DYNAMIC MATERIALS CORP
Form 10-K
March 08, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2006

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

For the transition period from to

Commission file number 001-14775

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)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, $.05 Par Value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes oNo x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 of the Act).

Yes o No x

The approximate aggregate market value of the voting stock held by non-affiliates of the registrant was $391,957,677 as of June 30, 2006.

The number of shares of Common Stock outstanding was 12,085,749 as of February 28, 2007.

Certain information required by Items 10, 11, 12, 13 and 14 of Form 10-K is incorporated by reference into Part III hereof from the registrant s proxy statement for its 2007 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission (SEC) within 120 days of the close of the registrant s fiscal year ended December 31, 2006.

PART I

ITEM 1. Business

Overview

Dynamic Materials Corporation is a leading provider of explosion-welded clad metal plates. Explosion-weld cladding uses an explosive charge to bond together plates of different metals that do not bond easily with traditional welding techniques. The process of welding the metal plates through an explosion is also known as shooting. We refer to this part of our business as DMC Clad or the Explosive Metalworking segment. Detaclad® is the main trade name under which DMC Clad markets its explosion-welded clad products. DMC Clad s products are used in critical applications in a variety of industries, including upstream oil and gas, oil refinery, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation and industrial refrigeration. DMC Clad s market leadership for explosion-welded clad metal plates is a result of its state-of-the-art manufacturing facilities, technological leadership and production expertise. We believe our customers select us for our high quality product, speed and reliability of delivery, and cost effectiveness. We have a global sales force that allows us to access international markets. Our Explosive Metalworking operations are located in Pennsylvania, France and Sweden.

Through our AMK Welding segment (AMK Welding), we also provide advanced welding services, primarily to the power turbine and aircraft engine manufacturing industries. AMK Welding is a highly specialized welding subcontracting shop for complex shapes used principally in gas turbines and aircraft engines. AMK Welding s operations are conducted at its South Windsor, Connecticut facility.

Clad Metals Industry

Clad metal plates are used in the construction of heavy, corrosion resistant pressure vessels and heat exchangers for upstream oil and gas, oil refinery, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and similar industries. Clad metal plates consist of a thin layer of an expensive, corrosion resistant metal such as titanium or stainless steel, which is metallurgically combined with a less expensive, less corrosion resistant, thicker base metal, typically carbon steel. There are four common ways to use such corrosion-resistant metals in corrosion resistant vessels:

- Solid metal construction
- Rollbond clad metals
- Weld overlay clad metals
- Explosion-welded clad metals

The various cladding technologies were developed to produce materials with properties similar to those of a solid metal, but at a lower cost. The most appropriate and cost-effective alternative for an end-user depends on both the type of application and the clad metal thickness required. While explosion-welded, rollbond and weld overlay are competing cladding technologies, there are limitations on the product that each can produce. Explosion-welded clad technology is the only one of these processes suitable for joining titanium, zirconium or tantalum metals to a base metal.

The use of a solid metal is frequently the lowest cost alternative for metal thicknesses of less than 0.75 inch. However, it is generally the most expensive alternative for greater thicknesses.

The rollbond technology is performed by several of the world s heavy plate mills. In this process, the clad metal and base metal are bonded together during a hot rolling process in which a slab of metal is converted to plate. Rollbond clad metals are cost-effective in metal thicknesses up to two inches, depending on the metal alloy type. Rollbond products have lower bond shear strength and corrosion resistance, which limits their use in certain applications, and rollbonding may only be used for a specific group of metal combinations due to metallurgical compatibility issues.

In weld overlay cladding, which is typically performed by equipment fabricators, the cladding layer is deposited on the base metal using arc-welding type processes. Weld overlay is a cost-effective technology for complicated shapes, field service jobs and for production of heavy wall pressure vessel reactors. Due to distortion and dilution concerns, overlay is rarely used for new construction of equipment that is less than two inches thick. Weld overlay clad metals have corrosion resistance that can be compromised by dilution, which limits their use in certain applications. As with rollbond, weld overlay may only be used for a specific group of metal combinations due to metallurgical compatibility issues.

Explosion-welded clad products retain the properties of the original metals before they were bonded, such as corrosion resistance and mechanical properties, unlike materials produced by rollbond or weld overlay. There is no dilution of the original metals and the alloy chemistry is constant over the full thickness of the product. When fabricated properly, the two metals will not come apart, even under the most extreme circumstances. The explosion-welded clad process is suitable for joining most metals used to construct vessels and equipment used in corrosive applications, whereas rollbond and weld overlay are limited to certain compatible metal combinations. Explosion-welded clad metal is used to create flat plates, concentric cylinders, formed heads and transition joints. Explosion-weld cladding is suitable for creating a product that has a cladding thickness of 0.04 inch to two inches and a base thickness of 0.25 inch to forty inches. Depending on alloy type, explosion-welded clad metals are often the most cost effective solution for metal thicknesses of between one and five inches. While rollbond most frequently bonds stainless steel or nickel alloy to a steel plate, welding zirconium, titanium or tantalum to a steel plate or to an alloy plate can only be done by explosion-weld cladding.

Clad Metals End Use Markets

Explosion-welded clad metal is primarily used in construction of large industrial equipment involving high pressures and temperatures, and which needs to be corrosion-resistant. The eight broad industrial sectors discussed below comprise the bulk of demand for DMC Clad s business. The demand for clad metal is driven by the underlying demand for new equipment and facility maintenance in these primary market sectors. Overall, the market for explosion-welded clad metal has continuously grown since its inception, with demand dependent upon the underlying needs of the various market sectors. During the past two years, there has been significant capital investment in many of these markets. This current increase in demand is mainly attributable to strong markets for energy, metals, and petrochemicals.

Upstream Oil and Gas: The upstream oil and gas industry covers a broad scope of operations related to recovering oil and/or gas for subsequent processing in refineries. Clad metal is used in separators, glycol contactors, piping, heat exchangers and other related equipment. The increase in oil and gas production from deep, hot, and corrosive fields has significantly increased the demand for clad equipment. At current energy price levels, many non-traditional energy production methods are potentially commercially viable. These include liquid fuel production processes such as coal gasification, oil recovery from tar sands, and ethanol production from agricultural products. Also methods for transport or transformation of natural gas become viable, such as natural gas liquification and conversion of gas to liquid petroleum products. Virtually all of these processes involve conditions which require clad metal in some of the equipment. The primary clad metals for this market are stainless steel and nickel alloys clad to steel, with some use of reactive metals.

Oil Refinery: Petroleum refining processes are frequently corrosive, hot, and high pressure. Clad metal is extensively used in a broad range of equipment including desulfurization hydrotreaters, coke drums, distillation columns, separators and heat exchangers. In the United States, refineries are running near full capacity and, adding capacity and reducing costly down-time are a high priority. The increasing reliance upon low quality, high sulfur crude further drives demand for new corrosion resistant equipment. Worldwide trends in regulatory control of sulfur emissions in gas, diesel and jet fuel are also increasing the need for clad equipment. Like the upstream oil and gas sector, the metals of construction are primarily stainless steel and nickel alloys.

Chemical and Petrochemical: Many common products, ranging from plastics to drugs to electronic materials, are produced by chemical processes. Because the production of these items is corrosive and conducted under high pressure or temperature, corrosion-resistant equipment is needed, which may be produced most cost-effectively using clad construction. One of the larger applications for titanium-clad equipment is in the manufacture of Purified Terephthalic Acid (PTA), a precursor product for polyester, which is used in everything from carpets to plastic bottles. This market

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requires extensive use of stainless steel and nickel alloy, but also uses titanium and, to a lesser extent, zirconium and tantalum.

Hydrometallurgy: The conversion of raw ore to metal generally involves high energy and/or corrosive processes. Traditionally, most metals have been produced by high temperature smelting. Over the past two decades there has been an increasing trend toward acid leaching processes. These hydrometallurgy processes are more environmentally friendly and more energy efficient. The processes for production of nickel, gold, and copper involve acids, high pressures, and high temperatures. Titanium is the material of choice. Titanium-clad plate is used extensively for construction of autoclaves and peripheral equipment. Increasing demand for metals in the current world market provides the impetus for a significant number of new mining and hydrometallurgy projects.

Aluminum Production: Aluminum is reduced from its oxide in large electro-smelter facilities called potlines. The electric current power is carried via aluminum conductors. The electricity must be transmitted into steel components for the high temperature smelting operations. Aluminum cannot be welded to steel conventionally. Explosion-welded aluminum-steel transition joints provide an energy efficient and highly durable solution for making these connections. Modern potlines may use a large number of transition joints. The parts are typically replaced when the potlines are refurbished, commonly every few years. Although aluminum production is the major electrochemical application for DMC Clad products, there are a number of other electrochemical applications including production of magnesium, chlorine and chlorate.

Shipbuilding: The combined problems of corrosion and top-side weight drive significant demand for our aluminum-steel transition joints. Top-side weight is often a significant problem with tall ships, including cruise ships, naval combatants, ferries and yachts. Use of aluminum in the upper structure and steel in the lower structure provides stability. Bolted joints between aluminum and steel corrode quickly. Aluminum cannot be welded directly to steel using traditional welding processes. Welded joints can only be made using transition joints. DMC Clad products can be found on many well known ships, including the QE II and modern U.S. Navy aircraft carriers.

Power Generation: Fossil fuel power generation plants require extensive use of heat exchangers, many of which require corrosion resistant alloys to handle low quality cooling water. Our clad plates are used extensively for heat exchanger tubesheets. The largest clad tubesheets in conventional steam plants are used in the final low pressure condensers. For most coastal and brackish water cooled plants, titanium is the metal of choice technically and titanium-clad tubesheets are the low cost solution.

Industrial Refrigeration: Heat exchangers are a core component of refrigeration systems. When the cooling water is seawater, brackish, or even slightly polluted, corrosion resistant metals are necessary. Metal selection can range from stainless steel to copper alloy to titanium, and explosion-welded clad metal is often the low cost solution for making the necessary components. Applications range from refrigeration chillers on fishing boats to massive air conditioning units for skyscrapers, airports, and deep underground mines.

AMK Welding End Use Markets

Parts for power turbines and aircraft engines must be machined to exacting tolerances and welded according to exacting specifications. Many of those parts have complex shapes, the welding of which requires significant expertise. AMK Welding is a specialized operation that welds complex, shaped parts for machining companies that, in turn, supply the manufacturers of power turbines and aircraft engines. Some machining companies also have their own welding facilities, which compete with AMK Welding for business.

Business Segments

We operate two business segments: Explosive Metalworking (which we also refer to as DMC Clad) and AMK Welding. The Explosive Metalworking segment uses proprietary explosive processes to fuse dissimilar metals and alloys and has 40 years of experience. We are the largest explosion-welded clad metal manufacturer in North America, and our two plants in Europe provide us with a leadership position in the European market. AMK Welding utilizes various specialized technologies to weld components for use in commercial and military jet engines as

well as power-generation turbines and has 40 years of experience.

Explosive Metalworking

The Explosive Metalworking segment seeks to build on its leadership position in its markets. The Explosive Metalworking segment currently represents approximately 95% of our revenue. The three manufacturing plants and their respective shooting sites in Pennsylvania, France and Sweden provide the production capacity to address concurrent projects for DMC Clad s current domestic and international customer base.

The primary product of the Explosive Metalworking segment is explosion-welded clad metal plate. Clad metal plates are used in the construction of heavy, corrosion resistant pressure vessels and heat exchangers for upstream oil and gas, oil refinery, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and similar industries. The characteristics of DMC Clad s explosive metalworking processes may enable the development of new products in a variety of industries and DMC Clad continues to explore such development opportunities.

The principal product of metal cladding, regardless of the process used, is a metal plate composed of two or more dissimilar metals, usually a corrosion resistant metal and steel, bonded together. Prior to the explosion-welded clad process, the materials are inspected, the mating surfaces are ground, and the metal plates are assembled for cladding. The process involves placing a sheet of the cladder over a parallel plate of backer material and then covering the cladder material with a layer of specifically formulated explosive. A small gap or standoff space is maintained between the alloy cladder and the backer substrate. The explosion is then initiated on one side of the cladder and travels across the surface of the cladder forcing it down onto the backer. The explosion happens in approximately one-thousandth of a second. The collision conditions cause a thin layer of the mating surfaces to be spalled away in a jet. This action removes oxides and surface contaminants immediately ahead of the collision point. The extreme pressures force the two metal components together, creating a metallurgical bond between them. The explosion-welded clad process produces a strong, ductile, continuous metallurgical weld over the clad surface. After the explosion is completed, the resulting clad plates are flattened and cut, and then undergo testing and inspection to assure conformance with internationally accepted product specifications.

