DYNAMIC MATERIALS CORP
Form 10-Q
August 04, 2006

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from to .

Commission file number **0-8328**

DYNAMIC MATERIALS CORPORATION
(Exact name of Registrant as Specified in its Charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

The number of shares of Common Stock outstanding was 11,844,235 as of August 3, 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.

INDEX

Part I - FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	June 30, 2006 (unaudited)	December 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,010	$ 5,763
Marketable securities		1,950
Accounts receivable, net of allowance for doubtful accounts of $369 and $301, respectively	16,328	15,576
Inventories	13,947	11,869
Prepaid expenses and other	1,442	822
Current portion of other receivables related to discontinued operations	678	
Current deferred tax assets	619	572
Total current assets	47,024	36,552
PROPERTY, PLANT AND EQUIPMENT	25,527	22,635
Less - Accumulated depreciation	(10,833)	(10,063)
Property, plant and equipment, net	14,694	12,572
GOODWILL, net	847	847
DEFERRED TAX ASSETS	249	819
OTHER ASSETS, net	68	101
OTHER RECEIVABLES RELATED TO DISCONTINUED OPERATIONS		681
ASSETS OF DISCONTINUED OPERATIONS	720	3,739
TOTAL ASSETS	$ 63,602	$ 55,311

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)

	June 30, 2006 (unaudited)	**December 31, 2005**
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 8,977	$ 7,278
Accrued expenses	1,490	1,615
Accrued income taxes	2,117	979
Accrued employee compensation and benefits	2,034	2,508
Customer advances	1,219	1,885
Related party debt		45
Current maturities on long-term debt	559	528
Total current liabilities	16,396	14,838
LONG-TERM DEBT	1,799	2,221
DEFERRED TAX LIABILITIES	298	195
OTHER LONG-TERM LIABILITIES	246	222
LIABILITIES OF DISCONTINUED OPERATIONS		2,880
COMMITMENTS AND CONTINGENT LIABILITIES		
Total liabilities	18,739	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; 11,844,235 and 11,758,920 shares issued and outstanding, respectively	592	588
Additional paid-in capital	20,428	19,778
Retained earnings	22,837	14,104
Other cumulative comprehensive income	1,006	485
Total stockholders equity	44,863	34,955
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 63,602	$ 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 SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(Dollars in Thousands, Except Share Data)

(unaudited)

	Three months ended June 30, 2006	2005	Six months ended June 30, 2006	2005
NET SALES	$ 27,754	$ 18,376	$ 52,928	$ 35,886
COST OF PRODUCTS SOLD	17,833	13,161	33,727	26,020
Gross profit	9,921	5,215	19,201	9,866
COSTS AND EXPENSES:				
General and administrative expenses	1,153	898	2,681	1,707
Selling expenses	946	870	2,270	1,995
Total costs and expenses	2,099	1,768	4,951	3,702
INCOME FROM OPERATIONS OF CONTINUING OPERATIONS	7,822	3,447	14,250	6,164
OTHER INCOME (EXPENSE):				
Other income (expense), net	(11)	13	(16)	16
Interest expense	(37)	(82)	(67)	(168)
Interest income	169	16	292	20
INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	7,943	3,394	14,459	6,032
INCOME TAX PROVISION	2,938	1,279	5,317	2,269
INCOME FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS	5,005	2,115	9,142	3,763
DISCONTINUED OPERATIONS:				
Income from discontinued operations, net of tax			1,357	
Income from discontinued operations			1,357	
NET INCOME	$ 5,005	$ 2,115	$ 10,499	$ 3,763
INCOME PER SHARE - BASIC:				
Continuing operations	$ 0.42	$ 0.19	$ 0.78	$ 0.35
Discontinued operations			0.11	
Net income	$ 0.42	$ 0.19	$ 0.89	$ 0.35
INCOME PER SHARE - DILUTED:				
Continuing operations	$ 0.41	$ 0.18	$ 0.75	$ 0.32
Discontinued operations			0.11	
Net income	$ 0.41	$ 0.18	$ 0.86	$ 0.32
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING -				
Basic	11,805,610	11,070,932	11,786,957	10,883,636

Diluted	12,229,189	12,053,338	12,223,268	11,958,696
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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2006

(Amounts in Thousands)

(unaudited)

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Income	Total	Comprehensive Income for the Period
Balances, December 31, 2005	11,759	$ 588	$ 19,778	$ 14,104	$ 485	$ 34,955	
Shares issued for stock option exercises	84	4	175			179	
Shares issued in connection with the employee stock purchase plan	1		28			28	
Tax benefit related to stock options			94			94	
Stock-based compensation			353			353	
Dividends paid				(1,766)		(1,766)	
Net income				10,499		10,499	10,499
Change in cumulative foreign currency translation adjustment					521	521	521
Balances, June 30, 2006	11,844	592	20,428	22,837	1,006	44,863	11,020

