our Explosive Metalworking segment increased 39.2% to \$74,336 in the first nine months of 2006 (96% of total sales) from \$53,402 for the first nine months of 2005 (95% of total sales). AMK Welding's year to date sales increased by 26.6% to \$3,445 in 2006 (4% of total sales) from \$2,722 in 2005 (5% of total sales). 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. As expected, our third quarter net sales were lower than those reported in this year's first and second quarters. However, net sales are expected to strengthen in the fourth quarter and we expect net sales for the second half of 2006 to be comparable to those reported for the first half of the year.

Gross profit

	Three Months Ended September 30,		Change	Percentage Change
	2006	2005		
Gross profit	\$ 8,310	\$ 6,268	\$ 2,042	32.6%
Consolidated gross profit margin rate	33.4%	31.0%		

	Nine Months Ended September 30,		Change	Percentage Change
	2006	2005		
Gross profit	\$ 27,511	\$ 16,134	\$ 11,377	70.5%
Consolidated gross profit margin rate	35.4%	28.7%		

Gross profit increased by 32.6% to \$8,310 for the three months ended September 30, 2006 from \$6,268 for the three months ended September 30, 2005. Our third quarter 2006 consolidated gross profit margin rate increased to 33.4% from 31.0% in the third quarter of 2005. The gross profit margin for Explosive Metalworking increased from 30.9% in the third quarter of 2005 to 33.1% in the third quarter of 2006 and the gross profit margin for AMK Welding increased to 40.8% in the third quarter of 2006 from 33.0% in the third quarter of 2005.

For the nine months ended September 30, 2006, gross profit increased to \$27,511 from \$16,134 for the same period of 2005, a 70.5% increase. Our year to date consolidated gross profit margin rate increased to 35.4% from 28.7% for the first nine months of 2005. The gross profit margin rate for Explosive Metalworking increased to 35.6% from 28.8%. For the nine months ended September 30, 2006, the gross profit margin for AMK Welding increased to 31.1% from 26.7% for the same period in 2005.

The year to date gross margin improvement for Explosive Metalworking relates primarily to the sales increase discussed above and the resultant more favorable absorption of fixed manufacturing overhead expenses. This gross margin increase also reflects favorable changes in product mix and higher average prices in 2006 with respect to both our U.S. and European operations. The Explosive Metalworking 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. As expected, the lower net sales that we reported in the third quarter of 2006 resulted in third quarter gross margins that were lower than those we reported in the first two quarters of 2006. However, based upon sales that we currently expect to report for the fourth quarter, we expect our fourth quarter gross margins to meet or exceed the gross margin levels that we reported for the first half of the year.

General and administrative expenses

	Three Months Ended September 30,		Change	Percentage Change
	2006	2005		
General & administrative expenses	\$ 1,267	\$ 1,020	\$ 247	24.2%
Percentage of net sales	5.1%	5.0%		

	Nine Months Ended September 30,		Change	Percentage Change
	2006	2005		
General & administrative expenses	\$ 3,948	\$ 2,726	\$ 1,222	44.8%
Percentage of net sales	5.1%	4.9%		

General and administrative expenses increased by \$247, or 24.2%, to \$1,267 in the third quarter of 2006 from \$1,020 in the third quarter of 2005. Expense increases reflect stock-based compensation expense of \$59, an impact of \$68 from annual salary adjustments, a \$32 increase in director's fees, and a \$27 increase in NASDAQ fees relating to the transfer of our listing to the NASDAQ National Market from the NASDAQ Capital Market. As a percentage of net sales, general and administrative expenses increased to 5.1% in the third quarter of 2006 from 5.0% in the third quarter of 2005.

General and administrative expenses for the nine months ended September 30, 2006 totaled \$3,948 compared to \$2,726 for the same period of 2005. This represents an increase of 44.8%. The \$1,222 increase in 2006 general and administrative expenses for the nine-month period reflects stock-based compensation expense of \$353, an impact of \$255 from annual salary adjustments, a \$196 increase in accrued incentive compensation expense, an aggregate increase of \$116 in audit, tax advisory, consulting and investor relations expenses, and a \$57 increase in NASDAQ fees relating to the transfer of our listing to the NASDAQ National Market from the NASDAQ Capital Market. 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 5.1% in the first nine months of 2006 from 4.9% in the first nine months of 2005.

Selling expenses

	Three Months Ended September 30,		Change	Percentage Change
	2006	2005		
Selling expenses	\$ 904	\$ 849	\$ 55	6.5%
Percentage of net sales	3.6%	4.2%		

	Nine Months Ended September 30,		Change	Percentage Change
	2006	2005		
Selling expenses	\$ 3,174	\$ 2,845	\$ 329	11.6%
Percentage of net sales	4.1%	5.1%		

Selling expenses increased by 6.5% to \$904 in the third quarter of 2006 from \$849 in the third quarter of 2005. The \$55 increase in selling expenses reflects the impact of annual salary

adjustments and higher travel expenses that were partially offset by a decrease in sales commissions. As a percentage of net sales, selling expenses decreased to 3.6% in the third quarter of 2006 from 4.2% in the third quarter of 2005.

Selling expenses increased by 11.6% to \$3,174 in the first nine months of 2006 from \$2,845 in the same period of 2005. The \$329 increase in year to date selling expenses reflects \$145 for a sales commission on a large export order from the U.S., the impact of annual salary adjustments and higher travel expenses. As a percentage of net sales, selling expenses decreased to 4.1% in the first nine months of 2006 from 5.1% in the first nine months of 2005.

Income from operations of continuing operations

	Three Months Ended September 30,		Change	Percentage Change
	2006	2005		
Income from operations of continuing operations	\$ 6,139	\$ 4,399	\$ 1,740	39.6%

	Nine Months Ended September 30,		Change	Percentage Change
	2006	2005		
Income from operations of continuing operations	\$ 20,389	\$ 10,563	\$ 9,826	93.0%

Income from operations increased by 39.6% to \$6,139 in the third quarter of 2006 from \$4,399 in the third quarter of 2005. Explosive Metalworking reported income from operations of \$5,831 in the third quarter of 2006 as compared to \$4,141 in the third quarter of 2005. This 40.8% increase is largely attributable to the 22.5% sales increase discussed above. AMK Welding reported income from operations of \$391 for the three months ended September 30, 2006, compared to \$258 for the same period of 2005.

Income from operations increased by 93.0% to \$20,389 in the first nine months of 2006 from \$10,563 in the first nine months of 2005. Explosive Metalworking reported income from operations of \$20,204 in the first nine months of 2006 as compared to \$10,078 in the first nine months of 2005. This 100.5% increase is largely attributable to the 39.2% sales increase discussed above. AMK Welding reported income from operations of \$621 for the first nine months of 2006, compared to the \$485 that it reported for the first nine months of 2005.

Income from operations of continuing operations for the three and nine months ended September 30, 2006 includes \$83 and \$436, respectively, of stock-based compensation expense. This expense is not allocated to our two business segments and thus is not included in the above third quarter and year to date 2006 operating income totals for Explosive Metalworking and AMK Welding. Stock-based compensation expense associated with currently outstanding stock-based compensation awards is expected to approximate \$200 in the fourth quarter of 2006.