EXPLOSION-WELDING PROCESS

Explosion-welded cladding technology is a method to weld metals that cannot be welded by conventional processes, such as titanium-steel, aluminum-steel, and aluminum-copper. It can also be used to weld compatible metals, such as stainless steels and nickel alloys to steel. The cladding metals are typically titanium, stainless steel, aluminum, copper alloys, nickel alloys, tantalum, and zirconium. The base metals are typically carbon steel, alloy steel, stainless steel and aluminum. Although the patents for the explosion-welded cladding process have expired, DMC Clad has proprietary knowledge that distinguishes it from its competitors. The entire explosion-welding process involves significant precision in all stages, and any errors can be extremely costly as they result in the discarding of the expensive raw material metals. DMC Clad s technological expertise is a significant advantage in preventing costly waste.

Explosion-welded clad metal is used in critical applications in a variety of industries, including upstream oil and gas, oil refinery, chemical and petrochemical, aluminum production, shipbuilding, power generation, industrial refrigeration and other industries where corrosion, temperature and pressure combine to produce demanding environments. Explosion-welded clad metal is also used to produce bimetal transition joints or other components which are used in ship construction, and in a variety of electrochemical industries including aluminum production.

DMC Clad s metal products are primarily produced on a project-by-project basis conforming to requirements set forth in customers purchase orders. Upon receipt of an order, DMC Clad obtains the component materials from a variety of sources based on quality, availability and cost and then produces the order in one of its three manufacturing plants. Final products are processed to meet contract specific requirements for product configuration and quality/inspection level.

AMK Welding

AMK Welding employs a variety of sophisticated processes and equipment to provide specialized welding services principally to a power turbine manufacturer and commercial and military aircraft engine manufacturers. AMK Welding is located in South Windsor, Connecticut.

Welding services are provided on a project-by-project basis based on specifications set forth in customers purchase orders. Upon receipt of an order for welded assemblies, AMK Welding performs welding services using customer specific welding procedures.

AMK Welding uses a variety of processes and specialized equipment, including electron beam and gas tungsten arc welding processes. AMK Welding has considerable expertise in vacuum chamber welding, which is a critical capability when welding titanium, high temperature nickel alloys and other specialty alloys. These welding techniques are used for the welding of blades and vanes and other turbine parts typically located in the hot gas path of aircraft engines. In addition to its welding capabilities, AMK Welding also uses various heat treatment and non-destructive examination processes, such as radiographic inspection, in support of its welding operations.

Suppliers, Competition, Customer Profile, Marketing and Research and Development

DMC Clad

Suppliers and Raw Materials

DMC Clad uses a range of alloys, steels and other materials for its operations, such as stainless steel, copper alloys, nickel alloys, titanium, zirconium, tantalum, aluminum and other metals. DMC Clad sources its raw materials from a number of different producers and suppliers. DMC Clad holds a limited metal inventory and purchases its raw materials based on contract specifications. Under most contracts, any raw material price increases are passed on to DMC Clad s customers. DMC Clad closely monitors the quality of its supplies and inspects the type, dimensions, markings, and certification of all incoming metals to ensure that the materials will satisfy applicable construction codes. DMC Clad also manufactures a majority of its own explosives from standard raw materials, thus achieving higher quality and lower cost.

Competition

Metal Cladding. DMC Clad faces competition from alternative technologies such as rollbond and weld overlay. Usually the three processes do not compete directly against each other, each having its own preferential domain of application relating to metal used and thicknesses required. However, due to specific project considerations such as technical specifications, price and delivery time, explosion-welding may have the opportunity to compete successfully against these technologies. Rollbond is only produced by a few steel mills in the world. The weld overlay process, which is produced among the many vessel fabricators who are often also DMC Clad customers, is a slow and labor intensive process that requires a large amount of floor space for the equipment.

Explosion-Welded Metal Cladding. Competition in the explosion-welded clad metal business is fragmented. DMC Clad holds a strong market position in the clad metal industry. DMC Clad is the leading producer of explosion-welded clad products in North America, and it has a strong position in Europe against smaller competitors. The main competitor in Asia is a division of Asahi Kasei, which has competitive technology and a recognized local brand name. There are several explosion-welded clad producers in China, most of whom are technically limited and are currently not exporters outside of their domestic market. To remain competitive, DMC Clad intends to continue developing and providing technologically advanced manufacturing services, maintain quality levels, offer flexible delivery schedules, deliver finished products on a reliable basis and compete favorably on the basis of price.

Customer Profile

DMC Clad s products are used in critical applications in a variety of industries, including upstream oil and gas, oil refinery, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and other similar industries. DMC Clad s customers in these industries require metal products that can withstand exposure to corrosive materials, high temperatures and high pressures. DMC Clad s customers can be divided

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into three tiers: the product end-users (e.g., operators of chemical processing plants), the engineering contractors who design and construct plants for end-users, and the metal fabricators who manufacture the products or equipment that utilize DMC Clad s metal products. It is typically the fabricator that places the purchase order with DMC Clad and pays the corresponding invoice. DMC Clad has developed strong relationships over the years with the engineering contractors (relatively large companies) who sometimes act as prescriptor to fabricators.

Marketing, sales, distribution

DMC Clad conducts its selling efforts by marketing its services to potential customers through senior management, direct sales personnel, program managers and independent sales representatives. Prospective customers in specific industries are identified through networking in the industry, cooperative relationships with suppliers, public relations, customer references, inquiries from technical articles and seminars and trade shows. DMC Clad markets its clad metal products to three tiers of customers: product end-users, engineering contractors and metal fabricators. DMC Clad s sales office in the United States covers the Americas and Asia, its sales office in France covers Southern Europe, the Middle East and Africa, while its sales office in Sweden covers Northern Europe and Germany. In addition, DMC Clad also operates a sales office in India. Members of the global sales team may be called to work on projects located outside their territory. By maintaining relationships with its existing customers, developing new relationship with prospective customers and educating all its customers as to the technical benefits of DMC Clad s metal-worked products, DMC Clad endeavors to have its products specified as early as possible in the design process.

In addition to its direct sales office, DMC Clad also works with sales agents located in Canada, South Africa, the United Kingdom, Germany, Italy, Norway, Finland, Saudi Arabia, Australia, Indonesia, China, Korea and Japan. DMC Clad has several exclusive or non-exclusive agreements with agents for sales and business promotion in specific territories defined by each agreement. These agency contracts cover additional sales in specific European, Middle Eastern and Far Eastern countries. Agency agreements are usually one to two years in duration and, subject to agents meeting DMC Clad s performance expectations, are automatically renewed.

DMC Clad s sales are generally shipped from the manufacturing locations in the United States, France and Sweden, and all shipping costs are covered by the customer. Regardless of where the sale is booked (in Europe or the U.S.), DMC Clad will produce it, capacity permitting, at the location closest to the delivery place. In the event that there is a short term capacity issue, DMC Clad produces the order at any of its production sites, prioritizing timing. The various production sites allow DMC Clad to meet customer production needs in a timely manner.

Research and Development

We prepare a formal research and development plan annually. It is implemented at the French and at the U.S. cladding sites and is supervised by a Technical Committee, chaired by the Chief Executive Officer, that reviews progress quarterly and meets once a year to establish the plan for the following 12 months. The research and development projects concern process support, new products and special customer-paid projects.

AMK Welding

At AMK Welding, the materials welded are a function of the type of parts supplied by the customers and include many steel varieties, various nickel alloys and customer-created proprietary alloys typically used in the aerospace or ground turbines industries. Other than the metal wire used in the welding process, AMK Welding does not purchase metals, and it receives the parts to be welded from the customer.

AMK Welding relies on a few key customers for the majority of its business, including GE Energy, General Electric Aircraft Engines and their first tier subcontractors, such as Barnes Aerospace, and divisions of United Technology, such as Hamilton Standard, Sikorsky Aircraft and Pratt and Whitney. In addition, AMK Welding has entered into a 5-year contract to provide welding services to the GE Energy Business of General Electric Company for up to six H System gas turbine engines per year. During the term of this contract, the customer has agreed to use AMK Welding for welding services for the first six H System gas turbine engines such customer manufactures each year. In the aircraft engine business, AMK Welding competes against a few small welding companies that are typically privately owned. AMK Welding competes successfully based on a reputation for uncompromising quality and rapid responsiveness to customer needs.

Corporate History & Recent Developments

Company History

Explosive Fabricators Inc. (EFI) was founded in 1965 and incorporated in 1971 as a Colorado corporation. In 1976, EFI became a licensee of Detaclad®, the explosion-weld clad process discovered by DuPont in 1959. EFI became a public company in 1977 and was renamed Dynamic Materials Corporation in 1994. In 1996, we purchased the Detaclad operating business from DuPont. We reincorporated in 1997 as a Delaware corporation. In 1998, we acquired AMK Welding, Spin Forge and Precision Machined Products (PMP).

In a series of transactions including open market purchases and a direct purchase of our common stock pursuant to a stock purchase agreement, SNPE, Inc. (SNPE), which is indirectly wholly owned by the government of France, acquired shares of our common stock, resulting by June 30, 2000 in its holding of 2,763,491 shares of our common stock, or approximately 56% of our outstanding shares of common stock. On June 8, 2005, SNPE exercised its conversion rights on a convertible subordinated note it held, and the note was converted into 200,000 shares of our common stock at a conversion rate of $6 per share, increasing SNPE s ownership to 2,963,491 shares at that time. A subsequent stock split increased this amount to the current 5,926,982 shares held by SNPE. On May 15, 2006, in an underwritten public offering, SNPE sold all of its shares of the Company s common stock. Following the sale, four members of the Company s board of directors, each of whom had represented SNPE, resigned from the board. All transaction expenses were paid by SNPE.

At the time of its acquisition of our common stock, SNPE s parent company, Groupe SNPE, was the indirect owner of Nobelclad, which had been a licensee of the Detaclad® technology in France since 1966, and had acquired its Swedish competitor, Nitro Metall, in 1997, as well as its U.K. and German competitors in 1998. On July 3, 2001, we completed our acquisition of substantially all of the outstanding stock of Nobelclad from Nobel Explosifs France (NEF). NEF is wholly owned by Groupe SNPE and is a sister company to SNPE. Nobelclad and its wholly-owned subsidiary, Nitro Metall AB (Nitro Metall), are the primary manufacturers of explosion-welded clad products in Europe and operate cladding businesses located in Rivesaltes, France and Likenas, Sweden, respectively, along with sales offices in each country. Products manufactured by Nobelclad and Nitro Metall are similar to those produced by DMC Clad s domestic factory in Mount Braddock, Pennsylvania.

Historically, our Aerospace segment was comprised of three companies that we acquired in 1998: AMK Welding, Spin Forge and PMP. Because PMP and Spin Forge were sold in October of 2003 and September of 2004, respectively, and are reported as discontinued operations, AMK Welding has become a stand-alone business segment.

Employees

As of December 31, 2006, we employed approximately 210 permanent employees the majority of whom were engaged in manufacturing operations, and the remainder were engaged in sales and marketing or corporate functions.

The majority of our manufacturing employees are not unionized. Of the 210 permanent employees, 132 are U.S. based, 61 are based in France at the Nobelclad facility and 17 are based in Sweden at Nitro Metall. About 45% of Nobelclad s employees and all Nitro Metall employees are members of trade unions. In addition, we also use between 15 and 20 temporary workers at any given time, depending on the workload.

In 2005, approximately half of the employees of the French facility held a strike for one week, which was the first in 8 years. The strike was resolved and we believe that employee relations are good.

Insurance

Our operations expose us to potential liabilities for personal injury or death as a result of the failure of a component that has been designed, manufactured or serviced by us, or the irregularity or failure of metal products we have processed or distributed. We believe that we maintain liability insurance adequate to protect us from future product liability claims.

Proprietary Knowledge, Permits and Patents

Protection of Proprietary Information. We hold patents related to the business of explosive metalworking and metallic processes and also own certain registered trademarks, including Detaclad®, Detacouple®, Dynalock®, EFTEK®, ETJ 2000® and NOBELCLAD®. Although the patents for the explosion-welded cladding process have expired, our current product application patents expire on various dates through 2020. Since individual patents relate to specific product applications and not to core technology, we do not believe that such patents are material to our business and the expiration of any single patent is not expected to have a material adverse effect on our operations. Much of the manufacturing expertise lies in the knowledge of the factors that affect the quality of the finished clad product, including the types of metals to be explosion-welded, the setting of the explosion, the composition of the explosive and the preparation of the plates to be bonded. We have developed this specialized knowledge over our 40 years of experience in the explosive metalworking business. We are very careful in protecting our proprietary know-how and manufacturing expertise, and we have implemented measures and procedures to ensure that the information remains confidential.

Permits. Explosive metalworking involves the use of explosives, making safety a critical factor in our operations. In addition, it is a highly regulated industry for which detailed permits are required. These permits require renewal every four years. See Item 1A Risk Factors Risk Factors Related to Our Industry We are subject to extensive government regulation and failure to comply could subject us to future liabilities and could adversely affect our ability to conduct or to expand our business for a more detailed discussion of these permits.