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(Dollars in Thousands)

(unaudited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 10,499	$ 3,763
Adjustments to reconcile net income to net cash provided by operating activities -		
Income from discontinued operations, net of tax	(1,357)	
Depreciation	639	710
Amortization	6	7
Amortization of capitalized debt issuance costs	14	26
Stock-based compensation	353	
Provision for deferred income taxes	656	(10)
Tax benefit related to exercise of stock options		2,294
Change in -		
Accounts receivable, net	(373)	(415)
Inventories	(1,618)	(3,376)
Prepaid expenses and other	(427)	(1,620)
Accounts payable	1,432	1,978
Accrued expenses and other liabilities	(1,487)	(198)
Net cash provided by operating activities	8,337	3,159
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(2,561)	(1,376)
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	147	148
Payment received on other receivables related to discontinued operations	3	874
Cash flows provided by investing activities of discontinued operations	2,197	
Net cash flows provided by (used in) investing activities	1,736	(354)

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(Dollars in Thousands)

(unaudited)

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on bank lines of credit, net		(3,208)
Borrowings / (repayments) on related party lines of credit, net	(47)	259
Payment on SNPE, Inc. term loan		(667)
Payment on industrial development revenue bond	(90)	(490)
Payment on term loan with French bank	(356)	(373)
Payment of dividends	(1,766)	
Change in other long-tem liabilities	15	32
Net proceeds from issuance of common stock to employees and directors	207	1,181
Tax benefit related to exercise of stock options	94	
Net cash flows used in financing activities	(1,943)	(3,266)
EFFECTS OF EXCHANGE RATES ON CASH	117	(119)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,247	(580)
CASH AND CASH EQUIVALENTS, beginning of the period	5,763	2,404
CASH AND CASH EQUIVALENTS, end of the period	$ 14,010	$ 1,824

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except Share and Per Share Data)

(unaudited)

1. BASIS OF PRESENTATION

The information included in the Condensed Consolidated Financial Statements is unaudited but includes all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the interim periods presented. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements that are included in the Company s Annual Report filed on Form 10-K for the year ended December 31, 2005.

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 a subsidiary in which it has a greater than 50% interest. All significant intercompany accounts, profits and transactions have been eliminated in consolidation.

Foreign Operations and Foreign Exchange Rate Risk

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

Revenue Recognition

Sales of clad metal products and welding services are generally based upon customer specifications set forth in customer purchase orders and require us to provide certifications relative to metals used, services performed and the results of any non-destructive testing that the customer has requested be performed. Any non-conformance issues are resolved before the product is shipped and billed. Revenue is recognized only when all four of the following criteria have been satisfied: persuasive evidence of an arrangement exists; the price is fixed or determinable; delivery has occurred; and collection is reasonably assured. For contracts that require multiple shipments, revenue is recorded only for the units included in each individual shipment. If, as a contract proceeds toward completion, projected total cost on an individual contract indicates a potential loss, we provide currently for such anticipated loss.

Loan to Related Party

Nobelclad Europe, S.A. (Nobelclad) 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 June 30, 2006		
	Net Income	**Shares**	**Per share Amount**
Basic earnings per share	$ 5,005	11,805,610	$ 0.42
Dilutive effect of options to purchase common stock		423,579	
Dilutive earnings per share	$ 5,005	12,229,189	$ 0.41

	For the three months ended June 30, 2005		
	Net Income	Shares	Per share Amount
Basic earnings per share	$ 2,115	11,070,932	$ 0.19
Dilutive effect of options to purchase common stock		679,110	
Dilutive effect of convertible subordinated note, net of tax	10	303,296	
Dilutive earnings per share	$ 2,125	12,053,338	$ 0.18

	For the six months ended June 30, 2006		
	Net Income	Shares	Per share Amount
Basic earnings per share	$ 10,499	11,786,957	$ 0.89
Dilutive effect of options to purchase common stock		436,311	
Dilutive earnings per share	$ 10,499	12,223,268	$ 0.86

	For the six months ended June 30, 2005		
	Net Income	Shares	Per share Amount
Basic earnings per share	$ 3,763	10,883,636	$ 0.35
Dilutive effect of options to purchase common stock		723,678	
Dilutive effect of convertible subordinated note, net of tax	23	351,382	
Dilutive earnings per share	$ 3,786	11,958,696	$ 0.32