Interest income (expense), net

	Three Months Ended			Percentage Change
	September 30,		Change	
	2006	2005		
Interest income (expense), net	\$ 121	\$ (63)	\$ 184	NM

26

	Nine Months Ended			Percentage Change
	September 30,		Change	
	2006	2005		
Interest income (expense), net	\$ 347	\$ (211)	\$ 558	NM

Net interest income (expense) improved by \$184, to a net of \$121 in interest income for the third quarter 2006 from a net of \$63 in interest expense in the third quarter of 2005. We recorded net interest income of \$347 for the first nine months of 2006 compared to net interest expense of \$211 for the first nine months of 2005, an improvement of \$558. 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			Percentage Change
	September 30,		Change	
	2006	2005		
Income tax provision	\$ 2,547	\$ 1,176	\$ 1,371	116.6%
Effective tax rate	40.8%	27.2%		

	Nine Months Ended			Percentage Change
	September 30,		Change	
	2006	2005		
Income tax provision	\$ 7,865	\$ 3,445	\$ 4,420	128.3%
Effective tax rate	38.0%	33.2%		

We recorded an income tax provision of \$2,547 in the third quarter of 2006 compared to \$1,176 in the third quarter of 2005. The effective tax rate increased to 40.8% in the third quarter of 2006 from 27.2% in the third quarter of 2005. The income tax provisions for the three months ended September 30, 2006 and 2005 include \$2,370 and \$601, respectively, related to U.S. taxes, with the remainder relating to foreign taxes associated with the operations of Nobelclad and its Swedish subsidiary, Nitro Metall. The somewhat higher than expected third quarter 2006 effective tax rate of 40.8% relates to certain tax provision adjustments that were recorded in the third quarter in connection with the reconciliation of our tax accounts to the actual federal and state tax returns for 2005 that were completed and filed during the quarter and to minor adjustments to our estimated effective tax rate for the full year 2006. The third quarter 2005 effective tax rate of 27.2% was well below the full year 2005 effective tax rate of 33.5% as a result of the completion of a number of tax projects during the quarter that impacted our tax provision for the three and nine months ended September 30, 2005. Our third quarter and year-to-date 2005 tax provision included combined U.S. federal and state benefits of approximately \$254 relating to tax credits and other attributes identified in connection with these projects and claimed on 2004 and amended prior year Federal and state tax returns that were filed during the quarter.

For the nine months ended September 30, 2006, we recorded an income tax provision of \$7,865 compared to \$3,445 for the same period of 2005. The effective tax rate increased to 38.0% for the first nine months of 2006 from 33.2% for the first nine months of 2005. The income tax provisions for the nine months ended September 30, 2006 and 2005 include \$6,551 and \$2,416, respectively, related to U.S. taxes, with the remainder relating to foreign taxes associated with the operations of Nobelclad and Nitro Metall. We expect our full year 2006 effective tax rate on consolidated pre-tax income to be in the 37% to 38% range.

27

Income from discontinued operations

	Three Months Ended			Percentage Change
	September 30,		Change	
	2006	2005		
Income from discontinued operations	\$ —	\$ —	\$ —	NA

	Nine Months Ended			Percentage Change
	September 30,		Change	
	2006	2005		
Income from discontinued operations	\$ 1,357	\$ —	\$ 1,357	NA

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 expansion that we have initiated at our Mount Braddock, Pennsylvania manufacturing 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,

28

mortgaging, pledging or disposition of major assets and maintenance of specified financial ratios. As of September 30, 2006, we were in compliance with all financial covenants and other provisions of our debt agreements.

Except for the early redemption on September 1, 2006 of industrial development revenue bonds in the principal amount of \$1,630, 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 nine months ended September 30, 2006 totaled \$16,257. Significant sources of operating cash flow included net income from continuing operations of \$14,188, non-cash depreciation and amortization expense of \$1,070, \$923 from provision for deferred income taxes, stock-based compensation of \$436 and net positive changes in various components of working capital in the amount of \$997. Net positive changes in working capital included increases in customer advances and accounts payable of \$5,961 and \$568, respectively. These positive changes in working capital were largely offset by increases in accounts receivable and inventories of \$3,885 and \$1,608, respectively.

Net cash flows provided by operating activities for the nine months ended September 30, 2005 totaled \$4,544. Significant sources of operating cash flow included net income of \$6,916, non-cash depreciation and amortization expense of \$1,165, and \$2,477 from the tax benefit related to stock options exercised during the year. These sources of cash flow were partially offset by net negative changes of \$5,843 in various components of working capital. Net negative changes in working capital during the first nine months of 2005 included increases in accounts receivable, inventories and prepaid expenses of \$1,003, \$5,126 and \$1,585, respectively. These negative changes in working capital were partially offset by increases in accounts payable, customer advances, and accrued expenses and other liabilities of \$421, \$264 and \$1,186, respectively.

Cash flows from investing activities

Net cash flows used by investing activities for the first nine months of 2006 totaled \$785 and consisted primarily of \$5,154 in capital expenditures that were largely offset by \$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.

Net cash flows used by investing activities for the first nine months of 2005 totaled \$732 and consisted primarily of \$1,966 in capital expenditures that were largely offset by a \$1,016 payment received on a portion of the outstanding receivable relating to the Spin Forge divestiture.

Cash flows from financing activities

Net cash flows used in financing activities for the nine months ended September 30, 2006 were \$2,401. Significant uses of cash for financing activities included a \$1,766 payment of annual dividends, a \$361 principal payment on a term loan with French bank and final principal payments on the industrial development revenue bond in the amount of \$1,720, including \$1,630 that was redeemed in advance of scheduled maturity dates. Sources of cash flow from financing activities included \$523 in net proceeds from the issuance of common stock relating to the exercise of stock options and \$948 for tax benefits related to the exercise of stock options.

Net cash flows used in financing activities for the nine months ended September 30, 2005 were \$4,731. Significant uses of cash for financing activities included net repayments on bank

29

lines of credit of \$3,216, payment of annual dividends of \$1,155, final principal payments on the SNPE term loan of \$667, industrial development revenue bond principal payments of \$745 and a principal payment on a term loan with French bank of \$366. Sources of cash flow from financing activities include \$1,481 in net proceeds from the issuance of common stock relating to the exercise of stock options and employee stock purchases under 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 decision to pay cash dividends is and will continue to be at the discretion of the board of directors.

30

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. All issues of conformity of the product to specifications are resolved before the product is shipped and billed. Revenue is recognized only when all four of the following criteria have been satisfied: persuasive evidence of an arrangement exists; the price is fixed or determinable; delivery has occurred; and collection is reasonably assured. For contracts that require multiple shipments, revenue is recorded only for the units included in each individual shipment. If, as a contract proceeds toward completion, projected total cost on an individual contract indicates a potential loss, we provide currently for such anticipated loss.

Asset impairments

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.

31

The entire amount of goodwill, which had a carrying value of \$847 on our balance sheet as of September 30, 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 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.

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 during the first nine months of 2006, our projected utilization of the net operating losses and tax credits is more favorable and, as a result, the valuation at September 30, 2006 has been reduced to \$135.