Foreign and Domestic Operations and Export Sales

All of our sales are shipped from the manufacturing facilities located in the United States, France and Sweden. The following chart represents our net sales based on the geographic location of the customer. The sales recorded for each country are based on the country to which we shipped the product, regardless of the country of the actual end-user. Products are usually shipped to the fabricator before being passed on to the end-user.

	(Dollars in Thousands) For the years ended December 31,		
	2006	**2005**	**2004**
United States	$ 56,395	$ 32,126	$ 24,527
Russia	11,137	838	253
Canada	10,787	7,562	4,924
France	4,791	2,417	1,662
India	3,764	140	71
Italy	3,466	2,208	2,236
South Korea	3,080	7,771	409
Belgium	2,546	2,495	2,591
Spain	2,465	5,369	957
Germany	2,265	939	1,978
Netherlands	1,967	2,757	1,218
China	1,055	3,368	310
Malaysia	358	5,148	83
Australia	235	1,940	5,454
Other foreign countries	9,161	4,213	7,492
Total	$ 113,472	$ 79,291	$ 54,165

Company Information

Our Internet address is http://www.dynamicmaterials.com. Information contained on our website does not constitute part of this Annual Report on Form 10-K.

ITEM 1A. Risk Factors

Risk Factors Related to Our Industry

Despite substantial growth in recent years in our existing markets, growth in such markets may not continue at the same rate indefinitely.

From 2004 to 2005 and from 2005 to 2006, sales by DMC Clad increased by 47% and 43%, respectively. However, the explosion-weld cladding market is dependent upon sales of products for use by customers in a limited number of heavy industries, including upstream oil and gas, oil refinery, petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation and industrial refrigeration. These industries tend to be cyclical in nature, and there can be no assurance that the construction and other needs of those industries for our products will continue to grow at current rates. An economic slowdown in one or all of these industries, whether due to cyclicality or other factors, could impact capital expenditures within the industry. If demand from such industries were to decline or even grow less quickly, our sales would be expected to be affected proportionately, which may have a material adverse effect on our business, financial condition and results of operations.

There is a limited availability of sites suitable for cladding operations.

Our cladding process involves the detonation of large amounts of explosives. As a result, the sites where we perform cladding must meet certain criteria, including lack of proximity to a densely populated area, the specific geological characteristics of the site, and the ability to comply with local noise and vibration abatement regulations in conducting the process. The process of identifying suitable sites and obtaining permits for using the sites from local government agencies can be time-consuming and may not be successful. In addition, we could experience difficulty in obtaining or renewing permits because of resistance from residents in the vicinity of proposed sites. The failure to obtain required governmental approvals or permits could limit our ability to expand our cladding business in the future, and the failure to maintain such permits would have a material adverse effect on our business, financial condition and results of operations.

Certain raw materials we use are subject to supply shortages due to general economic conditions.

Although we generally use standard metals and other materials in manufacturing our products, certain materials such as specific grades of carbon steel, titanium, zirconium and nickel can be subject to supply shortages due to general economic conditions or problems with individual suppliers. While we seek to maintain sufficient alternative supply sources for these materials, there can be no assurance that we will always be able to obtain sufficient supplies or obtain supplies at acceptable prices without production delays, additional costs or a loss of product quality. If we were to fail to obtain sufficient supplies on a timely basis or at acceptable prices, such loss or failure could have a material adverse effect on our business, financial condition and results of operations.

Certain raw materials we use are subject to price increases due to general economic conditions.

The markets for certain metals and other raw materials used in our business are highly variable and are characterized by periods of increasing prices. We generally do not hedge commodity prices or enter into forward supply contracts, and instead we endeavor to pass along price variations to our customers. We may see a general downturn in business if the price of raw materials increases enough for our customers to delay planned projects or use alternative materials to complete their projects.

We are subject to extensive government regulation and failure to comply could subject us to future liabilities and could adversely affect our ability to conduct or to expand our business.

We are subject to extensive government regulation in the United States, France and Sweden, including guidelines and regulations for the safe manufacture, handling, transport and storage of explosives provided by the U.S. Bureau of Alcohol, Tobacco and Firearms, the Federal Motor Carrier Safety Regulations set forth by the U.S. Department of Transportation and the Safety Library Publications of the Institute of Makers of Explosive and similar guidelines of their European counterparts. In Sweden, the purchase, transport, storage and use of explosives is governed by a permit issued by the Police Authority of the County of Varmland. (In France, the manufacture and transportation of explosives is subcontracted to Nobel Explosifs France, an affiliate of SNPE, which is responsible for compliance with regulations established by various State and local governmental agencies concerning the handling and transportation of explosives.) We must comply with licensing and regulations for the purchase, transport, storage, manufacture, handling and use of explosives. In addition, while our shooting facilities in France and Sweden are located outdoors, our shooting facility in Pennsylvania is located in a mine, which subjects us to certain regulations and oversight of governmental agencies that oversee mines.

We are also subject to extensive environmental and occupational safety regulation, as described below under Liabilities under environmental and safety laws could result in restrictions or prohibitions on our facilities, substantial civil or criminal liabilities, as well as the assessment of strict liability and/or joint and several liability and The use of explosives subjects us to additional regulation, and any accidents or injuries could subject us to significant liabilities.

The export of certain products from the United States is restricted by U.S. export regulations. These regulations generally prevent the export of products that could be used by certain end-users, such as those in the nuclear or biochemical industries. In addition, the use and handling of explosives may be subject to increased regulation due to heightened concerns about security and terrorism. Such regulations could restrict our ability to access and use explosives and increase costs associated with the use of such explosives, which could have a material adverse effect on our business, financial condition and results of operations.

Any failure to comply with current and future regulations in the U.S. and Europe could subject us to future liabilities. In addition, such regulations could restrict our ability to expand our facilities, construct new facilities, compete in certain markets or could require us to incur other significant expenses in order to maintain compliance. Accordingly, our business, results of operations or financial condition could be adversely affected by our non-compliance with applicable regulations, by any significant limitations on our business as a result of our inability to comply with applicable regulations, or by any requirement that we spend substantial amounts of capital to comply with such regulations.

Liabilities under environmental and safety laws could result in restrictions or prohibitions on our facilities, substantial civil or criminal liabilities, as well as the assessment of strict liability and/or joint and several liability.

We are subject to extensive environmental and safety regulation in the United States and Europe. Any failure to comply with current and future environmental and safety regulations could subject us to significant liabilities. In particular, any failure to control the discharge of hazardous materials and wastes could subject us to significant liabilities, which could adversely affect our business, results of operations or financial condition.

We and all our activities in the United States are subject to federal, state and local environmental and safety laws and regulations, including but not limited to, noise abatement and air emissions regulations, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, regulations issued and laws enforced by the labor and employment departments of the U.S. and the states in which we conduct business, the U.S. Department of Commerce, the U.S. Environmental Protection Agency and by state and county health and safety agencies. In France, we and all our activities are subject to state environmental and safety regulations established by various departments of the French Government, including the Ministry of Labor, the Ministry of Ecology and the Ministry of Industry, and to local environmental and safety regulations and administrative procedures established by DRIRE (Direction Régionale de l Industrie, de la Recherche et de l Environnement) and the Préfecture des Pyrénées Orientales. In Sweden, we and all our

activities are subject to various safety and environmental regulations, including those established by the Work Environment Authority of Sweden in its Work Environment Act. In addition, our shooting operations in France and Sweden may be particularly vulnerable to noise abatement regulations because these operations are primarily conducted outdoors.

Changes in, or compliance with, environmental and safety regulations could inhibit or interrupt our operations, or require modifications to our facilities. Any actual or alleged violations of environmental and safety laws could result in restrictions or prohibitions on our facilities, substantial civil or criminal sanctions, as well as the assessment of strict liability and/or joint and several liability under applicable law. Under certain environmental laws, we could be held responsible for all of the costs relating to any contamination at our or our predecessor s past or present facilities and at third party waste disposal sites. We could also be held liable for any and all consequences arising out of human exposure to hazardous substances or other environmental damage. Accordingly, environmental, health or safety matters may result in significant unanticipated costs or liabilities.

The use of explosives subjects us to additional regulation, and any accidents or injuries could subject us to significant liabilities.

Our operations involve the detonation of large amounts of explosives. As a result, we are required to use specific safety precautions under U.S. Occupational Safety and Health Administration guidelines and guidelines of similar entities in France and Sweden. These include precautions which must be taken to protect employees from exposure to sound and ground vibration or falling debris associated with the detonation of explosives. There is a risk that an accident or death could occur in one of our facilities. Any accident could result in significant manufacturing delays, disruption of operations or claims for damages resulting from death or injuries, which could result in decreased sales and increased expenses. To date, we have not incurred any significant delays, disruptions or claims resulting from accidents at our facilities. The potential liability resulting from any accident or death, to the extent not covered by insurance, may require us to use other funds to satisfy our obligations and could cause our business to suffer. See Our use of explosives is an inherently dangerous activity that could lead to temporary or permanent closure of our shooting sites below.

Our use of explosives is an inherently dangerous activity that could lead to temporary or permanent closure of our shooting sites.

We use a large amount of explosives in connection with the creation of clad metals and the shock synthesis of diamonds. The use of explosives is an inherently dangerous activity. Explosions, even if occurring as intended, can lead to damage to the shooting facility or to equipment used at the facility or injury to persons at the facility. If a person were injured or killed in connection with such explosives, or if equipment at the mine or either of the outdoor locations were damaged or destroyed, we might be required to suspend our operations for a period of time while an investigation is undertaken or repairs are made. Such a delay might impact our ability to meet the demand for our products. In addition, if the mine were seriously damaged, we might not be able to locate a suitable replacement site to continue our operations.

Risk Factors Related to Dynamic Materials Corporation

Our operating results fluctuate from quarter to quarter.

We have experienced, and expect to continue to experience, fluctuations in annual and quarterly operating results caused by various factors, including the timing and size of orders by major customers, customer inventory levels, shifts in product mix, acquisitions and divestitures, and general economic conditions. The upstream oil and gas, oil refinery, chemical and petrochemical, hydrometallurgy, aluminum production, shipbuilding, power generation, industrial refrigeration and other diversified industries to which we sell our products are, to varying degrees, cyclical and tend to decline in response to overall declines in industrial production. As a result, our business is also cyclical, and the demand for our products by these customers depends, in part, on overall levels of industrial production. Any future material weakness in demand in any of these industries could materially reduce our revenues and profitability. In addition, the threat of terrorism and other geopolitical uncertainty could have a negative impact on the global economy, the industries we serve and our operating results.

We typically do not obtain long-term volume purchase contracts from our customers. Quarterly sales and operating results, therefore, depend on the volume and timing of backlogs as well as bookings received during the quarter. Significant portions of our operating expenses are fixed, and planned expenditures are based primarily on sales forecasts and product development programs. If sales do not meet our expectations in any given period, the adverse impact on operating results may be magnified by our inability to adjust operating expenses sufficiently or quickly enough to compensate for such a shortfall. Results of operations in any period should not be considered indicative of the results to be expected for any future period. Fluctuations in operating results may also result in fluctuations in the price of our common stock. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

Customers have the right to change orders until products are completed.

Customers have the right to change orders after they have been placed. If orders are changed, the extra expenses associated with the change will be passed on to the customer. However, because a change in an order may delay completion of the project, recognition of income for the project may also be delayed.

There is no assurance that we will continue to compete successfully against other clad and welding companies.

Our explosion-welded clad products compete with explosion-welded clad products made by other manufacturers in the clad metal business located throughout the world and with clad products manufactured using other technologies. Our combined North American and European operations typically supply explosion-welded clad to the worldwide market. There is one other well-known explosion-welded clad supplier worldwide, a division of Asahi-Kasei Corporation of Japan. There are also a number of smaller companies worldwide with explosion-welded clad manufacturing capability, including several companies in China. There are currently no other significant North American based explosion-welded clad suppliers. We focus strongly on reliability, product quality, on-time delivery performance, and low cost manufacturing to minimize the potential of future competitive threats. However, there is no guarantee we will be able to maintain our competitive position.

Explosion-welded clad products also compete with those manufactured by rollbond and weld overlay cladding processes. In rollbond technology, the clad and base metal are bonded together during a hot rolling process in which slab is converted to plate. In weld overlay, which is typically performed by our fabricator customers, the cladding layer is deposited on the base metal through a fusion welding process. The technical and commercial niches of each cladding process are well understood within the industry and vary from one world market location to another. Our products compete with weld overlay clad products manufactured by a significant number of our fabricator customers.