Recent Accounting Pronouncements

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

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 our results from operations or financial position.**

3. STOCK-BASED COMPENSATION

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

Prior to January 1, 2006, the Company accounted for its stock-based compensation plan under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, ***Accounting for Stock Issued to Employees*** **(APB 25) and related interpretations, as permitted by SFAS 123. Accordingly, no stock-based compensation expense was recognized in the Consolidated Statements of Operations for the three and six months ended June 30, 2005 as the options granted under the Company s stock option plan had exercise prices equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R using the modified prospective transition method. Under that transition method, compensation cost recognized in the three and six months ended June 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 grant date fair value estimated in accordance with SFAS 123R.**

The fair value for each option was estimated on the date of grant using a Black-Scholes option-pricing model with the following assumptions used for the single grant during the six months ended June 30, 2006: a risk free interest rate of 4.35%; an expected volatility factor of 86.6%; an expected dividend yield of .375%; and an expected life of 4 years. No options were granted during the three months ended June 30, 2006. Our computation of expected volatility for the three months ended March 31, 2006 is based on historical volatility from the past four years, based on the current expected life of outstanding options. Our computation of expected life is based on historical exercise patterns. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The fair value of the options granted during the six months ended June 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 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 thereby the related decrease of pretax income and net income and earnings per share than if it had continued to account for stock-based compensation under APB 25:

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Cost of products sold	$ 16	$ 27
General and administrative expense	(13)	294
Selling expense	14	32
Stock-based compensation expense before income taxes	17	353
Income tax	27	(69)
Stock-based compensation expense, net of income taxes	$ 44	$ 284
Earnings per share:		
Basic- income before income taxes	$ 0.00	$ 0.03
Basic - net income	$ 0.00	$ 0.02
Diluted - income before income taxes	$ 0.00	$ 0.02
Diluted - net income	$ 0.00	$ 0.02

Prior to the adoption of SFAS 123R, the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS 123R requires the tax benefits resulting from deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The $94 excess tax benefit classified as a financing cash inflow in the Consolidated Statements of Cash Flows for the six months ended June 30, 2006 would have been classified as an operating cash inflow if the Company had not adopted SFAS 123R.

14

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 six months ended June 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. The following assumptions were used in the options pricing model for the three months ended June 30, 2005: a risk free interest rate of 3.7%; an expected volatility factor of 92.2%; an expected dividend yield of 0.5%; and an expected life of 4 years. The following assumptions were used in the options pricing model for the six months ended June 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.

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income-as reported	$ 2,115	$ 3,763
Deduct stock-based compensation expense determined under fair value method, net of related tax effects	(179)	(260)
Pro forma net income	$ 1,936	$ 3,503
Earnings per share:		
Basic-as reported	$ 0.19	$ 0.35
Basic-pro forma	$ 0.17	$ 0.32
Diluted-as reported	$ 0.18	$ 0.32
Diluted-pro forma	$ 0.16	$ 0.29

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

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of period	588,426	$ 4.77		
Granted	20,000	35.21		
Exercised	(84,250)	2.12		
Cancelled	(40,754)	20.62		
Outstanding at end of period	483,422	$ 5.16	7.73	$ 13,843
Exercisable at end of period	252,172	$ 4.16	7.33	$ 7,456

15

The intrinsic value of options exercised for the three and six months ended June 30, 2006 was $1,763 and $2,476, respectively. As of June 30, 2006, there was $796 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 1.36 years.

4. INVENTORY

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

	June 30, 2006 (unaudited)	December 31, 2005
Raw materials	$ 6,226	$ 5,767
Work-in-process	1,887	5,878
Supplies	5,834	224
	$ 13,947	$ 11,869

5. DEBT

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

	June 30, 2006 (unaudited)	December 31, 2005
Term loan - French bank	$ 728	$ 1,029
Industrial development revenue bonds	1,630	1,720
	2,358	2,749
Less current maturities	(559)	(528)
Long-term debt	$ 1,799	$ 2,221

<u>Loan Covenants and Restrictions</u>

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 June 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 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 six months ended June 30, 2006 and 2005 as follows:

	Explosive Metalworking Group	**AMK Welding**	**Total**
For the three months ended June 30, 2006:			
Net sales	$ 26,649	$ 1,105	$ 27,754
Depreciation and amortization	$ 273	$ 55	$ 328
Segment income from operations of continuing operations	$ 7,717	$ 122	$ 7,839
Unallocated amounts:			
Stock-based compensation			(17)
Other expense			(11)
Interest income, net			132
Consolidated income before income taxes and discontinued operations			$ 7,943