Stock-Based Compensation Expense

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

32

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. The Company selected the Black-Scholes option-pricing model as the most appropriate fair-value method for its awards and will recognize compensation cost on a straight-line basis over the awards' vesting periods. The Company adopted SFAS 123R in the first quarter of 2006, which resulted in an after tax reduction in net income of \$351 for the first nine months of 2006.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB No. 109* ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in tax positions. FIN 48 seeks to harmonize certain accounting practices associated with the recognition and measurement of income taxes. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company has not yet determined the impact this interpretation will have on its results from operations or financial position.

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 September 30, 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

The Company's Annual Meeting of Stockholders was held on September 21, 2006. At the Annual Meeting, the stockholders of the Company (i) elected the persons listed below to serve as directors of the Company until the 2007 Annual Meeting of Stockholders (ii) approved the Company's 2006 Stock Incentive Plan and (iii) ratified the

appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2006.

The Company had 11,844,235 shares of Common Stock outstanding as of August 11, 2006, the record date for the Annual Meeting. At the Annual Meeting, holders of a total of 10,837,966 shares of Common Stock were present in person or represented by proxy. The following sets forth information regarding the results of the voting at the Annual Meeting:

Proposal 1

<u>Election of Directors</u>	<u>Shares Voted "For"</u>	<u>Shares Withheld</u>
Dean K Allen	9,871,644	966,322
Yvon Pierre Cariou	7,879,024	2,958,942
Bernard Hueber	7,879,800	2,958,166
Gerard Munera	10,533,476	304,490

35

Proposal 2 To approve the Company's 2006 Stock Incentive Plan.

<u>Shares Voted "For"</u>	<u>Shares Voted "Against"</u>	<u>Shares Voted "Abstain"</u>
5,256,882	694,320	184,812

Proposal 3 To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2006.

<u>Shares Voted "For"</u>	<u>Shares Voted "Against"</u>	<u>Shares Voted "Abstain"</u>
10,749,183	45,596	43,187

Item 5. Other Information

None.

Item 6.

Exhibits

- 10.1 - Dynamic Materials Corporation 2006 Stock Incentive Plan
- 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.

36

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: November 2, 2006

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

37



DYNAMIC MATERIALS CORPORATION
5405 SPINE ROAD, BOULDER, COLORADO 80301

Dynamic Materials Corporation 2006 Stock Incentive Plan

1) ESTABLISHMENT, OBJECTIVES AND DURATION.

- a) Establishment of the Plan. Dynamic Materials Corporation (hereinafter referred to as the "Company"), hereby establishes an incentive compensation plan to be known as The "Dynamic Materials Corporation 2006 Stock Incentive Plan" (hereinafter referred to as the "Plan"). The Plan permits the granting of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units and Other Stock-Based Awards. The Plan is effective as of September 21, 2006 (the "Effective Date"), subject to the approval of the Plan by the stockholders of the Company at the 2006 Annual Meeting. Definitions of capitalized terms used in the Plan are contained in the attached Glossary, which is an integral part of the Plan.
- b) Objectives of the Plan. The objectives of the Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Participants and to optimize the profitability and growth of the Company through incentives that are consistent with the Company's goals and that link the personal interests of Participants to those of the Company's stockholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of Participants who make or are expected to make significant contributions to the Company's success and to allow Participants to share in the success of the Company.
- c) Duration of the Plan. No Award may be granted under the Plan after the day immediately preceding the tenth (10th) anniversary of the Effective Date, or such earlier date as the Board shall determine. The Plan will remain in effect with respect to outstanding Awards until no Awards remain outstanding.

2) Administration of the Plan.

- a) The Committee. The Plan shall be administered by the Compensation Committee of the Board or such other committee (the "Committee") as the Board shall select consisting of two (2) or more members of the Board each of whom is intended to be a "non-employee director" within the meaning of Rule 16b-3 (or any successor rule) of the Exchange Act, an "outside director" under regulations promulgated under Section 162(m) of the Code, and an "independent director" under the NASDAQ Marketplace Rules. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board.
- b) Authority of the Committee. Subject to Applicable Laws and the provisions of the Plan (including any other powers given to the Committee hereunder), and except as otherwise provided by the Board, the Committee shall have full and final authority in its discretion to take all actions determined by the Committee to be necessary in the administration of the Plan, including, without limitation, discretion to:
 - i) select the Employees, Directors and Consultants to whom Awards may from time to time be granted hereunder;
 - ii) determine whether and to what extent Awards are granted hereunder;
 - iii) determine the size and types of Awards granted hereunder;

1

-
- iv) approve forms of Award Agreement for use under the Plan;
 - v) determine the terms and conditions of any Award granted hereunder;
 - vi) establish performance goals for any Performance Period and determine whether such goals were satisfied;
 - vii) amend the terms of any outstanding Award granted under the Plan, provided that, except as otherwise provided in Section 18, no such amendment shall reduce the Exercise Price of outstanding Options or the grant price of outstanding SARs without the approval of the stockholders of the Company, and provided further, that any amendment that would adversely affect the Participant's rights under an outstanding Award shall not be made without the Participant's written consent;
 - viii) construe and interpret the terms of the Plan and any Award Agreement entered into under the Plan, and to decide all questions of fact arising in its application; and
 - ix) take such other action, not inconsistent with the terms of the Plan, as the Committee deems appropriate.

As permitted by Applicable Laws, the Committee may delegate its authority as identified herein, including the power and authority to make Awards to Participants who are not "insiders" subject to Section 16(b) of the Exchange Act, pursuant to such conditions and limitations as the Committee may establish.

- c) Effect of Committee's Decision. All decisions, determinations and interpretations of the Committee shall be final, binding and conclusive on all persons, including the Company, its Subsidiaries, its stockholders, Employees, Directors, Consultants and their estates and beneficiaries.

3) SHARES SUBJECT TO THE PLAN; EFFECT OF GRANTS; INDIVIDUAL LIMITS.

- a) Number of Shares Available for Grants. Subject to adjustment as provided in Section 18 hereof, the maximum number of Shares which may be issued pursuant to Awards under the Plan shall be 850,000, plus any Shares remaining available for issuance under the Prior Plan as of the Effective Date, plus the number of Shares subject to outstanding awards under the Prior Plan as of the Effective Date that are deemed not delivered pursuant to paragraphs (i), (ii), (iii) or (iv) of this Section 3(a).
 - i) Shares that are potentially deliverable under an Award or a Prior Plan award that expires or is canceled, forfeited, settled in cash or otherwise settled without the delivery of Shares shall not be treated as having been issued under the Plan or the Prior Plan.
 - ii) Shares that are held back or tendered (either actually or constructively by attestation) to cover the exercise price or tax withholding obligations with respect to an Award or a Prior Plan award shall not be treated as having been issued under the Plan or the Prior Plan.
 - iii) Shares that are issued pursuant to awards that are assumed, converted or substituted in connection with a merger, acquisition, reorganization or similar transaction shall not be treated as having been issued under the Plan or the Prior Plan.
 - iv) Shares that are repurchased in the open market with Option Proceeds from Awards or a Prior Plan award shall not be treated as having been issued under the Plan

or the Prior Plan provided, however, that the aggregate number of Shares deemed not issued pursuant to the repurchase of Shares with Option Proceeds shall not be greater than the amount of such proceeds divided by the Fair Market Value of a Share on the date of exercise of the Option or Prior Plan option giving rise to such proceeds.