AMK Welding competes principally with other domestic companies that provide welding services to the aircraft engine and power generation industries. Some of these competitors have established positions in the market and long standing relationships with customers. To remain competitive, we must continue to develop and provide technologically advanced welding, heat-treat and inspection services, maintain quality levels, offer flexible delivery schedules, and compete favorably on the basis of price. We compete against other welding companies on the basis of quality, performance and cost. There can be no assurance that we will continue to compete successfully against these companies.

We are dependent on a relatively small number of customers for a significant portion of our net sales.

A significant portion of our net sales is derived from a relatively small number of customers although sales to no one customer exceeded 10% during the last three years. We expect to continue to depend upon our principal customers for a significant portion of our sales, although there can be no assurance that our principal customers will continue to purchase products and services from us at current levels, if at all. The loss of one or more major customers or a change in their buying patterns could have a material adverse effect on our business, financial condition and results of operations. In past years, the majority of DMC Clad s revenues have been derived from customers in the upstream oil and gas, oil refinery, petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation and industrial refrigeration industries and the majority of AMK Welding s revenues have been derived from customers in the aircraft engine and

power generation industries. Economic downturns in these industries could have a material adverse effect on our business, financial condition and results of operations.

AMK Welding, which contributes approximately 5% to our total sales, continues to rely primarily on one customer for the majority of its sales. This customer and AMK Welding have entered into a long-term supply agreement for certain of the services provided to this customer. Any termination of or significant reduction in AMK Welding s business relationship with this customer could have a material adverse effect on AMK Welding s business and financial condition.

Failure to attract and retain key personnel could adversely affect our current operations.

Our continued success depends to a large extent upon the efforts and abilities of key managerial and technical employees. The loss of services of certain of these key personnel could have a material adverse effect on our business, results of operations and financial condition. There can be no assurance that we will be able to attract and retain such individuals on acceptable terms, if at all, and the failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Work stoppages and other labor relations matters may make it substantially more difficult or expensive for us to produce our products, which could result in decreased sales or increased costs, either of which would negatively impact our financial condition and results of operations.

We are subject to the risk of work stoppages and other labor relations matters, particularly in France and Sweden, where some of our employees are unionized. The employees at our U.S. facility, where the majority of products are manufactured, are not unionized. While we believe our relations with employees are satisfactory, any prolonged work stoppage or strike at any one of our principal facilities could have a negative impact on our business, financial condition or results of operations. We most recently experienced a one-week work stoppage in 2005 at our facility in France. This strike did not materially impact operations, but we cannot assure you that a work stoppage at one or more of our facilities will not materially impair our ability to operate our business in the future.

The unsuccessful integration of a business we acquire could have a material adverse effect on operating results.

We continue to consider possible acquisitions as part of our growth strategy. Any potential acquisition may require additional debt or equity financing, resulting in additional leverage and dilution to existing stockholders. We cannot assure you that any future acquisition will be consummated, or that if consummated that we will be able to integrate such acquisition successfully without a material adverse effect on our financial condition or results of operations.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Our corporate headquarters are located in Boulder, Colorado. The lease for the office space is currently set to expire on February 28, 2010, with renewal options through February 28, 2016.

We own our principal domestic manufacturing site, which is located in Mount Braddock, Pennsylvania. We currently lease our only domestic shooting site, which is located in Dunbar, Pennsylvania. The shooting site in Dunbar Pennsylvania supports our manufacturing facility in Mount Braddock, Pennsylvania. The lease for the Dunbar property will expire on December 15, 2010, but we have options to renew the lease that extend through December 15, 2029. Our French subsidiary, Nobelclad, owns the land and the buildings housing its operations in Rivesaltes, France and Tautavel, France (except for a small portion in Tautavel that is leased). This lease expires on December 31, 2011 and may be extended. Our Swedish subsidiary, Nitro Metall, owns the land and buildings housing its manufacturing operations in Likenas, Sweden. The buildings and land at the Nitro Metall shooting site in Likenas, Sweden and the sales office in Filipstad, Sweden are leased. The lease in Filipstad is automatically renewed every year. The sites in Pennsylvania, France and Sweden are part of the Explosive Metalworking segment. In addition, we own the land and buildings housing the operations of AMK Welding in South Windsor, Connecticut.

Location	Facility Type	Facility Size	Owned/Leased	Expiration Date of Lease (if applicable)
Boulder, Colorado	Corporate and Sales Office	9,140 sq. ft.	Leased	February 28, 2010, with renewal options through February 28, 2016
Mt. Braddock, Pennsylvania	Clad Plate Manufacturing	48,000 sq. ft.	Owned	
Dunbar, Pennsylvania	Clad Plate Shooting Site	322 acres	Leased	December 15, 2010, with renewal options through December 15, 2029
Rivesaltes, France	Clad Plate Manufacturing, Nobelclad Europe Sales and Administration Office	53,000 sq. ft.	Owned	
Tautavel, France	Clad Shooting Site	114 acres	107 acres owned, 7 acres leased	December 31, 2011
Likenas, Sweden	Clad Plate Manufacturing	26,000 sq. ft.	Owned	
Likenas, Sweden	Clad Plate Shooting Site	15 acres	Leased	January 1, 2016
Filipstad, Sweden	Nitro Metall Sales Office	850 sq. ft.	Leased	January 1, 2008 (renews annually)
South Windsor, Connecticut	AMK Welding	21,000 sq. ft.	Owned	

ITEM 3. **Legal Proceedings**

Although we may in the future become a party to litigation, there are no pending legal proceedings against us.

ITEM 4. **Submission of Matters to a Vote of Security Holders**

No matters were submitted to security holders for vote during the fourth quarter of the fiscal year ended December 31, 2006.

PART II

ITEM 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is publicly traded on The Nasdaq National Market (Nasdaq) under the symbol BOOM. The following table sets forth quarterly high and low sales prices for the common stock during our last two fiscal years, as reported by Nasdaq, adjusted to give effect to the 2-for-1 stock split effective October 13, 2005.

	High	Low
2006		
First Quarter	$ 38.49	$ 27.03
Second Quarter	$ 43.20	$ 25.05
Third Quarter	$ 37.84	$ 28.15
Fourth Quarter	$ 33.69	$ 27.55
2005		
First Quarter	$ 19.50	$ 4.33
Second Quarter	$ 22.61	$ 11.00
Third Quarter	$ 26.25	$ 17.22
Fourth Quarter	$ 32.60	$ 18.27

As of February 28, 2007, there were approximately 330 holders of record of our common stock.

We declared and paid a $0.10 and $0.15 per share dividend in 2005 and 2006 respectively. We may pay annual dividends subject to capital availability and periodic determinations that cash dividends are in the best interests of our stockholders, but we cannot assure you that such payments will continue. Future dividends may be affected by, among other items, our views on potential future capital requirements, future business prospects, changes in federal income tax law and any other factors that our Board of Directors deems relevant. Any determination to pay cash dividends will be at the discretion of the Board of Directors.

FINANCIAL PERFORMANCE

The following graph compares the performance of the common stock with the Nasdaq Non-Financial Stocks Index and the Nasdaq Composite (US) Index. The comparison of total return (change in year end stock price plus reinvested dividends) for each of the years assumes that $100 was invested on December 31, 2001 in each of the Company, Nasdaq Non-Financial Stocks Index and the Nasdaq Composite (US) Index with investment weighted on the basis of market capitalization. Historical results are not necessarily indicative of future performance.

Total Return Analysis	12/31/01	12/31/02	12/31/03	12/31/04	12/30/05	12/29/06
Dynamic Materials Corporation	$ 100	$ 60.00	$ 75.70	$ 307.34	$ 1,520.00	$ 1,422.78
Nasdaq Non-Financial Stocks	$ 100	$ 65.33	$ 100.01	$ 107.86	$ 110.30	$ 120.97
Nasdaq Composite (US)	$ 100	$ 69.13	$ 103.36	$ 112.49	$ 114.88	$ 126.22

ITEM 6. Selected Financial Data

The following selected financial data should be read in conjunction with the Consolidated Financial Statements, including the related Notes, and Management s Discussion and Analysis of Financial Condition and Results of Operations.

(Dollars in Thousands, Except Per Share Data)

	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Statement of Operations					
Net sales	$ 113,472	$ 79,291	$ 54,165	$ 35,779	$ 38,880
Cost of products sold	71,439	55,856	40,559	26,802	26,673
Gross profit	42,033	23,435	13,606	8,977	12,207
Cost and expenses	11,930	7,667	6,718	5,661	5,011
Income from operations	30,103	15,768	6,888	3,316	7,196
Other (income) expense, net	(505)	163	524	527	742
Income before income taxes	30,608	15,605	6,364	2,789	6,454
Income tax provision	11,341	5,233	1,961	1,504	2,528
Income from continuing operations	19,267	10,372	4,403	1,285	3,926
Discontinued operations, net of tax	1,497		(1,570)	(1,993)	(1,437)
Cumulative effect of change in accounting principle, net of tax benefit of $1,482					(2,318)
Net income (loss)	$ 20,764	$ 10,372	$ 2,833	$ (708)	$ 171
Income from continuing operations per share:					
Basic	$ 1.63	$ 0.92	$ 0.43	$ 0.13	$ 0.39
Diluted	$ 1.58	$ 0.86	$ 0.41	$ 0.13	$ 0.38
Net income (loss) per share:					
Basic	$ 1.75	$ 0.92	$ 0.28	$ (0.07)	$ 0.02
Diluted	$ 1.70	$ 0.86	$ 0.27	$ (0.06)	$ 0.02
Weighted average number of shares outstanding:					
Basic	11,841,373	11,290,053	10,269,080	10,134,648	10,084,764
Diluted	12,213,075	12,086,884	10,968,090	10,621,612	10,574,102
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.15	$ 0.10	$	$	$
Financial Position					
Current assets	$ 63,847	$ 36,552	$ 26,246	$ 14,911	$ 15,237
Total assets	84,973	55,311	43,753	35,262	33,698
Current liabilities	25,297	14,838	16,962	10,114	8,382
Long-term debt	382	2,221	2,906	4,155	9,279
Other non-current liabilities	1,714	3,297	3,815	5,409	474
Stockholders equity	57,580	34,955	20,070	15,584	15,563

Selected unaudited quarterly financial data for the years ended December 31, 2006 and 2005 is presented below:

(Dollars in Thousands, Except Per Share Data)

	Year ended December 31, 2006			
	Quarter ended March 31,	**Quarter ended June 30,**	**Quarter ended September 30,**	**Quarter ended December 31,**
Net sales	$ 25,175	$ 27,754	$ 24,852	$ 35,691
Gross profit	$ 9,281	$ 9,921	$ 8,310	$ 14,521
Income from continuing operations	$ 4,139	$ 5,005	$ 3,690	$ 6,433
Net income	$ 5,496	$ 5,005	$ 3,690	$ 6,573
Income from continuing operations per share - basic	$ 0.35	$ 0.42	$ 0.31	$ 0.54
Income from continuing operations per share - diluted	$ 0.34	$ 0.41	$ 0.30	$ 0.53
Net income per share - basic	$ 0.47	$ 0.42	$ 0.31	$ 0.55
Net income per share - diluted	$ 0.45	$ 0.41	$ 0.30	$ 0.54

	Year ended December 31, 2005			
	Quarter ended March 31,	**Quarter ended June 30,**	**Quarter ended September 30,**	**Quarter ended December 31,**
Net sales	$ 17,510	$ 18,376	$ 20,238	$ 23,167
Gross profit	$ 4,650	$ 5,215	$ 6,268	$ 7,302
Income from continuing operations	$ 1,648	$ 2,115	$ 3,152	$ 3,457
Net income	$ 1,648	$ 2,115	$ 3,152	$ 3,457
Income from continuing operations per share - basic	$ 0.15	$ 0.19	$ 0.27	$ 0.29
Income from continuing operations per share - diluted	$ 0.14	$ 0.18	$ 0.26	$ 0.28
Net income per share - basic	$ 0.15	$ 0.19	$ 0.27	$ 0.29
Net income per share - diluted	$ 0.14	$ 0.18	$ 0.26	$ 0.28

Total net income per share for the 2006 and 2005 quarters does not equal net income per share for the respective years as the per share amounts for each quarter and for each year are computed based on their respective discrete periods.

ITEM 7. 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 included elsewhere in this annual report.

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. In 2006, Explosive Metalworking accounted for more than 95% of our net sales and 96% of our income from operations of continuing operations before consideration of stock-based compensation expense, which is not allocated to our business segments. In 2005 and 2004, Explosive Metalworking accounted for more than 95% and 94%, respectively, of our net sales, and more than 95% of income from operations of continuing operations.