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

17

	Explosive Metalworking Group	AMK Welding	Total
For the six months ended June 30, 2006:			
Net sales	$ 50,823	$ 2,105	$ 52,928
Depreciation and amortization	$ 535	$ 110	$ 645
Segment income from operations of continuing operations	$ 14,373	$ 230	$ 14,603
Unallocated amounts:			
Stock-based compensation			(353)
Other expense			(16)
Interest income, net			225
Consolidated income before income taxes and discontinued operations			$ 14,459

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

During the three and six months ended June 30, 2006, sales to one customer represented approximately $4,006 (14%) and $7,671 (14%) of total net sales, respectively. During the three and six months ended June 30, 2005, sales to no one customer accounted for more than 10% of total net sales.

18

7. COMPREHENSIVE INCOME

DMC s comprehensive income for the three and six months ended June 30, 2006 and 2005 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income for the period	$ 5,005	$ 2,115	$ 10,499	$ 3,763
Foreign currency translation adjustment	379	(406)	521	(690)
Comprehensive income	$ 5,384	$ 1,709	$ 11,020	$ 3,073

As of June 30, 2006 and December 31, 2005 other cumulative comprehensive income of $1,006 and $485, respectively, consists entirely of cumulative foreign currency translation adjustment.

8. DISCONTINUED OPERATIONS

On September 17, 2004, DMC completed the divestiture of its Spin Forge division under an agreement that involved subleasing the Spin Forge real estate and leasing the manufacturing equipment and tooling to a third party. Under the master agreement relating to this divestiture transaction, DMC sold all inventory, books and records, intangible personal property, business information and technology, customer contracts, and licenses and permits relating to the Spin Forge business to this third party for a sales price of approximately $1,700. The third party also assumed full responsibility for the Spin Forge business activities and operating expenses. Despite the fact that the Company retained ownership of the equipment and continued to carry a capital lease asset of $2,880 on its books, the Company concluded that the Spin Forge divestiture transaction qualified for treatment as discontinued operations since the Company had completely exited the Spin Forge operating business and has no intent to ever again operate any of the leased assets. To the extent that the third party purchaser of the Spin Forge business does not exercise its option to purchase all or a portion of the leased equipment and tooling when the lease term expires on January 1, 2007, DMC plans to immediately liquidate such equipment.

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

19

Assets of discontinued operations are comprised of the following:

	June 30, 2006 (unaudited)	December 31, 2005
Leased manufacturing equipment	720	859
Capital lease asset - real estate		2,880
Total assets of discontinued operations	$ 720	$ 3,739

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 June 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 six months ended June 30, 2006 is summarized as follows:

	Three Months Ended June 30, 2006	Six Months Ended June 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

20

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

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

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

Executive Overview

Our business is organized into two segments: Explosive Metalworking (which we also refer to as DMC Clad) and AMK Welding. For the three months ended June 30, 2006, Explosive Metalworking accounted for 96% of our net sales and 98% of our income from operations of continuing operations before consideration of stock-based compensation expense, which is not allocated to our business segments. Year to date Explosive Metalworking accounted for 96% of our net sales and 98% of our income from operations of continuing operations before consideration of stock-based compensation expense.

Our year to date 2006 net sales increased 47.5% compared to the first six months of 2005, reflecting Explosive Metalworking s year-to-year net sales increases in our U.S.-based and European operations of 54.3% and 36.3%, respectively. Our operating income from continuing operations increased 131.2%, to $14,250 in the first six months of 2006 from $6,164 in the first six months of 2005, reflecting an $8,436 improvement in Explosive Metalworking s operating income and a $3 improvement in AMK Welding s operating income. Income from continuing operations before discontinued operations increased 142.9%, to $9,142 for the six months ended June 30, 2006 from $3,763 in the first half of 2005. Our net income increased to $10,499 in the first half of 2006 from $3,763 in the first half of 2005. For the six months ended June 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 half of 2006 compared to the first half 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. A portion of the increased sales in the second quarter of 2006 is related to the earlier than expected fulfillment of orders that were scheduled to be delivered in the third quarter of 2006.

Net sales

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

21

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

Gross profit and cost of products sold

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

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

Discontinued operations

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

Income taxes

Our effective income tax rate decreased to 36.8% in the first half of 2006 from 37.6% in the first half 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 six months ended June 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, based upon existing tax regulations and current federal, state and foreign statutory tax rates, we expect our effective tax rate on our consolidated pre-tax income to range between 36% and 38%.