Notwithstanding paragraphs (i) through (iv) above, for purposes of determining the number of Shares available for grant as Incentive Stock Options, only Shares that are subject to an Award or a Prior Plan award that expires or is cancelled, forfeited or settled in cash shall be treated as not having been issued under the Plan or the Prior Plan.

The Shares to be issued pursuant to Awards may be authorized but unissued Shares or treasury Shares.

b) Individual Limits. Subject to adjustment as provided in Section 18 hereof, the following rules shall apply with respect to Awards:

- i) Options and SARs: The maximum aggregate number of Shares with respect to which Options and SARs may be granted in any 36-month period to any one Participant shall be 425,000 Shares.
- ii) Restricted Stock, Restricted Stock Units, Performance Shares and Other Stock-Based Awards: The maximum aggregate number of Shares of Restricted Stock and Shares with respect to which Restricted Stock Units, Performance Shares and Other Stock-Based Awards may be granted in any 36-month period to any one Participant shall be 425,000 Shares.
- iii) Performance Units: The maximum aggregate compensation that can be paid pursuant to Performance Units awarded in any one fiscal year to any one Participant shall be \$5,000,000 or a number of Shares having an aggregate Fair Market Value not in excess of such amount.

4) **ELIGIBILITY AND PARTICIPATION.**

- a) Eligibility. Persons eligible to participate in the Plan include all Employees, Directors and Consultants.
- b) Actual Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees, Directors and Consultants, those to whom Awards shall be granted and shall determine the nature and amount of each Award. The Committee may establish additional terms, conditions, rules or procedures to accommodate the rules or laws of applicable foreign jurisdictions and to afford Participants favorable treatment under such laws; provided, however, that no Award shall be granted under any such additional terms, conditions, rules or procedures with terms or conditions which are inconsistent with the provisions of the Plan.

5) **TYPES OF AWARDS.**

- a) Type of Awards. Awards under the Plan may be in the form of Options (both Nonqualified Stock Options and/or Incentive Stock Options), SARs, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units and Other Stock-Based Awards.
- b) Designation of Award. Each Award shall be designated in the Award Agreement.

6) **OPTIONS.**

- a) Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Participants in such number and upon such terms, and at any time and from time to time, as shall be determined by the Committee.
- b) Award Agreement. Each Option grant shall be evidenced by an Award Agreement that shall specify the Exercise Price, the duration of the Option, the number of Shares to which the Option pertains, and such other provisions as the Committee shall determine including, but not limited to, the Option vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, Shares, or other consideration) upon settlement of the Award, and payment contingencies. The Award Agreement also shall specify whether the Option is intended to be an Incentive Stock Option or a Nonqualified Stock

Option. Options that are intended to be Incentive Stock Options shall be subject to the limitations set forth in Section 422 of the Code.

- c) Exercise Price. Except for Options adjusted pursuant to Section 18 herein, and replacement Options granted in connection with a merger, acquisition, reorganization or similar transaction, the Exercise Price for each grant of an Option shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted. However, in the case of an Incentive Stock Option granted to a Participant who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Subsidiary, the Exercise Price for each grant of an Option shall not be less than one hundred ten percent (110%) of the Fair Market Value of a Share on the date the Option is granted.
- d) Term of Options. The term of an Option granted under the Plan shall be determined by the Committee, in its sole discretion; provided, however, that such term shall not exceed ten (10) years. However, in the case of an Incentive Stock Option granted to a Participant who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Award Agreement.
- e) Exercise of Options. Options granted under this Section 6 shall be exercisable at such times and be subject to such restrictions and conditions as set forth in the Award Agreement and as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant; provided, however, that except as otherwise provided in a Participant's Award Agreement upon a termination of employment or pursuant to Section 19 in the event of a Change in Control or Subsidiary Disposition, no Option may be exercisable prior to one (1) year from the date of grant.
- f) Payments. Options granted under this Section 6 shall be exercised by the delivery of a written notice to the Company, setting forth the number of Shares with respect to which the Option is to be exercised and specifying the method of the Exercise Price. The Exercise Price of an Option shall be payable to the Company: (i) in cash or its equivalent, (ii) by tendering (either actually or constructively by attestation) Shares having an aggregate Fair Market Value at the time of exercise equal to the Exercise Price, (iii) in any other manner then permitted by the Committee, or (iv) by a combination of any of the permitted methods of payment. The Committee may limit any method of payment, other than that specified under (i), for administrative convenience, to comply with Applicable Laws or otherwise.

- g) Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Section 6 as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such Shares.
- h) Termination of Employment or Service. Each Participant's Option Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant's employment or, if the Participant is a Director or Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Options, and may reflect distinctions based on the reasons for termination of employment or service.

7) **STOCK APPRECIATION RIGHTS.**

- a) Grant of SARs. Subject to the terms and provisions of the Plan, SARs may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee. The Committee may grant Freestanding SARs, Tandem SARs, or any combination of these forms of SAR.

4

-
- b) Award Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the grant price, the term of the SAR, and such other provisions as the Committee shall determine.
 - c) Grant Price. The grant price of a Freestanding SAR shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant of the SAR, and the grant price of a Tandem SAR shall equal the Exercise Price of the related Option; provided, however, that these limitations shall not apply to Awards that are adjusted pursuant to Section 18 herein.
 - d) Term of SARs. The term of an SAR granted under the Plan shall be determined by the Committee, in its sole discretion; provided, however, that such term shall not exceed ten (10) years.
 - e) Exercise of Tandem SARs. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. To the extent exercisable, Tandem SARs may be exercised for all or part of the Shares subject to the related Option. The exercise of all or part of a Tandem SAR shall result in the forfeiture of the right to purchase a number of Shares under the related Option equal to the number of Shares with respect to which the SAR is exercised. Conversely, upon exercise of all or part of an Option with respect to which a Tandem SAR has been granted, an equivalent portion of the Tandem SAR shall similarly be forfeited.

Notwithstanding any other provision of the Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (i) the Tandem SAR shall expire no later than the expiration of the underlying ISO; (ii) the value of the payout with respect to the Tandem SAR may be for no more than one hundred percent (100%) of the difference between the Exercise Price of the underlying ISO and the Fair Market Value of the Shares subject to the underlying ISO at the time the Tandem SAR is exercised; and (iii) the Tandem SAR may be exercised only when the Fair Market Value of the Shares subject to the ISO exceeds the Exercise Price of the ISO.

- f) Exercise of Freestanding SARs. Freestanding SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them and sets forth in the Award Agreement; provided, however, that except as otherwise provided in a Participant's Award Agreement upon a termination of employment or pursuant to Section 19 in the event of a Change in Control or Subsidiary Disposition, no Freestanding SARs may be exercisable prior to one (1) year from the date of grant.
- g) Payment of SAR Amount. Upon exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:
 - i) the difference between the Fair Market Value of a Share on the date of exercise over the grant price; by
 - ii) the number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

- h) Termination of Employment or Service. Each SAR Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following termination of the Participant's employment or, if the Participant is a Director or Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all SARs, and may reflect distinctions based on the reasons for termination of employment or service.