Our 2006 net sales increased 43.1% compared to 2005, reflecting year-to-year net sales increases of 43.4% and 37.8% for our Explosive Metalworking and AMK Welding segments, respectively. Our income from operations of continuing operations increased 90.9%, to $30,103 in 2006 from $15,768 in 2005, reflecting a $14,445 improvement in Explosive Metalworking s operating income and a $550 improvement in AMK Welding s operating income. Income from continuing operations increased 85.8%, to $19,267 in 2006 from $10,372 in 2005. Our net income increased to $20,764 in 2006 from $10,372 in 2005. Our 2006 net income included $1,497 of income from discontinued operations, net of tax, relating to the sale of the Spin Forge real estate option in the first quarter and the sale of leased manufacturing equipment and tooling associated with the Spin Forge business in the fourth quarter. See detailed discussion below under income from discontinued operations .

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 largely 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 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, delivering product on time and competing favorably on the basis of price.

DMC Clad s business is cyclical since 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. This has historically been a seven- to ten-year cycle.

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 and recorded a loss from discontinued operations of $1,570, net of taxes, including a net of tax operating loss of $783 and a net of tax loss on the divesture transactions of $787. 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. In December 2006, we sold the Spin Forge equipment to the buyer of that division who had previously been leasing that equipment from us. The sale of this equipment resulted in an additional pre-tax gain on discontinued operations of $228. We reported a net of tax income of $1.497 for the full year 2006 as a result of these two transactions.

Income taxes

Our effective income tax rate increased to 37.1% in 2006 from 33.5% in 2005. Income tax provisions on the 2006 and 2005 earnings of Nobelclad and Nitro Metall have been provided based upon the respective French and Swedish statutory tax rates. Our effective tax rate for 2006 is higher than those experienced in 2005 and 2004 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 37% and 38%.

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 Explosion Metalworking segment increased to approximately $68.8 million at December 31, 2006 from approximately $42.0 million at December 31, 2005 and $27.5 at December 31, 2004.

Year ended December 31, 2006 compared to Year Ended December 31, 2005

Net sales

	2006	2005	Change	Percentage Change
Net sales	$ 113,472	$ 79,291	$ 34,181	43.1 %

Net sales for 2006 increased 43.1% to $113,472 from $79,291 in 2005. Explosive Metalworking sales increased 43.4% to $108,362 in 2006 (95.5% of total sales) from $75,582 in 2005 (95.3% 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.

AMK Welding contributed $5,110 to 2006 sales (4.5% of total sales) versus sales of $3,709 in 2005 (4.7% of total sales).

Gross profit

	2006	2005	Change	Percentage Change
Gross profit	$ 42,033	$ 23,435	$ 18,598	79.4 %
Consolidated gross profit margin rate	37.0 %	29.6 %		

Gross profit increased by 79.4% to $42,033 in 2006 from $23,435 in 2005. Our 2006 consolidated gross profit margin rate increased to 37.0% from 29.6% in 2005. The gross profit margin for Explosive Metalworking increased from 29.8% in 2005 to 37.2% in 2006 and the gross profit margin for AMK Welding increased to 34.9% in 2006 from 25.2% 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. 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. During 2006, the gross margins that we reported in our quarterly financial statements ranged from a low of 33.4% in the third quarter to a high of 40.7% in the fourth quarter. The high fourth quarter gross margin rates reflects the impact of favorable margin levels on an $11 million contract that shipped during the quarter, which involved complex materials engineering and a tight delivery schedule We expect to see continued fluctuations in our quarterly gross margin rates during 2007 that result from anticipated fluctuations in quarterly sales volume and changes in product mix.

General and administrative expenses

	2006	2005	Change	Percentage Change
General & administrative expenses	$ 5,802	$ 4,051	$ 1,751	43.2 %
Percentage of net sales	5.1 %	5.1 %		

General and administrative expenses increased by $1,751 or 43.2%, to $5,802 in 2006 from $4,051 in 2005. This increase in general and administrative expenses reflects stock-based compensation expense of $493, an impact of $352 from annual salary adjustments and staffing changes, a $371 increase in accrued incentive compensation expense and an aggregate increase of $190 in legal, consulting, audit, tax advisory, and investor relations expenses. As a percentage of net sales, general and administrative expenses remained flat at 5.1% in both 2006 and 2005.

Selling expenses

	2006	2005	Change	Percentage Change
Selling expenses	$ 6,128	$ 3,616	$ 2,512	69.5 %
Percentage of net sales	5.4 %	4.6 %		

Selling expenses, which include sales commissions of $2,528 in 2006 and $779 in 2005, increased by 69.5% to $6,128 in 2006 from $3,616 in 2005. The $1,749 increase in sales commissions is primarily attributable to large

consulting fees and commissions of approximately $1,650 paid in connection with an 11 million order that shipped during the fourth quarter and which involved complex materials engineering and a tight delivery schedule. The remaining $763 increase in selling expenses reflects stock-based compensation expense of $96, an impact of $302 from annual salary adjustments and staffing changes and a $160 increase in accrued incentive compensation expense. As a percentage of net sales, selling expenses increased to 5.4% in 2006 from 4.6% in 2005 due to the large increase in sales commissions that relates principally to one order. Excluding sales commissions, selling expenses as a percentage of sales decreased to 3.2% in 2006 from 3.6% in 2005.

Income from operations of continuing operations

	2006	2005	Change	Percentage Change
Income from operations of continuing operations	$ 30,103	$ 15,768	$ 14,335	90.9 %

Income from operations increased by 90.9% to $30,103 in 2006 from $15,768 in 2005. Explosive Metalworking reported income from operations of $29,605 in 2006 as compared to $15,160 in 2005. This 95.3% increase is largely attributable to the 43.4% sales increase discussed above.

AMK Welding reported income from operations of $1,158 in 2006, an increase of 90.5% from the $608 that it reported in 2005, which increase follows the 37.8% sales increase.

Income from operations of continuing operations in 2006 includes $660 of stock-based compensation expense (an expense we did not have in 2005). This expense is not allocated to our business segments and thus is not included in the above 2006 operating income totals for Explosive Metalworking and AMK Welding. Stock-based compensation expense in 2007 is expected to be at least double the amount that we reported in 2006.

Interest income (expense), net

	2006	2005	Change	Percentage Change
Interest income (expense), net	$ 620	$ (156)	$ 776	NM

We recorded net interest income of $620 in 2006 compared to net interest expense of $156 in 2005, an improvement of $776. 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

	2006	2005	Change	Percentage Change
Income tax provision	$ 11,341	$ 5,233	$ 6,108	116.7 %
Effective tax rate	37.1 %	33.5 %		

We recorded an income tax provision of $11,341 in 2006 compared to $5,233 in 2005. The effective tax rate increased to 37.1% in 2006 from 33.5% in 2005. The 2006 and 2005 income tax provisions include $8,167 and $3,514, 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.

Income from discontinued operations

	2006	2005	Change	Percentage Change
Income from discontinued operations	$ (1,497)	$	$ (1,497)	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. 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 on January 10, 2006. We recorded a pre-tax gain of approximately $2,197 on this transaction, which was reported in discontinued operations, net of related taxes. In December 2006, the third party purchaser of the Spin Forge business purchased the majority of the leased equipment while the remainder of the leased assets was liquidated by the Company. These transactions resulted in a pre-tax gain of $228, which was recorded in discontinued operations, net of related taxes.

Year ended December 31, 2005 compared to Year Ended December 31, 2004

Net sales

	2005	2004	Change	Percentage Change
Net sales	$ 79,291	$ 54,165	$ 25,126	46.4 %

Net sales for 2005 increased 46.4% to $79,291 from $54,165 in 2004. Explosive Metalworking sales increased 47.1% to $75,582 in 2005 (95% of total sales) from $51,375 in 2004 (95% 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.

AMK Welding contributed $3,709 to 2005 sales (5% of total sales) versus sales of $2,790 in 2004 (5% of total sales).

Gross profit

	2005	2004	Change	Percentage Change
Gross profit	$ 23,435	$ 13,606	$ 9,829	72.2 %
Consolidated gross profit margin rate	29.6 %	25.1 %		

Gross profit increased by 72.2% to $23,435 in 2005 from $13,606 in 2004. Our 2005 consolidated gross profit margin rate increased to 29.6% from 25.1% in 2004. The gross profit margin for Explosive Metalworking increased from 25.4% in 2004 to 29.8% in 2005 and the gross profit margin for AMK Welding increased to 25.2% in 2005 from 20.5% in 2004. The gross margin improvements for both Explosive Metalworking and AMK Welding relate primarily to the sales increases discussed above and the resultant more favorable absorption of fixed manufacturing overhead expenses. The Explosive Metalworking gross margin increase also reflects higher average prices in 2005, particularly with respect to our European operations.

General and administrative expenses

	2005		2004		Change	Percentage Change	
General & administrative expenses	$ 4,051		$ 3,335		$ 716	21.5	%
Percentage of net sales	5.1	%	6.2	%			

General and administrative expenses increased by $716, or 21.5%, to $4,051 in 2005 from $3,335 in 2004. This increase in general and administrative expenses reflects an aggregate increase of $310 in audit, tax consulting and investor relations expenses, a $336 increase in accrued incentive compensation expense, and the impact of annual salary adjustments. The 2005 increases in audit, tax advisory, consulting and investor relations expenses relates primarily to 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 decreased to 5.1% in 2005 from 6.2% in 2004. This decreased percentage is attributable to the significant increase in 2005 net sales.

Selling expenses

	2005		2004		Change	Percentage Change	
Selling Expense	$ 3,616		$ 3,383		$ 233	6.9	%
Percentage of Net Sales	4.6	%	6.2	%			

Selling expenses increased by 6.9% to $3,616 in 2005 from $3,383 in 2004. The $233 increase in selling expenses reflects an increase in outside sales commissions paid to third party agents that represent DMC in certain countries, and is attributable to the 2005 sales increase. As a result of the significant increase in 2005 net sales, selling expenses as a percentage of net sales decreased to 4.6% in 2005 from 6.2% in 2004.

Income from operations of continuing operations

	2005	2004	Change	Percentage Change	
Income from operations of continuing operations	$ 15,768	$ 6,888	$ 8,880	128.9	%

Income from operations increased by 128.9% to $15,768 in 2005 from $6,888 in 2004. Explosive Metalworking reported income from operations of $15,160 in 2005 as compared to $6,609 in 2004. This 129.4% increase is largely attributable to the 47.1% sales increase discussed above.

AMK Welding reported income from operations of $608 in 2005, an increase of 117.9% from the $279 that it reported in 2004, which increase follows the 32.9% sales increase.

Interest expense, net

	2005	2004	Change	Percentage Change
Interest expense, net	$ 156	$ 531	$ (375)	(70.6)%

Net interest expense decreased by 70.6% to $156 in 2005 from $531 in 2004. This decrease in net interest expense reflects a significant decrease in average outstanding borrowings during 2005 that resulted from the pay down of bank line of credit borrowings and SNPE s conversion of a $1,200 convertible subordinated note into our common stock.

Income tax provision

	2005	2004	Change	Percentage Change
Income Tax Provision	$ 5,233	$ 1,961	$ 3,272	166.9 %
Effective Tax Rate	33.5 %	30.8 %		

We recorded an income tax provision of $5,233 in 2005 compared to $1,961 in 2004. The effective tax rate increased to 33.5% in 2005 from 30.8% in 2004. The 2005 and 2004 income tax provisions include $3,514 and $1,663, 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.

Loss from discontinued operations

	2005	2004	Change	Percentage Change
Loss from discontinued operations	$	$ 1,570	$ (1570)	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. The 2004 loss from discontinued operations of $1,570 includes a net of tax loss of $787 from the Spin Forge divestiture, which reflects the asset impairment loss discussed above plus divestiture transaction costs, and the net of tax operating loss of $783 that Spin Forge reported from January 1 through September 17, 2004. As discussed above, we sold the majority of the leased assets to the lessee and liquidated the remaining equipment in December 2006. A pre-tax gain of $228 was reported on these transactions in 2006.

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. The value inherent in the real estate purchase option was believed to be significant but was not considered in the calculation of the above reported impairment loss on the Spin Forge equipment and tooling due to uncertainties surrounding its ultimate realization. As discussed above, we completed the sale of the purchase option on the Spin Forge real estate on January 10, 2006.

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. 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 payment of dividends or other distributions to stockholders, redemption of capital stock, incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets and maintenance of specified financial ratios. As of December 31, 2006, we were in compliance with all financial covenants and other provisions of our debt agreements.

The table below presents principal cash flows by expected maturity dates for our debt obligations and other contractual obligations and commitments as of December 31, 2006:

	Payment Due by Period As of December 31, 2006				
	Less than 1 Year	**1-3 Years**	**4-5 Years**	**More than 5 Years**	**Total**
Term Loan with French bank	$ 382	$ 382	$	$	$ 764
Total debt obligations *	382	382			764
Operating lease obligations **	342	614	253	109	1,318
Purchase obligations **	20,895				20,895
Total	$ 21,619	$ 996	$ 253	$ 109	$ 22,977

* Reflected in accompanying consolidated balance sheets. Expected interest payments on the above debt obligations are not expected to be significant for the years presented.