Backlog

We use backlog as a primary means to measure the immediate outlook for our business. We define backlog at any given point in time to consist of all firm, unfulfilled purchase orders and commitments at that time. Generally speaking, we expect to fill most 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 Explosion Metalworking segment increased to approximately $52,372 at June 30, 2006 from approximately $42,311 at March 31, 2006 and $41,966 at December 31, 2005. The backlog as of June 30, 2006 has increased because it includes our largest ever order in the amount of approximately $11,000 related to an Eastern European refinery project. We expect to ship the majority of this order during the fourth quarter of 2006.

Three and Six Months Ended June 30, 2006 Compared to Three and Six Months Ended June 30, 2005

Net sales

	Three Months Ended June 30,			
	2006	2005	Change	Percentage Change
Net sales	$ 27,754	$ 18,376	$ 9,378	51.0 %

	Six Months Ended June 30,			
	2006	2005	Change	Percentage Change
Net sales	$ 52,928	$ 35,886	$ 17,042	47.5 %

Net sales for the second quarter of 2006 increased 51.0% to $27,754 from $18,376 in the second quarter of 2005. Explosive Metalworking sales increased 54.5% to $26,649 in the three months ended June 30, 2006 (96% of total sales) from $17,247 in the same period of 2005 (94% of total sales). The Explosive Metalworking sales increase reflects a 58.0% increase in sales by our U.S.-based operations and a 46.2% U.S. dollar sales increase at Nobelclad Europe. Net sales for the six months ended June 30, 2006 increased 47.5% to $52,928 from $35,886 in the same period of 2005. Sales for our Explosive Metalworking segment increased 48.5% to $50,823 in the first six months of 2006 (96% of total sales) from $34,214 for the first six months of 2005 (95% of total sales). The year-to-date increase in the Explosive Metalworking segment s sales reflects a 54.3% increase in U.S. clad sales and a 36.3% U.S. dollar sales increase at Nobelclad Europe. The year-to-year increase in worldwide Explosive Metalworking sales is principally attributable to the improved economic condition of the industries that this business segment serves. Our net sales are likely to continue to fluctuate from quarter-to-quarter. While we expect net sales for the second half of 2006 to be comparable to those reported for the first half of the year, net sales for the third quarter are expected to be down from those reported in the first and second quarters.

AMK Welding contributed $1,105 to second quarter 2006 sales (4% of total sales) versus sales of $1,129 in the second quarter of 2005 (6% of total sales). AMK Welding s year to date

2006 sales were $2,105 (4% of total sales) compared to $1,672 (5% of total sales) in year to date 2005 sales.

Gross profit

	Three Months Ended June 30, 2006	2005	Change	Percentage Change
Gross profit	$ 9,921	$ 5,215	$ 4,706	90.2 %
Consolidated gross profit margin rate	35.7 %	28.4 %		

	Six Months Ended June 30, 2006	2005	Change	Percentage Change
Gross profit	$ 19,201	$ 9,866	$ 9,335	94.6 %
Consolidated gross profit margin rate	36.3 %	27.5 %		

Gross profit increased by 90.2% to $9,921 for the three months ended June 30, 2006 from $5,215 for the three months ended June 30, 2005. Our second quarter 2006 consolidated gross profit margin rate increased to 35.7% from 28.4% in the second quarter of 2005. The gross profit margin for Explosive Metalworking increased from 27.8% in the second quarter of 2005 to 36.3% in the second quarter of 2006 and the gross profit margin for AMK Welding decreased to 24.9% in the second quarter of 2006 from 37.6% in the second quarter of 2005. The increased gross profit margin rate for Explosive Metalworking reflects gross margin rates of 37.6% and 32.8% in the second quarter of 2006 for our U.S.-based clad operations and Nobelclad Europe, respectively, as compared to gross margin rates of 29.6% and 23.4%, respectively, in 2005.

For the six months ended June 30, 2006, gross profit increased to $19,201 from $9,866 for the same period of 2005, a 94.6% increase. Our year to date consolidated gross profit margin rate increased to 36.3% from 27.5% for the first six months of 2005. The gross profit margin rate for Explosive Metalworking increased to 36.8% from 27.7%, reflecting increased gross profit margin rates of 38.3% and 33.1% for the first half of 2006 for our U.S.-based clad operations and Nobelclad Europe, respectively, as compared to gross margin rates of 29.9% and 23.1%, respectively, in 2005. For the six months ended June 30, 2006, the gross profit margin for AMK Welding increased to 24.9% from 22.8% for the same period in 2005.