5

8) **RESTRICTED STOCK.**

- a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, Restricted Stock may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.
- b) Award Agreement. Each Restricted Stock grant shall be evidenced by an Award Agreement that shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock granted, and such other provisions as the Committee shall determine.
- c) Period of Restriction and Other Restrictions. Except as otherwise provided in a Participant's Award Agreement upon a termination of employment or pursuant to Section 19 in the event of a Change in Control or Subsidiary Disposition, an Award of Restricted Stock shall have a minimum Period of Restriction of three (3) years, which period may, at the discretion of the Committee, lapse on a pro-rated, graded, or cliff basis (as specified in an Award Agreement); provided, however, that in the Committee's sole discretion, up to five percent (5%) of the Shares available for issuance as Full-Value Awards under the Plan may have a shorter Period of Restriction, but in no case less than one (1) year. The Committee shall impose such other conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock, a requirement that the issuance of Shares of Restricted Stock be delayed, restrictions based upon the achievement of specific performance goals, additional time-based restrictions, and/or restrictions under Applicable Laws or under the requirements of any stock exchange or market upon which such Shares are listed or traded, or holding requirements or sale restrictions placed on the Shares by the Company upon vesting of such Restricted Stock. The Company may retain in its custody any certificate evidencing the Shares of Restricted Stock and place thereon a legend and institute stop-transfer orders on such Shares, and the Participant shall be obligated to sign any stock power requested by the Company relating to the Shares to give effect to the forfeiture provisions of the Restricted Stock.

- d) Removal of Restrictions. Subject to Applicable Laws, Restricted Stock shall become freely transferable by the Participant after the last day of the Period of Restriction applicable thereto. Once Restricted Stock is released from the restrictions, the Participant shall be entitled to receive a certificate evidencing the Shares.
- e) Voting Rights. Unless otherwise determined by the Committee and set forth in a Participant's Award Agreement, to the extent permitted or required by Applicable Laws, as determined by the Committee, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares during the Period of Restriction.
- f) Dividends and Other Distributions. Except as otherwise provided in a Participant's Award Agreement, during the Period of Restriction, Participants holding Shares of Restricted Stock shall receive all regular cash Dividends paid with respect to all Shares while they are so held, and, except as otherwise determined by the Committee, all other distributions paid with respect to such Restricted Stock shall be credited to Participants subject to the same restrictions on transferability and forfeitability as the Restricted Stock with respect to which they were paid and paid at such time following full vesting as are paid the Shares of Restricted Stock with respect to which such distributions were made.
- g) Termination of Employment or Service. Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain unvested Restricted Stock following termination of the Participant's employment or, if the Participant is a Director or Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Awards of Restricted Stock, and may reflect distinctions based on the reasons for termination of employment or service.

6

9) **RESTRICTED STOCK UNITS.**

- a) Grant of Restricted Stock Units. Subject to the terms and provisions of the Plan, Restricted Stock Units may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.
- b) Award Agreement. Each grant of Restricted Stock Units shall be evidenced by an Award Agreement that shall specify the applicable Period of Restriction, the number of Restricted Stock Units granted, and such other provisions as the Committee shall determine.
- c) Value of Restricted Stock Units. The initial value of a Restricted Stock Unit shall equal the Fair Market Value of a Share on the date of grant; provided, however, that this restriction shall not apply to Awards that are adjusted pursuant to Section 18 herein.
- d) Period of Restriction. Except as otherwise provided in a Participant's Award Agreement upon a termination of employment or pursuant to Section 19 in the event of a Change in Control or Subsidiary Disposition, an Award of Restricted Stock Units shall have a minimum Period of Restriction of three (3) years, which period may, at the discretion of the Committee, lapse on a pro-rated, graded, or cliff basis; provided, however, that in the Committee's sole discretion, up to five percent (5%) of the Shares available for issuance as Full-Value Awards under the Plan may have a shorter Period of Restriction, but in no case less than one (1) year.
- e) Form and Timing of Payment. Except as otherwise provided in Section 19 herein or a Participant's Award Agreement, payment of Restricted Stock Units shall be made at a specified settlement date that shall not be earlier than the last day of the Period of Restriction. The Committee, in its sole discretion, may pay earned Restricted Stock Units by delivery of Shares or by payment in cash of an amount equal to the Fair Market Value of such Shares (or a combination thereof). The Committee may provide that settlement of Restricted Stock Units shall be deferred, on a mandatory basis or at the election of the Participant.
- f) Voting Rights. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder.
- g) Termination of Employment or Service. Each Award Agreement shall set forth the extent to which the Participant shall have the right to receive a payout respecting an Award of Restricted Stock Units following termination of the Participant's employment or, if the Participant is a Director or Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Restricted Stock Units, and may reflect distinctions based on the reasons for termination of employment or service.

10) **PERFORMANCE SHARES.**

- a) Grant of Performance Shares. Subject to the terms and provisions of the Plan, Performance Shares may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.
- b) Award Agreement. Each grant of Performance Shares shall be evidenced by an Award Agreement that shall specify the applicable Performance Period(s) and Performance Measure(s), the number of Performance Shares granted, and such other provisions as the Committee shall determine; provided, however, that except as otherwise provided in a Participant's Award Agreement upon a termination of employment or pursuant to Section 19 in the event of a Change in Control or Subsidiary Disposition, in no case shall a Performance Period be for a period of less than one (1) year.
- c) Value of Performance Shares. The initial value of a Performance Share shall equal the Fair Market Value of a Share on the date of grant; provided, however, that this restriction shall not apply to Awards that are adjusted pursuant to Section 18 herein.

7

-
- d) Form and Timing of Payment. Except as otherwise provided in Section 19 herein or a Participant's Award Agreement, payment of Performance Shares shall be made at a specified settlement date that shall not be earlier than the last day of the Performance Period. The Committee, in its sole discretion, may pay earned Performance Shares by delivery of Shares or by payment in cash of an amount equal to the Fair Market Value of such Shares (or a combination thereof). The Committee may provide that settlement of Performance Shares shall be deferred, on a mandatory basis or at the election of the Participant.
 - e) Voting Rights. A Participant shall have no voting rights with respect to any Performance Shares granted hereunder.
 - f) Termination of Employment or Service. Each Award Agreement shall set forth the extent to which the Participant shall have the right to receive a payout respecting an Award of Performance Shares following termination of the Participant's employment or, if the Participant is a Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Participants, and may reflect distinctions based on the reasons for termination of employment or service.

11) **PERFORMANCE UNITS.**

- a) Grant of Performance Units. Subject to the terms and conditions of the Plan, Performance Units may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.
- b) Award Agreement. Each grant of Performance Units shall be evidenced by an Award Agreement that shall specify the number of Performance Units granted, the Performance Period(s) and Performance Measure(s), the performance goals and such other provisions as the Committee shall determine; provided, however, that except as otherwise provided in a Participant's Award Agreement upon a termination of employment or pursuant to Section 19 in the event of a Change in Control or Subsidiary Disposition, in no case shall a Performance Period be for a period of less than one (1) year.
- c) Value of Performance Units. The Committee shall set performance goals in its discretion that, depending on the extent to which they are met, will determine the number and/or value of Performance Units that will be paid out to the Participants.
- d) Form and Timing of Payment. Except as otherwise provided in Section 19 herein or a Participant's Award Agreement, payment of earned Performance Units shall be made following the close of the applicable Performance Period. The Committee, in its sole discretion, may pay earned Performance Units in cash or in Shares that have an aggregate Fair Market Value equal to the value of the earned Performance Units (or a combination thereof). The Committee may provide that settlement of Performance Units shall be deferred, on a mandatory basis or at the election of the Participant.
- e) Voting Rights. A Participant shall have no voting rights with respect to any Performance Units granted hereunder.
- f) Termination of Employment or Service. Each Award Agreement shall set forth the extent to which the Participant shall have the right to receive a payout respecting an Award of Performance Units following termination of the Participant's employment or, if the Participant is a Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Performance Units and may reflect distinctions based on reasons for termination of employment or service.