** Not reflected in accompanying consolidated balance sheets.

For more information about our debt obligations, refer to Note 3 to our consolidated financial statements elsewhere in this annual report.

Cash flows from operating activities

Net cash flows provided by operating activities for 2006 totaled $16,557. Significant sources of operating cash flow included net income of $20,764, non-cash depreciation and amortization expense of $1,419, $2,115 from provision for deferred income taxes and stock-based compensation of $660. Negative net changes in working capital of $6,904 partly offset these sources of operating cash flows. Negative cash flows from changes in working capital included increases in restricted cash, accounts receivable, inventories, and prepaid expenses and other of $3,059, $5,046, $6,424 and $459, respectively, partly offset by increases in accounts payable and accrued expenses and other liabilities of $5,509 and $2,483, respectively.

Net cash flows provided by operating activities for 2005 totaled $11,638. Significant sources of operating cash flow included net income of $10,372, non-cash depreciation and amortization expense of $1,568, and $3,728 from the tax benefit related to stock options exercised during the year. These sources of operating cash flow were partially offset by a deferred income tax benefit of $1,431 and negative net changes in various components of working capital in the amount of $2,599. Net negative changes in working capital included an increase in accounts receivable, inventories, and prepaid expenses and other of $2,657, $4,486 and $327, respectively. These negative changes in working capital were partially offset by an increase in accounts payable, customer advances, and accrued expenses and other liabilities of $1,733, $999 and $2,139 respectively.

Net cash flows provided by operating activities for 2004 totaled $3,110, which consisted of net cash flows from continuing operations of $4,544 that was partially offset by net cash flows used in discontinued operations of $1,434. Significant sources of operating cash flow from continuing operations included income from continuing operations of $4,403, non-cash depreciation and amortization expense of $1,466, a provision for deferred income taxes of $1,181, and $311 from the tax benefit related to stock options exercised during the year. These sources of operating cash flow were partially offset by negative net changes in various components of working capital in the amount of $2,817. Negative net changes in working capital included increases in accounts receivable and inventories of $6,963 and $1,993, respectively. These negative changes in working capital were partially offset by increases in accounts payable, customer advances, andaccrued expenses and other liabilities of $3,126, $1,101 and $1,274 respectively, and a decrease in prepaid expenses and other of $638. The large increases in accounts receivable and inventories reflect the higher production and sales volume associated with the strong performance of the Explosive Metalworking business during the last half of 2004. We were able to finance a significant portion of the build-up in accounts receivable and inventories by increasing accounts payable and accrued expenses.

Cash flows from investing activities

Net cash flows used in investing activities for 2006 totaled $2,745 and consisted primarily of $8,650 in capital expenditures that were partly offset by $1,950 from the sale of marketable securities and $3,665 in cash provided by discontinued operations that related to proceeds from the sale of the Spin Forge real estate purchase option and the sale of the Spin Forge leased assets.

Net cash flows used in investing activities for 2005 totaled $3,494 and consisted primarily of $2,848 in capital expenditures and $1,950 for investment in marketable securities that were partially offset by a $1,016 payment received on a portion of the outstanding receivable relating to the Spin Forge divestiture.

Net cash flows used in investing activities for 2004 totaled $419 and consisted primarily of $1,138 in capital expenditures that was partially offset by a $580 reduction in the promissory note receivable relating to the 2003 sale of the PMP Division, the release of $190 in restricted cash from bond proceeds and investing activities of discontinued operations of $45.

Cash flows from financing activities

Net cash flows used in financing activities for 2006 totaled $2,178. Significant uses of cash for financing activities included payment of annual dividends of $1,766, a $364 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 $585 in net proceeds from the issuance of common stock relating to the exercise of stock options and $1,154 for tax benefits related to stock option exercises.

Net cash flows used in financing activities for 2005 totaled $4,662. Significant uses of cash for financing activities included net repayments on bank lines of credit if $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 $790, and an annual principal payment of $361 on a term loan with a French bank. Sources of cash flow from financing activities included $1,555 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.

Net cash flows used in financing activities for 2004 totaled $897. Significant uses of cash for financing activities included related party debt repayments of $1,333 to SNPE, industrial development revenue bond principal payments of $1,120, related party lines of credit repayment of $624 to Groupe SNPE, and an annual principal payment on our term loan with a French bank of $360. These payments were partially offset by a net increase of $1,915 in bank lines of credit borrowings and $889 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.

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, inventory valuation and impact of foreign currency exchange rate risks. 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 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 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 December 31, 2006, relates to our Explosives Metalworking segment. Based on the analysis performed in the fourth quarter of 2006, 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 but not our tax returns. Deferred tax assets and liabilities are determined based on the temporary differences between the Consolidated Financial Statement basis and the tax basis 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, if not, we record an appropriate valuation allowance.

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 in our books and records. In assessing these additional losses and credits, we determined that the utilization of a portion of these did not meet the more likely than not criteria, 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. As of December 31, 2006, the balance of this allowance is $175.

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 options at the grant date requires judgment, including estimating stock price volatility, forfeiture rates and expected option life.

Off Balance Sheet Arrangements

We have no obligations, assets or liabilities other than those appearing or disclosed in our financial statements forming part of this annual report; no trading activities involving non-exchange traded contracts accounted for at fair value; and no relationships and transactions with persons or entities that derive benefits from their non-independent relationship with us or our related parties.

Forward-Looking Statements

This annual report and the documents incorporated by reference into it contain certain forward-looking statements within the safe harbor provisions of the Private Securities Litigations Reform Act of 1995. These statements include information with respect to our financial condition and its results of operations and businesses. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, continue, project and similar expressions, as well as statements in the future tense, identify forward-looking statements.

These forward-looking statements are not guarantees of our future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements. These risks and uncertainties include:

- The ability to obtain new contracts at attractive prices;
- The size and timing of customer orders;
- Fluctuations in customer demand;
- Competitive factors;
- The timely completion of contracts;
- The timing and size of expenditures;
- The timely receipt of government approvals and permits;
- The adequacy of local labor supplies at our facilities;
- The availability and cost of funds; and
- General economic conditions, both domestically and abroad.

The effects of these factors are difficult to predict. New factors emerge from time to time and we cannot assess the potential impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Any forward-looking statement

speaks only as of the date of this annual report and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of such statement or to reflect the occurrence of unanticipated events. In addition, see Risk Factors for a discussion of these and other factors.

Recent Accounting Pronouncements

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 7A. Quantitative and Qualitative Disclosure about Market Risk

The table below provides information about our financial instruments that are sensitive to changes in interest rates, primarily debt obligations. Since most of our obligations carry variable interest rates, there is no material difference between the book value and the fair value of those obligations.

		As of December 31, 2006 (Dollars in Thousands)	
Term-loan with French bank	variable rate	$ 765	
Interest rate		4.02	%

The functional currencies for the foreign operations of Nobelclad and Nitro Metall are the Euro and the Swedish Krona, respectively. Thus, the major foreign exchange risks relate to the Euro / Swedish Krona and Euro / U.S. Dollar conversion rates. Additionally, we occasionally enter into transactions denominated in currencies other than the local currency, which exposes us to other foreign exchange risks. Sales made in currencies other than U.S. Dollars accounted for 34%, 32% and 30% of total sales for the years ended 2006, 2005 and 2004, respectively.

ITEM 8. Financial Statements and Supplementary Data

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARY

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2006 and 2005 and for the Three Years Ended
December 31, 2006, 2005 and 2004

The consolidated financial statement schedules required by Regulation S-X are filed under Item 15 Exhibits and Financial Statement Schedules .

Report of Independent Registered Public Accounting Firm

The Stockholders and the

Board of Directors of Dynamic Materials Corporation:

We have audited the accompanying consolidated balance sheets of Dynamic Materials Corporation and subsidiary as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of Dynamic Materials Corporation s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made my management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dynamic Materials Corporation and subsidiary at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, effective January 1, 2006, Dynamic Materials Corporation changed its method for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123(R), Share-Based Payment .

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Dynamic Materials Corporation s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Denver, Colorado
March 6, 2007
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DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

(Dollars in Thousands)

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,886	$ 5,763
Restricted cash	3,059	
Marketable securities		1,950
Accounts receivable, net of allowance for doubtful accounts of $260 and $301, respectively	21,549	15,576
Inventories	19,226	11,869
Prepaid expenses and other	1,419	822
Current deferred tax assets	708	572
Total current assets	63,847	36,552
PROPERTY, PLANT AND EQUIPMENT	31,963	22,635
Less - Accumulated depreciation	(11,703)	(10,063)
Property, plant and equipment, net	20,260	12,572
GOODWILL, net	847	847
DEFERRED TAX ASSETS		819
OTHER ASSETS, net	19	101
OTHER RECEIVABLES RELATED TO DISCONTINUED OPERATIONS		681
ASSETS OF DISCONTINUED OPERATIONS		3,739
TOTAL ASSETS	$ 84,973	$ 55,311

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

LIABILITIES AND STOCKHOLDERS EQUITY	2006	2005
CURRENT LIABILITIES:		
Accounts payable	$ 13,572	$ 7,278
Accrued expenses	3,347	1,615
Accrued income taxes	1,892	979
Accrued employee compensation and benefits	3,710	2,508
Customer advances	2,394	1,885
Related party debt		45
Current maturities on long-term debt	382	528
Total current liabilities	25,297	14,838
LONG-TERM DEBT	382	2,221
DEFERRED TAX LIABILITIES	1,512	195
OTHER LONG-TERM LIABILITIES	202	222
LIABILITIES OF DISCONTINUED OPERATIONS		2,880
COMMITMENTS AND CONTINGENT LIABILITIES		
Total liabilities	27,393	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;11,981,999 and 11,758,920 shares issued and outstanding, respectively	599	588
Additional paid-in capital	22,166	19,778
Retained earnings	33,102	14,104
Other cumulative comprehensive income	1,713	485
Total stockholders equity	57,580	34,955
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 84,973	$ 55,311

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(Dollars in Thousands, Except Share Data)

	2006	2005	2004
NET SALES	$ 113,472	$ 79,291	$ 54,165
COST OF PRODUCTS SOLD	71,439	55,856	40,559
Gross profit	42,033	23,435	13,606
COSTS AND EXPENSES:			
General and administrative expenses	5,802	4,051	3,335
Selling expenses	6,128	3,616	3,383
Total costs and expenses	11,930	7,667	6,718
INCOME FROM OPERATIONS OF CONTINUING OPERATIONS	30,103	15,768	6,888
OTHER INCOME (EXPENSE):			
Other income (expense), net	(115)	(7)	7
Interest expense	(84)	(171)	(408)
Related party interest expense		(48)	(146)
Interest income	704	63	23
INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	30,608	15,605	6,364
INCOME TAX PROVISION	11,341	5,233	1,961
INCOME FROM CONTINUING OPERATIONS	19,267	10,372	4,403
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	1,497		(1,570)
NET INCOME	$ 20,764	$ 10,372	$ 2,833
INCOME PER SHARE - BASIC:			
Continuing operations	$ 1.63	$ 0.92	$ 0.43
Discontinued operations	0.12		(0.15)
Net income	$ 1.75	$ 0.92	$ 0.28
INCOME PER SHARE - DILUTED:			
Continuing operations	$ 1.58	$ 0.86	$ 0.41
Discontinued operations	0.12		(0.14)
Net income	$ 1.70	$ 0.86	$ 0.27
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING -			
Basic	11,841,373	11,290,053	10,269,080
Diluted	12,213,075	12,086,884	10,968,090
ANNUAL DIVIDENDS DECLARED PER COMMON SHARE	$ 0.15	$ 0.10	$

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(Amounts in Thousands)

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Income	Total	Comprehensive Income for the Period
Balances, December 31, 2003	10,178	$ 509	$ 12,174	$ 2,054	$ 847	$ 15,584	
Shares issued for stock option exercises	424	21	815			836	
Shares issued in connection with the employee stock purchase plan	39	2	51			53	
Tax benefit related to stock options			311			311	
Net income				2,833		2,833	2,833
Derivative valuation, net of tax of $27					43	43	43
Change in cumulative foreign currency translation adjustment					410	410	410
Balances, December 31, 2004	10,641	532	13,351	4,887	1,300	20,070	3,286
Shares issued for stock option exercises	707	35	1,447			1,482	
Shares issued in connection with the employee stock purchase plan	11	1	72			73	
Conversion of subordinated note	400	20	1,180			1,200	
Tax benefit related to stock options			3,728			3,728	
Dividends paid				(1,155)		(1,155)	
Net income				10,372		10,372	10,372
Change in cumulative foreign currency translation adjustment					(815)	(815)	(815)
Balances, December 31, 2005	11,759	588	19,778	14,104	485	34,955	9,557
Shares issued for stock option exercises	168	8	492			500	
Restricted stock awards	52	3	(3)				
Shares issued in connection with the employee stock purchase plan	3		85			85	
Tax benefit related to stock options			1,154			1,154	