The gross margin improvements for Explosive Metalworking relates primarily to the sales increases discussed above and the resultant more favorable absorption of fixed manufacturing overhead expenses. The Explosive Metalworking gross margin increase also reflects favorable changes in product mix and higher average prices in 2006 with respect to both our U.S. and European operations. The gross profit margin typically fluctuates from one quarter to the next for various reasons, including a change in product mix. Our gross margins are likely to continue to fluctuate from quarter-to-quarter. In light of expected lower net sales in the third quarter of 2006 as discussed above, we expect that our gross margins for the third quarter will be lower than they were in the first two quarters. 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 June 30, 2006	2005	Change	Percentage Change
General & administrative expenses	$ 1,153	$ 898	$ 255	28.4 %
Percentage of net sales	4.2 %	4.9 %		

	Six Months Ended June 30, 2006	2005	Change	Percentage Change
General & administrative expenses	$ 2,681	$ 1,707	$ 974	57.1 %
Percentage of net sales	5.1 %	4.8 %		

General and administrative expenses increased by $255, or 28.4%, to $1,153 in the second quarter of 2006 from $898 in the second quarter of 2005. This increase in general and administrative expenses reflects a $206 increase for our U.S. operations and a $49 increase in our European general and administrative expenses. Expense increases for our U.S. operations, which include all corporate headquarters expenses, reflect an $83 increase in accrued incentive compensation expense, a $35 increase in legal fees, a $29 increase in NASDAQ fees relating to the transfer of our listing to the NASDAQ National Market from the NASDAQ Capital Market, and the impact of annual salary adjustments. As a percentage of net sales, general and administrative expenses decreased to 4.2% in the second quarter of 2006 from 4.9% in the second quarter of 2005.

General and administrative expenses for the six months ended June 30, 2006 totaled $2,681 compared to $1,707 for the same period of 2005. This reflects an increase of 57.1%. The $974 increase in 2006 general and administrative expenses for the six-month period reflects a $940 increase in spending by our U.S. operations and a $34 increase in spending by our European operations. Increased expenses for our U.S. operations reflect stock-based compensation expense of $294, an aggregate increase of $125 in audit, tax advisory, consulting and investor relations expenses, a $198 increase in accrued incentive compensation expense, and the impact of annual salary adjustments. The 2006 increases in audit, tax advisory, consulting and investor relations expenses relate primarily to continued compliance with the Sarbanes-Oxley Act of 2002, tax planning initiatives and increased investor relations activities. As a percentage of net sales, general and administrative expenses increased to 5.1% in the first half of 2006 from 4.8% in the first half of 2005.

Selling expenses

	Three Months Ended June 30, 2006	2005	Change	Percentage Change
Selling expenses	$ 946	$ 870	$ 76	8.7 %
Percentage of net sales	3.4 %	4.7 %		

	Six Months Ended June 30, 2006	2005	Change	Percentage Change
Selling expenses	$ 2,270	$ 1,995	$ 275	13.8 %
Percentage of net sales	4.3 %	5.6 %		

Selling expenses increased by 8.7% to $946 in the second quarter of 2006 from $870 in the second quarter of 2005. The $76 increase in selling expenses reflects increases of $24 and $52 for our U.S. operations and European operations, respectively. Increased spending in our U.S. operations reflects the impact of annual salary adjustments and higher travel expenses during the quarter. The increased expenses for our European operations reflect higher sales commissions attributable to increased sales levels and the impact of annual salary adjustments. As a result of the significant increase in 2006 net sales, selling expenses as a percentage of net sales decreased to 3.4% in the second quarter of 2006 from 4.7% in the second quarter of 2005.

Selling expenses increased by 13.8% to $2,270 in the first half of 2006 from $1,995 in the same period of 2005. The $275 increase in 2006 selling expenses for the six month period includes a $199 increase for our U.S. operations and a $76 for our European operations. The year to date increased spending in our U.S. operations reflects $145 for sales commission on a large export order, the impact of annual salary adjustments and higher travel expenses during the first half of the year. The $76 increase in expenses for our European operations reflect higher sales commissions attributable to increased sales levels and the impact of annual salary adjustments. As a percentage of net sales, selling expenses decreased to 4.3% in the first six months of 2006 from 5.6% in the first six months of 2005.