8

12) OTHER STOCK-BASED AWARDS.

- a) Grant. The Committee shall have the right to grant other Awards that may include, without limitation, the grant of Shares based on attainment of performance goals established by the Committee, the payment of Shares as a bonus or in lieu of cash based on attainment of performance goals established by the Committee, and the payment of Shares in lieu of cash under other Company incentive or bonus programs.
 - b) Period of Restriction. Except as otherwise provided in a Participant's Award Agreement upon a termination of employment or pursuant to Section 19 in the event of a Change in Control or Subsidiary Disposition, Awards granted pursuant to this Section 12 shall have a minimum Period of Restriction of three (3) years, which period may, at the discretion of the Committee, lapse on a pro-rated, graded, or cliff basis (as specified in an Award Agreement); provided, however, that in the Committee's sole discretion, up to five percent (5%) of the Shares available for issuance as Full-Value Awards under the Plan may have a shorter Period of Restriction, but in no case less than one (1) year. Notwithstanding the above, an Award of payment Shares in lieu of cash under other Company incentive or bonus programs shall not be subject to the minimum Period of Restriction limitations described above.
 - c) Payment of Other Stock-Based Awards. Subject to Section 12(b) hereof, payment under or settlement of any such Awards shall be made in such manner and at such times as the Committee may determine. The Committee may provide that settlement of Other Stock-Based Awards shall be deferred, on a mandatory basis or at the election of the Participant.
 - d) Termination of Employment or Service. The Committee shall determine the extent to which the Participant shall have the right to receive Other Stock-Based Awards following termination of the Participant's employment or, if the Participant is a Director or Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, such provisions may be included in an agreement entered into with each Participant, but need not be uniform among all Other Stock-Based Awards, and may reflect distinctions based on the reasons for termination of employment or service.
- 13) **DIVIDEND EQUIVALENTS.** At the discretion of the Committee, Awards granted pursuant to the Plan may provide Participants with the right to receive Dividend Equivalents, which may be paid currently or credited to an account for the Participants, and may be settled in cash and/or Shares, as determined by the Committee in its sole discretion, subject in each case to such terms and conditions as the Committee shall establish.

9

14) PERFORMANCE-BASED EXCEPTION.

- a) The Committee may specify that the attainment of one or more of the Performance Measures set forth in this Section 14 shall determine the degree of granting, vesting and/or payout with respect to Awards that the Committee intends will qualify for the Performance-Based Exception. The performance goals to be used for such Awards shall be chosen from among the following performance measures (the "Performance Measures"): total shareholder return, stock price, net customer sales, volume, gross profit, gross margin, operating profit, operating margin, management profit, earnings from continuing operations before income taxes, earnings from continuing operations, earnings per share from continuing operations, net operating profit after tax, net earnings, net earnings per share, return on assets, return on investment, return on equity, return on invested capital, cost of capital, average capital employed, cash value added, economic value added, cash flow, cash flow from operations, working capital, working capital as a percentage of net customer sales, asset growth, asset turnover, market share, customer satisfaction, and employee satisfaction. The targeted level or levels of performance with respect to such Performance Measures may be established at such levels and on such terms as the Committee may determine, in its discretion, on a corporate-wide basis or with respect to one or more business units, divisions, subsidiaries, business segments or functions, and in either absolute terms or relative to the performance of one or more comparable companies or an index covering multiple companies. Awards that are not intended to qualify for the Performance-Based Exception may be based on these or such other performance measures as the Committee may determine.
- b) Unless otherwise determined by the Committee, measurement of performance goals with respect to the Performance Measures above shall exclude the impact of charges for restructurings, discontinued operations, extraordinary items, and other unusual or non-recurring items, as well as the cumulative effects of tax or accounting changes, each as determined in accordance with generally accepted accounting principles or identified in the Company's financial statements, notes to the financial statements, management's discussion and analysis or other filings with the SEC.
- c) Performance goals may differ for Awards granted to any one Participant or to different Participants.
- d) Achievement of performance goals in respect of Awards intended to qualify under the Performance-Based Exception shall be measured over a Performance Period specified in the Award Agreement, and the goals shall be established not later than ninety (90) days after the beginning of the Performance Period or, if less than

ninety (90) days, the number of days which is equal to twenty-five percent (25%) of the relevant Performance Period applicable to the Award.

- e) The Committee shall have the discretion to adjust the determinations of the degree of attainment of the pre-established performance goals; provided, however, that Awards that are designed to qualify for the Performance-Based Exception may not be adjusted upward (the Committee may, in its discretion, adjust such Awards downward).
- 15) **TRANSFERABILITY OF AWARDS.** Incentive Stock Options may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, and shall be exercisable during a Participant's lifetime only by such Participant. Other Awards shall be transferable to the extent provided in the Award Agreement, except that no Award may be transferred for consideration.
- 16) **TAXES.** The Company shall have the power and right, prior to the delivery of Shares pursuant to an Award, to deduct or withhold, or require a participant to remit to the Company (or a Subsidiary), an amount (in cash or Shares) sufficient to satisfy any applicable tax withholding requirements applicable to an Award. Whenever under the Plan payments are to be made in cash, such payments shall be net of an amount sufficient to satisfy any applicable tax withholding requirements. Subject to such restrictions as the Committee may prescribe, a Participant may satisfy all or a portion of any tax withholding requirements by electing to have the Company withhold Shares having a Fair Market Value equal to the amount to be withheld up to the minimum statutory tax withholding rate (or such other rate that will not result in a negative accounting impact).

10

17) **CONDITIONS UPON ISSUANCE OF SHARES.**

- a) Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all Applicable Laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.
 - b) As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any Applicable Laws.
- 18) **ADJUSTMENTS UPON CHANGES IN CAPITALIZATION.** In the event of any non reciprocal transaction between the Company and the shareholders of the Company that causes the per share value of shares underlying an Award to change, such as a stock dividend, stock split, spin off, rights offering, or recapitalization through a large, nonrecurring cash dividend, and in the event of any other change in corporate capitalization, such as a merger, consolidation, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Company, in its sole discretion, may cause there to be made an equitable adjustment to the number and kind shares that may be issued under the Plan, or to any individual under the Plan, and to the number and kind of shares or other property subject to and the exercise price (if applicable) of any then outstanding Awards, and such adjustment shall be conclusive and binding for all purposes of the Plan.
- 19) **CHANGE IN CONTROL, CASH-OUT AND TERMINATION OF UNDERWATER OPTIONS/SARS, AND SUBSIDIARY DISPOSITION**