Stock-based compensation			660			660	
Dividends paid				(1,766)		(1,766)	
Net income				20,764		20,764	20,764
Change in cumulative foreign currency translation adjustment					1,228	1,228	1,228
Balances, December 31, 2006	11,982	$ 599	$ 22,166	$ 33,102	$ 1,713	$ 57,580	$ 21,992

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

(Dollars in Thousands)

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 20,764	$ 10,372	$ 2,833
Adjustments to reconcile net income to net cash provided by operating activities -			
(Income) loss from discontinued operations, net of tax	(1,497)		1,570
Depreciation	1,369	1,527	1,387
Amortization of capitalized debt issuance costs	50	41	79
Stock-based compensation	660		
Deferred income tax provision (benefit)	2,115	(1,431)	1,181
Tax benefit related to exercise of stock options		3,728	311
Change in -			
Restricted cash	(3,059)		
Accounts receivable, net	(5,046)	(2,657)	(6,963)
Inventories	(6,424)	(4,486)	(1,993)
Prepaid expenses and other	(459)	(327)	638
Accounts payable	5,509	1,733	3,126
Customer advances	92	999	1,101
Accrued expenses and other liabilities	2,483	2,139	1,274
Net cash flows provided by continuing operations	16,557	11,638	4,544
Net cash flows used in discontinued operations			(1,434)
Net cash provided by operating activities	16,557	11,638	3,110
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment	(8,650)	(2,848)	(1,138)
Investment in marketable securities		(1,950)	
Sale of marketable securities	1,950		
Loan to related party	(1,206)		
Repayment on loan to related party	1,206		
Release of non-current restricted cash from bond proceeds			190
Change in other non-current assets	290	288	(6)
Payment received on other receivables related to discontinued operations	576	1,016	580
Cash flows provided by (used in) investing activities of discontinued operations	3,089		(45)
Net cash flows used in investing activities	(2,745)	(3,494)	(419)

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

	2006	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings / (repayments) on bank lines of credit, net		(3,216)	1,915
Repayments on related party lines of credit, net	(48)	(75)	(624)
Payment on SNPE, Inc. term loan		(667)	(1,333)
Payment on industrial development revenue bond	(1,720)	(790)	(1,120)
Payment on term loan with French bank	(364)	(361)	(360)
Repayment of bank overdraft			(288)
Payment of dividends	(1,766)	(1,155)	
Change in other long-tem liabilities	(19)	47	24
Net proceeds from issuance of common stock to employees and directors	585	1,555	889
Tax benefit related to exercise of stock options	1,154		
Net cash flows used in financing activities	(2,178)	(4,662)	(897)
EFFECTS OF EXCHANGE RATES ON CASH	489	(123)	88
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,123	3,359	1,882
CASH AND CASH EQUIVALENTS, beginning of the period	5,763	2,404	522
CASH AND CASH EQUIVALENTS, end of the period	$ 17,886	$ 5,763	$ 2,404
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for -			
Interest	$ 118	$ 279	$ 422
Income taxes	$ 9,066	$ 2,502	$ 215
NON-CASH FINANCING ACTIVITY:			
Conversion of SNPE convertible subordinated note into common stock	$	$ 1,200	$

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

DYNAMIC MATERIALS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Dollars in Thousands, Except Per Share Data)

(1) ORGANIZATION AND BUSINESS

Dynamic Materials Corporation (the Company) was incorporated in the state of Colorado in 1971, and reincorporated in the state of Delaware during 1997, to provide products and services requiring explosive metalworking. The Company is headquartered in Boulder, Colorado and has manufacturing facilities in the United States, France and Sweden. Customers are located throughout the world. The Company currently operates under two business segments Explosive Metalworking, in which metals are metallurgically joined or altered by using explosives; and AMK Welding, which utilizes a number of welding technologies to weld components for manufacturers of jet engines and ground-based turbines. The Company s wholly-owned subsidiary, Nobelclad Europe S.A. (Nobelclad), was acquired during 2001 from an affiliate of the Company s former parent.

Stock Split

On September 23, 2005, the Company announced that its Board of Directors approved a 2-for-1 split of the Company s common stock. The split was effected as a stock dividend, and was paid to stockholders of record as of the close of business on October 5, 2005. Stockholders on the record date received one additional share of common stock for each share held. The payment date was October 12, 2005. All share and per share data in the consolidated financial statements and notes have been adjusted and restated to reflect the stock split as if it had taken place at the beginning of each period presented.

SNPE, Inc. Transactions

On June 14, 2000, the Company s stockholders approved a Stock Purchase Agreement (the Agreement) between the Company and SNPE, Inc. (SNPE), a wholly owned subsidiary of SNPE S.A. (Groupe SNPE). The closing of the transaction, which was held immediately following stockholder approval, resulted in a payment from SNPE of $5,800 to the Company in exchange for 4,218,182 shares of the Company s common stock at a price of $1.375 per share causing SNPE to become a 50.8% stockholder of the Company on the closing date. As of December 31, 2005, SNPE owned 5,926,982 shares or 50.4% of the Company s common stock. On May 15, 2006, in an underwritten public offering, SNPE sold all of its shares of the Company s common stock. Following the sale, four members of the Company s board of directors, each of whom had represented SNPE, resigned from the board. All transaction expenses were paid by SNPE.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts, profits and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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 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.

Cash and Cash Equivalents and Restricted Cash

For purposes of the financial statements, the Company considers highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Restricted cash relates to an advance payment received from a customer on a large contract that was secured through a bank guarantee arrangement between the customer, Nobelclad and Nobelclad s bank. Under the bank guarantee, Nobelclad s bank holds the advance payment in a trust account until final shipment of the related order and expiration of the guarantee . The entire order associated with the restricted cash was shipped during the fourth quarter of 2006 and the bank guarantee expires in the first quarter of 2007, at which point the restriction on the cash lapses.

Marketable securities

Marketable securities were comprised entirely of investment grade variable rate debt obligations, which were asset backed and categorized as available for sale. Accordingly, these investments were recorded at cost, which approximated fair value due to their variable interest rates, which typically reset every 7 days. The Company had the ability to quickly liquidate these investments despite their long-term stated contractual maturities. As a result of the variable interest rates, the Company had no cumulative gross unrealized or realized holding gains or losses on these investments. All income generated from these securities was recorded as interest income.

Inventories

Inventories are stated at the lower-of-cost (first-in, first-out) or market value. Cost elements included in inventory are material, labor, subcontract costs and factory overhead. Inventories consist of the following at December 31, 2006 and 2005:

	2006	2005
Raw materials	$ 6,282	$ 5,767
Work-in-process	12,314	5,878
Supplies	$ 630	224
	19,226	$ 11,869

Shipping and handling costs incurred by the Company upon shipment to customers are included in cost of products sold in the accompanying Consolidated Statements of Operations.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Additions, improvements and betterments are capitalized. Maintenance and repairs are charged to operations as the costs are incurred. Depreciation is computed using the straight-line method over the estimated useful life of the related asset (except leasehold improvements which are depreciated over the shorter of the estimated useful life or the lease term) as follows:

Building and improvements	15-30 years
Manufacturing equipment and tooling	3-15 years
Furniture, fixtures and computer equipment	3-10 years
Other	7-10 years

Property, plant and equipment consist of the following at December 31, 2006 and 2005:

	2006	2005
Land	$ 600	$ 570
Building and improvements	8,707	8,032
Manufacturing equipment and tooling	12,210	10,901
Furniture, fixtures and computer equipment	3,069	2,776
Other	518	267
Construction in process	6,859	89
	$ 31,963	$ 22,635

Asset Impairments

The Company reviews its long-lived assets to be held and used by the Company for impairment whenever events or changes in circumstances indicate their carrying amount may not be recoverable. In so doing, the Company estimates the future net cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future net cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized to reduce the asset to its estimated fair value. Otherwise, an impairment loss is not recognized. Long-lived assets to be disposed of, if any, are reported at the lower of carrying amount or fair value less cost to sell.

Goodwill

Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses acquired. Under Statement of Financial Accounting Standards No. 142, goodwill is no longer required to be amortized; however, the carrying value of goodwill must be tested annually for impairment. The Company s policy is to test goodwill in the fourth quarter of each year unless circumstances indicate an impairment during an intervening period.

Customer Advances

On occasion, the Company requires customers to make advance payments prior to the shipment of the related orders in order to keep customers at acceptable credit limit levels. As of December 31, 2006 and 2005, customer advances totaled $2,394 and $1,885, respectively, and consist of advance payments from several customers.

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.

Net Income 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 year ended December 31, 2006		
	Income	Shares	Per share Amount
Basic earnings per share:			
Net income	$ 20,764	11,841,373	$ 1.75
Dilutive effect of options to purchase common stock		371,408	
Dilutive effect of restricted stock awards		294	
Dilutive earnings per share:			
Net income	$ 20,764	12,213,075	$ 1.70

	For the year ended December 31, 2005		
	Income	Shares	Per share Amount
Basic earnings per share:			
Net income	$ 10,372	11,290,053	$ 0.92
Dilutive effect of options to purchase common stock		622,584	
Dilutive effect of convertible subordinated note, net of tax	23	174,247	
Dilutive earnings per share:			
Net income	$ 10,395	12,086,884	$ 0.86

	For the year ended December 31, 2004		
	Income	Shares	Per share Amount
Basic earnings per share:			
Net income	$ 2,833	10,269,080	$ 0.28
Dilutive effect of options to purchase common stock		299,010	
Dilutive effect of convertible subordinated note, net of tax	50	400,000	
Dilutive earnings per share:			
Net income	$ 2,883	10,968,090	$ 0.27

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, marketable securities, trade accounts receivable and payable, accrued expenses and notes receivable are considered to approximate fair value due to the short-term nature of these instruments. The fair value of the Company s long-term debt is estimated to approximate carrying value based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future income tax consequences based on enacted tax laws of temporary differences between the financial reporting and tax bases of assets and liabilities. The Company recognizes deferred tax assets for the expected future effects of all deductible temporary differences. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized (see Note 5).

Related Party Transactions

The Company had a sales commission agreement with Clad Metal Products, Inc, which is 100% owned by an executive officer of the Company. Under this agreement, which was terminated in 2005, the Company paid Clad Metal Products, Inc. 20% of the commissions that it earned on sales of certain non-explosion clad products. During the years ended December 31, 2005 and 2004, the Company paid commissions of $13 and $7, respectively related to this agreement.

Nobelclad purchases explosives used in its cladding operation from Nobel Explosifs France, which was a wholly owned subsidiary of Groupe SNPE, the parent company of SNPE who is the Company s former majority stockholder. For the period ended May 15, 2006 and the years ended December 31, 2005 and 2004, these purchases totaled $406, $820, and $739, respectively. Accounts payable as of December 31, 2005 total $229 relating to these purchases.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to a concentration of credit risk, consist primarily of cash, restricted cash, cash equivalents and accounts receivable. Generally, the Company does not require collateral to secure receivables. At December 31, 2006 the Company has no significant financial instruments with off-balance sheet risk of accounting losses, such as options contracts or other foreign currency hedging arrangements.

Other Cumulative Comprehensive Income

Other cumulative comprehensive income as of December 31, 2006, 2005 and 2004 consisted entirely of currency translation adjustment.

Recent Accounting Pronouncements

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 that this interpretation will have on its results ofoperations or financial position.

Reclassifications

Certain prior year balances in the consolidated financial statements and notes have been reclassified to conform with the 2006 presentation.

(3) DEBT

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

	2006	2005
Term loan - French bank	$ 764	$ 1,029
Industrial development revenue bonds		1,720
	764	2,749
Less current maturities	(382)	(528)
Long-term debt	$ 382	$ 2,221

Bank Lines of Credit

The Company has a $10,000 credit facility with Wells Fargo Bank, National Association (the Bank) which expires on June 30, 2008. The credit facility allows for Euro-denominated advances up to a $2,000 equivalent. Dollar-denominated advances bear interest at either the Bank s prime rate less 0.5% (7.25% as of December 31, 2006) or LIBOR plus 2% (the rate selection is at the Company s option subject to certain conditions). Euro-denominated advances bear interest at EURIBOR plus 2% (5.62% as of December 31, 2006). Borrowings on the credit facility are secured by accounts receivable, inventory and any equipment acquired after the date of the agreement. There were no borrowings outstanding on the credit facility as of December 31, 2006.

In addition, the Company maintains a 4,000 Swedish Krona line of credit ($584 based upon the December 31, 2006 exchange rate) with a Swedish bank for its Nitro Metall operations.. As of December 31, 2006, there were no outstanding borrowings under this line of credit. Borrowings under the line of credit are secured by real estate used in Nitro Metall s operations. This line of credit carries an interest rate equal to the basic rate stipulated by the Central Bank of Sweden (Repo Rate), which was 3.0% as of December 31, 2006. Consistent with previous years, the line of credit expired on December 31, 2006 and was renewed on January 1, 2007 for additional 1 year term.