Income from operations of continuing operations

	Three Months Ended June 30, 2006	2005	Change	Percentage Change
Income from operations of continuing operations	$ 7,822	$ 3,447	$ 4,375	126.9 %

	Six Months Ended June 30, 2006	2005	Change	Percentage Change
Income from operations of continuing operations	$ 14,250	$ 6,164	$ 8,086	131.2 %

Income from operations increased by 126.9% to $7,822 in the second quarter of 2006 from $3,447 in the second quarter of 2005. Explosive Metalworking reported income from operations of $7,717 in the second quarter of 2006 as compared to $3,104 in the second quarter of 2005. This

148.6% increase is largely attributable to the 54.5% sales increase discussed above. AMK Welding reported income from operations of $122 for the three months ended June 30, 2006, compared to $343 for the same period of 2005. The decline in AMK s operating income against flat quarter-to-quarter sales is attributable to increases in manufacturing overhead and administrative expenses that relate principally to headcount additions as AMK readies itself for expected higher production levels during the last half of the year and beyond.

Income from operations increased by 131.2% to $14,250 in the first six months of 2006 from $6,164 in the first six months of 2005. Explosive Metalworking reported income from operations of $14,373 in the first half of 2006 as compared to $5,937 in the first half of 2005. This 142.1% increase is largely attributable to the 48.5% sales increase discussed above. AMK Welding reported income from operations of $230 for the first six months of 2006, compared to the $227 that it reported for the first six months of 2005.

Income from operations of continuing operations for the three and six months ended June 30, 2006 includes $17 and $353, respectively, of stock-based compensation expense. This expense is not allocated to our two business segments and thus is not included in the above second quarter and year to date 2006 operating income totals for Explosive Metalworking and AMK Welding. The $319 decline in second quarter stock-based compensation expense as compared to that for the first quarter of 2006 relates principally to the cancellation of certain unvested options held by four members of our board of directors who represented SNPE, Inc., our former majority stockholder, and who resigned from our board following the sale of all shares held by SNPE, Inc. Stock-based compensation expense associated with currently outstanding stock-based compensation awards is expected to approximate $147 during the second half of 2006. If any new stock-based compensation awards are granted to employees and directors during the last half of 2006, expense associated with any such awards would add to this total.

Interest income (expense), net

	Three Months Ended June 30, 2006	**2005**	**Change**	**Percentage Change**
Interest income (expense), net	$ 132	$ (66)	$ 198	NM

	Six Months Ended June 30, 2006	**2005**	**Change**	**Percentage Change**
Interest income (expense), net	$ 225	$ (148)	$ 373	NM

Net interest income (expense) improved by $198, to a net of $132 in interest income for the second quarter 2006 from a net of $66 in interest expense in the second quarter of 2005. We recorded net interest income of $225 for the first six months of 2006 compared to a net interest expense of $148 for the first six months of 2005, an improvement of $373. 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 June 30, 2006	2005	Change	Percentage Change
Income tax provision	$ 2,938	$ 1,279	$ 1,659	129.7 %
Effective tax rate	37.0 %	37.7 %		

	Six Months Ended June 30, 2006	2005	Change	Percentage Change
Income tax provision	$ 5,317	$ 2,269	$ 3,048	134.3 %
Effective tax rate	36.8 %	37.6 %		

We recorded an income tax provision of $2,938 in the second quarter of 2006 compared to $1,279 in the second quarter of 2005. The effective tax rate decreased to 37.0% in the second quarter of 2006 from 37.7% in the second quarter of 2005. The income tax provisions for the three months ended June 30, 2006 and 2005 include $2,337 and $1,036, 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.

For the six months ended June 30, 2006, we recorded an income tax provision of $5,317 compared to $2,269 for the same period of 2005. The effective tax rate decreased to 36.8% for the first six months of 2006 from 37.6% for the first six months of 2005. The income tax provisions for the six months ended June 30, 2006 and 2005 include $4,181 and $1,815, respectively, related to U.S. taxes, with the remainder relating to foreign taxes associated with the operations of Nobelclad and Nitro Metall.

Income from discontinued operations

	Three Months Ended June 30, 2006	2005	Change	Percentage Change
Income from discontinued operations	$	$	$	NA

	Six Months Ended June 30, 2006	2005	Change	Percentage Change
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, mortgaging, pledging or disposition of major assets and maintenance of specified financial ratios. As of June 30, 2006, we were in compliance with all financial covenants and other provisions of our debt agreements.

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

Cash flows from operating activities

Net cash flows provided by operating activities for the six months ended June 30, 2006 totaled $8,337. Significant sources of operating cash flow included net income from continuing operations of $9,142, non-cash depreciation and amortization expense of $659, stock-based compensation of $353, $656 from provision for deferred income taxes and net negative changes in various components of working capital in the amount of $2,473. Net negative changes in working capital included an increase in accounts receivable, inventories and prepaid expenses of $373, $1,618 and $427, respectively and a decrease in accrued expenses and other liabilities of $1,487. These negative changes in working capital were partially offset by an increase in accounts payable of $1,432.