- a) Change in Control. Except as otherwise provided in a Participant's Award Agreement or pursuant to Section 19(b) hereof, upon the occurrence of a Change in Control, unless otherwise specifically prohibited under Applicable Laws, or by the rules and regulations of any governing governmental agencies or national securities exchanges:
 - i) any and all outstanding Options and SARs granted hereunder shall become immediately exercisable unless such Awards are assumed, converted or replaced by the continuing entity; provided, however, that in the event of a Participant's termination of employment without Cause within twenty-four (24) months following consummation of a Change in Control, any replacement awards shall become immediately exercisable;
 - ii) any Period of Restriction or other restriction imposed on Restricted Stock, Restricted Stock Units, and Other Stock-Based Awards shall lapse unless such Awards are assumed, converted or replaced by the continuing entity; provided, however, that in the event of a Participant's termination of employment without Cause within twenty-four (24) months following consummation of a Change in Control, the Period of Restriction on any replacement awards shall lapse; and
 - iii) any and all Performance Shares, Performance Units and other Awards (if performance-based) shall vest on a pro rata monthly basis, including full credit for partial months elapsed, and will be paid (A) based on the level of performance achieved as of the date of the Change in Control, if determinable, or (B) at the target level, if not determinable. The amount of the vested Award may be computed under the following formula: total Award number of Shares times (number of full months elapsed in shortest possible vesting period divided by number of full months in shortest possible vesting period) times percent performance level achieved immediately prior to the specified effective date of the Change in Control.

With respect to paragraphs (i) and (ii) of Section 19(a) above, the Award Agreement may provide that any replacement awards will become immediately exercisable or any Period of Restriction shall lapse in the event of

11

a termination of employment by the Participant for "good reason" as such term is defined in any employment agreement or severance agreement or policy applicable to such Participant.

- b) Cash-Out and Termination of Underwater Options/SARs The Committee may, in its sole discretion, provide that (i) all outstanding Options and SARs shall be terminated upon the occurrence of a Change in Control and that each Participant shall receive, with respect to each Share subject to such Options or SARs, an amount in cash equal to the excess of the Fair Market Value of a Share immediately prior to the occurrence of the Change in Control over the Option Exercise Price or the SAR grant price; and (ii) Options and SARs outstanding as of the date of the Change in Control may be cancelled and terminated without payment therefore if the Fair Market Value of a Share as of the date of the Change in Control is less than the Option Exercise Price or the SAR grant price.
- c) Subsidiary Disposition. The Committee shall have the authority, exercisable either in advance of any actual or anticipated Subsidiary Disposition or at the time of an actual Subsidiary Disposition and either at the time of the grant of an Award or at any time while an Award remains outstanding, to provide for the automatic full vesting and exercisability of one or more outstanding unvested Awards under the Plan and the termination of restrictions on transfer and repurchase or forfeiture rights on such Awards, in connection with a Subsidiary Disposition, but only with respect to those Participants who are at the time engaged primarily in Continuous Service with the Subsidiary involved in such Subsidiary Disposition. The Committee also shall have the authority to condition any such Award vesting and exercisability or release from such limitations upon the subsequent termination of the affected Participant's Continuous Service with that Subsidiary within a specified period following

the effective date of the Subsidiary Disposition. The Committee may provide that any Awards so vested or released from such limitations in connection with a Subsidiary Disposition, shall remain fully exercisable until the expiration or sooner termination of the Award.

20) AMENDMENT, SUSPENSION OR TERMINATION OF THE PLAN

- a) Amendment, Modification and Termination. The Board may at any time and from time to time, alter, amend, suspend or terminate the Plan in whole or in part; provided, however, that no amendment that requires stockholder approval in order for the Plan to continue to comply with the NASDAQ listing standards or any rule promulgated by the SEC or any securities exchange on which Shares are listed or any other Applicable Laws shall be effective unless such amendment shall be approved by the requisite vote of stockholders of the Company entitled to vote thereon within the time period required under such applicable listing standard or rule.
- b) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 18 hereof) affecting the Company or the financial statements of the Company or of changes in Applicable Laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. With respect to any Awards intended to comply with the Performance-Based Exception, unless otherwise determined by the Committee, any such exception shall be specified at such times and in such manner as will not cause such Awards to fail to qualify under the Performance-Based Exception.
- c) Awards Previously Granted. No termination, amendment or modification of the Plan or of any Award shall adversely affect in any material way any Award previously granted under the Plan without the written consent of the participant holding such Award, unless such termination, modification or amendment is required by Applicable Laws and except as otherwise provided herein.
- d) No Repricing. Except for adjustments made pursuant to Section 18, no amendment shall reduce the Exercise Price of outstanding Options or the grant price of outstanding SARs, nor may any outstanding

12

Options or outstanding SARs be surrendered to the Company as consideration for the grant of new Options or SARs with a lower Exercise Price or grant price, without the approval of the stockholders of the Company.

- e) Compliance with the Performance-Based Exception. If it is intended that an Award comply with the requirements of the Performance-Based Exception, the Committee may apply any restrictions it deems appropriate such that the Awards maintain eligibility for the Performance-Based Exception. If changes are made to Code Section 162(m) or regulations promulgated thereunder to permit greater flexibility with respect to any Award or Awards available under the Plan, the Committee may, subject to this Section 20, make any adjustments to the Plan and/or Award Agreements it deems appropriate.

21) RESERVATION OF SHARES.

- a) The Company, during the term of the Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.
- b) The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

22) RIGHTS OF PARTICIPANTS.

- a) Continued Service. The Plan shall not confer upon any Participant any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.
- b) Participant. No Employee, Director or Consultant shall have the right to be selected to receive an Award under the Plan, or, having been so selected, to be selected to receive future Awards.

- 23) **SUCCESSORS.** All obligations of the Company under the Plan and with respect to Awards shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or other event, or a sale or disposition of all or substantially all of the business and/or assets of the Company and references to the "Company" herein and in any Award agreements shall be deemed to refer to such successors.

24) LEGAL CONSTRUCTION.

- a) Gender, Number and References. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular and the singular shall include the plural. Any reference in the Plan to a Section of the Plan either in the Plan or any Award agreement or to an act or code or to any section thereof or rule or regulation thereunder shall be deemed to refer to such Section of the Plan, act, code, section, rule or regulation, as may be amended from time to time, or to any successor Section of the Plan, act, code, section, rule or regulation.
- b) Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.
- c) Requirements of Law. The granting of Awards and the issuance of Shares or cash under the Plan shall be subject to all Applicable Laws and to such approvals by any governmental agencies or national securities exchanges as may be required.

13

-
- d) Governing Law. To the extent not preempted by federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction.
 - e) Non-Exclusive Plan. Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating

any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements as it may deem desirable.

- f) **Code Section 409A Compliance.** To the extent applicable, it is intended that this Plan and any Awards granted hereunder comply with the requirements of Section 409A of the Code and any related regulations or other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service (“Section 409A”). Any provision that would cause the Plan or any Award granted hereunder to fail to satisfy Section 409A shall have no force or effect until amended to comply with Section 409A, which amendment may be retroactive to the extent permitted by Section 409A.

GLOSSARY OF DEFINED TERMS

1. **Definitions.** As used in the Plan, the following definitions shall apply:

“**Applicable Laws**” means the legal requirements relating to the administration of stock incentive plans, if any, under applicable provisions of federal securities laws, state corporate and securities laws, the Code, and the rules of any applicable stock exchange or national market system.