Net cash flows provided by operating activities for the six months ended June 30, 2005 totaled $3,159. Significant sources of operating cash flow included net income of $3,763, non-cash depreciation and amortization expense of $743, and $2,294 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 $3,631 in various components of working capital. Net negative changes in working capital during the first half of 2005 include an increase in accounts receivable, inventories and prepaid expenses of $415, $3,376 and $1,620 respectively. It also includes a decrease in accrued expenses and other liabilities of $198. These negative changes in working capital were partially offset by an increase in accounts payable of $1,978.

Cash flows from investing activities

Net cash flows provided by investing activities for the first six months of 2006 were $1,736 and consisted primarily of $1,950 from the sale of marketable securities and $2,197 for investment activities of discontinued operations that consisted of the sale of the Spin Forge real estate purchase option. These cash inflows were partially offset by $2,561 in capital expenditures.

Net cash flows used by investing activities for the first six months of 2005 totaled $354 and consisted primarily of $1,376 in capital expenditures that was largely offset by an $874 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 six months ended June 30, 2006 were $1,943. Significant uses of cash for financing activities included a $1,766 payment of annual dividends, a $356 principal payment on a term loan with French bank, a $47 repayment on related party line of credit and industrial development revenue bond principal payments of $90. Sources of cash flow from financing activities include $207 in net proceeds from the issuance of common stock relating to the exercise of stock options and $94 for tax benefits related to the exercise of stock options.

Net cash flows used in financing activities for the six months ended June 30, 2005 were $3,266. Significant uses of cash for financing activities included net repayments on bank lines of credit of $3,208, final principal payments on the SNPE term loan of $667, industrial development revenue bond principal payments of $490 and a principal payment on a term loan with French bank of $373. Sources of cash flow from financing activities included net borrowings on related party lines of credit of $259 and $1,181 in net proceeds from the issuance of common stock relating to the exercise of stock options 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.

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.

The entire amount of goodwill, which had a carrying value of $847 on our balance sheet as of June 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 cumulative comprehensive income (loss). Transactions denominated in currencies other than the local currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. As a result, amounts related to assets and liabilities reported in the consolidated statements of cash flows will not agree to changes in the corresponding balances in the consolidated balance sheets. The effects of exchange rate changes on cash balances held in foreign currencies are reported as a separate line item below cash flows from financing activities.

Income taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109) which requires the recognition of deferred tax assets and deferred tax liabilities for the expected future income tax consequences of transactions that have been included in our financial statements or tax returns. Deferred tax assets and liabilities are determined based on the temporary differences between the Consolidated Financial Statement base and the tax base of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. We routinely evaluate deferred tax assets to determine if they will more likely than not be recovered from future projected taxable income and record a valuation allowance accordingly.

During 2005, we completed an analysis of prior year tax credits and related items. As a result of the analysis, we filed amended federal and state income tax returns. The amended state returns reported additional net operating losses and credits above the amounts we had previously recorded on our books and records. In assessing these additional losses and credits, we determined that the utilization of a portion of these was not probable, due to potential changes in the states in which we have income tax nexus. Thus, we recorded a net valuation allowance of approximately $177 against the deferred tax assets during 2005. Due to our earnings in the first half of 2006, our projected utilization of the net operating losses and tax credits is more favorable and, as a result, the valuation at June 30, 2006 has been reduced to $156.

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 over the requisite service period of the award. Determining the appropriate fair value model and calculating the fair value of stock-based awards at the grant date requires judgment, including estimating stock price volatility, forfeiture rates and expected option life.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123R, which is a revision of Statement of Financial Accounting Standards No. 123 (SFAS 123). SFAS 123R requires measurement of all employee stock-based compensation awards using a fair-value method and the recording of such expense in the consolidated financial statements. In addition, the adoption of SFAS 123R requires additional accounting related to the income tax effects and disclosure regarding the cash flow effects resulting from share-based payment arrangements. In January 2005, the SEC issued Staff Accounting Bulletin No. 107, which provides supplemental implementation guidance for SFAS 123R. We selected the Black-Scholes option-pricing model as the most appropriate fair-value method for our awards and will recognize compensation cost on a straight-line basis over our awards vesting periods. We adopted SFAS 123R in the first quarter of 2006, which resulted in an after tax reduction in net income of $284 for the first six 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 our results from operations or financial position.

33

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 June 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

None.

Item 5. Other Information

None.

Item 6.

Exhibits

31.1 Certification of the President and Chief Executive Officer pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Vice President and Chief Financial Officer pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1	Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the 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: August 3, 2006	/s/ Richard A. Santa Richard A. Santa, Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)