“**Award**” means, individually or collectively, Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units and Other Stock-Based Awards granted under the Plan.

“**Award Agreement**” means an agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award.

“**Board**” means the Board of Directors of the Company.

[“**Cause**” means (i) the willful and continued failure of the Participant substantially to perform the Participant’s duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Participant by the Chief Executive Officer of the Company, a member of the Committee, or another authorized officer of the Company, which specifically identifies the manner in which the sender believes that the Participant has not substantially performed the Participant’s duties; or (ii) the willful engaging by the Participant in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.]

“**Change in Control**” means

- a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 25% of either (i) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, including any acquisition which, by reducing the number of shares outstanding, is the sole cause for increasing the percentage of shares beneficially owned by any such Person to more than the applicable percentage set forth above, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this definition; or
- b) Individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason within any period of 24 months to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board, shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
- c) Consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets

of the Company or the acquisition of assets of another corporation (a “Business Combination”), in each case, unless, following such Business Combination, (i) more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) is represented by Outstanding Company Common Stock and Outstanding Company Voting Securities, respectively, that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Outstanding Company Common Stock and Outstanding Company Voting Securities were converted pursuant to such Business Combination) and such ownership of common stock and voting power among the holders thereof is in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

- d) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

“**Code**” means the Internal Revenue Code of 1986, as amended.

“**Committee**” means the Committee, as specified in Section 2(a), appointed by the Board to administer the Plan.

“**Company**” means Dynamic Materials Corporation and any successor thereto as provided in Section 23 herein.

“**Consultant**” means any consultant or advisor to the Company or a Subsidiary.

“**Continuous Service**” means that the provision of services to the Company or any Subsidiary in any capacity of Employee or Consultant is not interrupted or terminated. Continuous Service shall not be considered interrupted in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the

Company or between the Company, any Subsidiary, or any successor. A leave of absence approved by the Company shall include sick leave, military leave, or any other personal leave approved by an authorized representative of the Company. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract.

“Director” means any individual who is a member of the Board of Directors of the Company or a Subsidiary who is not an Employee.

“Dividend” means the dividends declared and paid on Shares subject to an Award.

“Dividend Equivalent” means, with respect to Shares subject to an Award, a right to be paid an amount equal to the Dividends declared and paid on an equal number of outstanding Shares.

“Employee” means any employee of the Company or a Subsidiary.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Exercise Price” means the price at which a Share may be purchased by a Participant pursuant to an Option.

“Fair Market Value” means, as of any date, the value of a Share determined as follows:

- a. Where there exists a public market for the Share, the Fair Market Value shall be (A) the closing sales price for a Share for the last market trading day prior to the time of the determination (or, if no sales were reported on that date, on the last trading date on which sales were reported) on the New York Stock Exchange, the NASDAQ National Market or the principal securities exchange on which the Share is listed for trading, whichever is applicable, or (B) if the Share is not traded on any such exchange or national market system, the average of the closing bid and asked prices of a Share on the NASDAQ Small Cap Market, in each case, as reported in The Wall Street Journal or such other source as the Committee deems reliable; or
- b. In the absence of an established market of the type described above, for the Share, the Fair Market Value thereof shall be determined by the Committee in good faith, and such determination shall be conclusive and binding on all persons.

“Freestanding SAR” means an SAR that is granted independently of any Options, as described in Section 7 herein.

“Full-Value Award” means Awards other than Options, SARs, or other Awards for which the Participant pays the grant date intrinsic value directly or by forgoing a right to receive a cash payment from the Company.

“Incentive Stock Option” or “ISO” means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

“Nonqualified Stock Option” means an Option that is not intended to meet the requirement of Section 422 of the Code.

“Option” means an Incentive Stock Option or a Nonqualified Stock Option granted under the Plan, as described in Section 6 herein.

“Option Proceeds” means the cash received by the Company as payment of the Exercise Price upon exercise of an Option or a Prior Plan option plus the federal tax benefit that could be realized by the Company as a result of the Option or Prior Plan option exercise, which shall be determined by multiplying the amount that is deductible as a result of the Option or Prior Plan option exercise (currently equal to the amount upon which the Participant’s withholding tax obligation is calculated) by the maximum federal corporate income tax rate for the year of exercise. To the extent that a Participant pays the Exercise Price and/or withholding taxes with Shares, Option Proceeds shall not be calculated with respect to the amount paid in such manner.

“Other Stock-Based Award” means a Share-based or Share-related Award granted pursuant to Section 12 herein.

“Participant” means a current or former Employee, Director or Consultant who has rights relating to an outstanding Award.

“Performance-Based Exception” means the performance-based exception from the tax deductibility limitations of Code Section 162(m).

“Performance Measures” shall have the meaning set forth in Section 14(a).

“Performance Period” means the period during which a performance measure must be met.

“Performance Share” means an Award granted to a Participant, as described in Section 10 herein.

“Performance Unit” means an Award granted to a Participant, as described in Section 11 herein.

“Period of Restriction” means the period Restricted Stock, Restricted Stock Units or Other Stock-Based Awards are subject to a substantial risk of forfeiture and are not transferable, as provided in Sections 8, 9 and 12 herein.

“Plan” means the Dynamic Materials Corporation 2006 Stock Incentive Plan.

“Prior Plan” means the Dynamic Materials Corporation 1997 Equity Incentive Plan.

“Restricted Stock” means an Award granted to a Participant, as described in Section 8 herein.

“Restricted Stock Units” means an Award granted to a Participant, as described in Section 9 herein.

“SEC” means the United States Securities and Exchange Commission.

“Share” means a share of common stock of the Company, par value \$1.00 per share, subject to adjustment pursuant to Section 18 herein.

“Stock Appreciation Right” or “SAR” means an Award granted to a Participant, either alone or in connection with a related Option, as described in Section 7 herein.

“Subsidiary” means any corporation in which the Company owns, directly or indirectly, at least fifty percent (50%) of the total combined voting power of all classes of stock, or any other entity (including, but not limited to, partnerships and joint ventures) in which the Company owns, directly or indirectly, at least fifty percent (50%) of the combined equity thereof. Notwithstanding the foregoing, for purposes of determining whether any individual may be a Participant for purposes of any grant of Incentive Stock Options, the term “Subsidiary” shall have the meaning ascribed to such term in Code Section 424(f).

“Subsidiary Disposition” means the disposition by the Company of its equity holdings in any Subsidiary effected by a merger or consolidation involving that Subsidiary, the sale of all or substantially all of the assets of that Subsidiary or the Company’s sale or distribution of substantially all of the outstanding capital stock of such Subsidiary.

“Tandem SAR” means a SAR that is granted in connection with a related Option, as described in Section 7 herein.

“Voting Securities” means voting securities of the Company entitled to vote generally in the election of Directors.

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
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 2, 2006

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

CERTIFICATIONS

I, Richard A. Santa, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dynamic Materials Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 2, 2006

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

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

In connection with the Quarterly Report of Dynamic Materials Corporation (the "Company") on Form 10-Q for the period ended September 30, 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.

November 2, 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.

**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 September 30, 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.

November 2, 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.