SNPE S.A. Line of Credit

The Company s subsidiary, Nobelclad, had a line of credit or cash agreement with Groupe SNPE that provided for up to 2 million Euros in cash advances to meet the working capital needs of Nobelclad. Amounts outstanding under this agreement bore interest at EURIBOR plus 1.5%. The agreement automatically terminated when Groupe SNPE lost its indirect control of Nobelclad which occurred when SNPE sold off its shares of the Company s common stock. The line of credit had an outstanding balance of 38 Euros ($45 based upon the December 31, 2005 exchange rate) as of December 31, 2005, which was repaid prior to May 15, 2006.

Term Loan French Bank

In June 2001, Nobelclad obtained a term loan from a French bank that provides for borrowings of 1,448 Euros ($1,912 based upon the December 31, 2006 exchange rate), of which 579 Euros ($764) was outstanding as of December 31, 2006. Borrowings under the term loan bear interest at EURIBOR plus 0.4%. The interest rate on outstanding borrowings as of December 31, 2006 was 4.02%. Beginning on June 21, 2004 and on each anniversary date thereafter until final maturity on June 21, 2008, principal payments of 290 Euros are required.

Industrial Development Revenue Bonds

During September 1998, the Company began construction on a new manufacturing facility in Fayette County, Pennsylvania. This project was financed with proceeds from industrial development revenue bonds issued by the Fayette County Industrial Development Authority. The loan bore interest at a variable rate. Principal payments, which varied in

amount, were paid on a quarterly basis throughout the life of the bonds. On September 1, 2006, the Company exercised its rights for early redemption of the industrial development revenue bonds, which had a then outstanding principal balance of $1,630. The interest rate at September 1, 2006 was 3.55%.

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 December 31, 2006, the Company was in compliance with all financial covenants and other provisions of its debt agreements.

Scheduled Debt Maturity

The Company s long-term debt matures as follows:

Year ended December 31-	
2007	$ 382
2008	382
	$ 764

(4) STOCK OWNERSHIP AND BENEFIT PLANS

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. There are a total of 942,500 shares available for grant under the 2006 Plan (which includes 92,500 rolled over from the 1997 Plan). As of December 31, 2006, the only awards granted under the 2006 Plan were 52,250 shares of restricted stock leaving 890,250 shares available for future 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 Statement of Financial Accounting Standards No. 123, *Accounting and Disclosure of Stock-Based Compensation* (SFAS 123). Accordingly, no stock-based compensation expense was recognized in the Consolidated Statements of Operations for the full year 2005 and 2004 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 Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R) using the modified prospective transition method. Under the transition method, compensation cost recognized in the full year 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 $1,154 excess tax benefit classified as a financing cash inflow in the

Consolidated Statements of Cash Flows for the year ended December 31, 2006 would have been classified as an operating cash inflow if the Company had not adopted SFAS 123R.

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:

	2006
Cost of products sold	$ 71
General and administrative expense	493
Selling expense	96
Stock-based compensation expense before income taxes	660
Income tax benefit	(148)
Stock-based compensation expense, net of income taxes	$ 512
Earnings per share:	
Basic- income before income taxes	$ 0.06
Basic - net income	$ 0.04
Diluted - income before income taxes	$ 0.05
Diluted - net income	$ 0.04

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 123 to stock-based compensation for the years ended December 31, 2005 and 2004. 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 year ended December 31, 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. The following assumptions were used in the options pricing model for the year ended December 31, 2004: a risk free interest rate of 3.1%; an expected volatility factor of 79.0%; an expected dividend yield of 0.0%; and an expected life of 4 years.

	2005	2004
Net income-as reported	$ 10,372	$ 2,833
Deduct stock-based compensation expense determined under fair value method, net of related tax effects	(481)	(250)
Pro forma net income	$ 9,891	$ 2,583
Earnings per share:		
Basic-as reported	$ 0.92	$ 0.28
Basic-pro forma	$ 0.88	$ 0.25
Diluted-as reported	$ 0.86	$ 0.27
Diluted-pro forma	$ 0.82	$ 0.24

The Company s stock-based compensation expense relates to stock option grants, restricted stock awards and stock issued under the Employee Stock Purchase Plan .

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 December 31, 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. 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 year ended December 31, 2006 was $22.30 per underlying share. Each grant is valued as a single award and compensation expense is recognized on a straight-line basis over the vesting period. In accordance with the modified prospective transition method, results for prior periods have not been restated.

A summary of stock option activity for the years ended December 31, 2006, 2005 and 2004 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at December 31, 2003	1,408,496	$ 1.92		
Granted	153,672	1.58		
Exercised	(423,746)	1.98		
Cancelled	(85,500)	1.34		
Balance at December 31, 2004	1,052,922	$ 1.89		
Granted	246,754	9.39		
Exercised	(707,250)	2.10		
Cancelled	(4,000)	4.87		
Balance at December 31, 2005	588,426	$ 4.77		
Granted	20,000	35.21		
Exercised	(167,400)	2.99		
Cancelled	(74,426)	12.08		
Balance at December 31, 2006	366,600	$ 5.76	7.42	$ 8,331
Exercisable at December 31, 2006	163,350	$ 4.34	7.00	$ 3,881

The intrinsic value of options exercised for the years ended December 31, 2006, 2005 and 2004 was $5,141, $11,256 and $1,444, respectively. As of December 31, 2006, there was $649 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 0.98 years.

The following table summarizes information about employee stock options outstanding and exercisable at December 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding at December 31, 2006	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable at December 31, 2006	Weighted Average Exercise Price
$ 1.13 - $1.68	170,100	6.52	$ 1.37	115,850	$ 1.41
$ 4.87 - $4.87	156,500	8.06	$ 4.87	27,500	$ 4.87
$ 20.62 - $20.62	20,000	8.42	$ 20.62	20,000	$ 20.62
$ 35.21 - $35.21	20,000	9.04	$ 35.21		$ 0.00
$ 1.13 - $20.62	366,600	7.42	$ 5.76	163,350	$ 4.34

Restricted Stock Awards: Restricted stock granted to the executive officers and employees of the Company vests in one-third increments on the first, second and third anniversary of the grant. Restricted stock granted to directors of the

Company vests 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 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 December 31, 2006 were 52,250 shares granted under the 2006 Plan on September 21, 2006 and October 31, 2006. These shares, none of which were vested as of December 31, 2006, had a weighted-average grant date fair value of $33.27 per share. As of December 31, 2006, there was $1,598 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 1.75 years.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan (ESPP) which is authorized to issue up to 450,000 shares of which 65,979 shares remain available for future purchases. The offerings begin on the first day following each previous offering (Offering Date) and end six months from the offering date (Purchase Date). The ESPP provides that full time employees may authorize the Company to withhold up to 15% of their earnings, subject to certain limitations, to be used to purchase common stock of the Company at the lesser of 85% of the fair market value of the Company s common stock on the Offering Date or the Purchase Date. In connection with the ESPP, 3,429, 10,794 and 39,362 shares of the Company s stock were purchased during the years ended December 31, 2006, 2005 and 2004, respectively. The Company s total stock-based compensation expense for 2006 of $660 detailed above includes $28 in compensation expense associated with the ESPP. The pro forma net income calculation shown above reflects $35 and $25 in compensation expense associated with the ESPP for 2005 and 2004, respectively. .

401(k) Plan

The Company offers a contributory 401(k) plan to its employees. The Company makes matching contributions equal to 100% of each employee s contribution up to 3% and 50% of the next 2% contributed by each employee. Total Company contributions were $217, $184 and $203 for the years ended December 31, 2006, 2005 and 2004, respectively.

(5) INCOME TAXES

The domestic and foreign components of income before tax for the Company s continuing operations for the years ended December 31 are summarized below:

	2006	2005	2004
Domestic	$ 20,638	$ 10,530	$ 5,541
Foreign	9,970	5,075	823
	$ 30,608	$ 15,605	$ 6,364

The components of the provision for income taxes for the Company s continuing operations for the years ended December 31 are as follows:

	2006	2005	2004
Current - Federal	$ 5,341	$ 4,631	$ 198
Current - State	783	349	40
Current - Foreign	3,182	1,705	232
	9,306	6,685	470
Deferred - Federal	1,922	(1,283)	1,242
Deferred - State	121	(183)	183
Deferred - Foreign	(8)	14	66
	2,035	(1,452)	1,491
	$ 11,341	$ 5,233	$ 1,961

A reconciliation of the Company s income tax provision for continuing operations computed by applying the Federal statutory income tax rate of 35% in 2006, 35% in 2005 and 34% in 2004 to income before taxes for the years ended December 31 is as follows:

	2006	2005	2004
Federal income tax at statutory rate	$ 10,713	$ 5,463	$ 2,164
State tax items, net	629	523	272
Effect of difference between U.S. Federal and Foreign tax rates	(217)	(119)	18
Permanent differences	245	924	(80)
Tax on foreign dividend received	634		
Tax credits related to the amendment of prior year tax returns		(706)	(413)
Current year tax credits	(635)	(934)	
Changes in valuation allowance	(2)	177	
Other	(26)	(95)	
Provision for income taxes	$ 11,341	$ 5,233	$ 1,961

The Company s deferred tax assets and liabilities at December 31, 2006 and 2005 consist of the following:

	2006	2005
Deferred tax assets:		
Income tax credit carryforward	$ 115	$ 2,106
State net operating loss carryforward	42	120
Inventory	32	84
Allowance for doubtful accounts	98	86
Repair reserve	44	183
Vacation and other compensation accrual	457	149
Other	177	70
Deferred tax assets	965	2,798
Deferred tax liabilities:		
Depreciation and amortization	(1,129)	(1,230)
Foreign income taxable in future periods	(105)	(195)
Deferred profit	(360)	
Deferred tax liabilities	(1,594)	(1,425)
Net deferred tax assets / (liabilities)	(629)	1,373
Valuation allowance	(175)	(177)
Net deferred tax assets / (liabilities)	$ (804)	$ 1,196
Net current deferred tax assets	$ 708	$ 572
Net long-term deferred tax assets / (liabilities)	(1,512)	624
Net deferred tax assets / (liabilities)	$ (804)	$ 1,196

As a result of stock option activity in 2006, 2005 and 2004, the Company recorded tax benefits of $1,154, $3,728 and $311, respectively, directly to additional paid in capital. Thus, these tax benefits, which reduce taxes currently payable, are not reflected in the current income tax provision for those years.

During the year ended December 31, 2005, the Company completed an analysis of prior year tax credits and related items. As a result of the analysis, the Company filed amended federal and state income tax returns. The amended state returns reported additional net operating losses and credits above the amounts the Company had previously recorded on its books and records. In assessing these additional losses and credits, the Company determined that the utilization of a portion of these was not probable, due to potential changes in the states in which the Company has income tax nexus. Thus, the Company recorded a net valuation allowance of approximately $177 against the deferred tax assets during the year ended December 31, 2005. As of December 31, 2006, the balance of this valuation allowance is $175.

As of December 31, 2006 and 2005, income considered to be permanently reinvested in non-U. S. subsidiaries totaled approximately $11,284 and $5,407, respectively. Deferred income taxes have not been provided on this undistributed income, as the Company does not plan to initiate any action that would require the payment of U. S. income taxes on these earnings. It is not practical to estimate the amount of additional taxes that might be payable on these amounts of undistributed foreign income. As a result of providing current Federal and state income taxes on the remaining undistributed foreign earnings as of December 31, 2006 and 2005, $105 and $904 are included in permanent differences reported in the above income tax rate reconciliations for 2006 and 2005, respectively. For 2005, a related

foreign tax credit of $904 was reflected in the current year tax credits in the above income tax rate reconciliation and in the income tax credit carryforward in the above schedule of deferred tax assets and liabilities as of December 31, 2005. As of December 31, 2006, the net liability is reflected in deferred tax liabilities.

The components of the income tax credit carryforward as of December 31, 2006 are foreign tax credits of $397 (which, if unused, expire between 2012 and 2016) and research related state tax credits of $107 (which expire beginning in 2013), net of reserves of $389 against prior research related federal and state credits. The components of the income tax credit carryforward as of December 31, 2005 are $904 of foreign tax credits noted above, additional foreign tax credits of $365 (which, if unused, expire in 2012 and 2013), research related tax credits of $701 (which expire beginning in 2013), and alterative minimum tax credits of $136 (with no statutory expiration).

As of December 31, 2006, the Company has state net operating loss carryforwards of approximately $812. Portions of these carryforwards, if unused, will expire beginning at the end of 2010 with the last portion due to expire in 2023.

(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 of industrial diamonds. 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 years ended December 31, 2006, 2005 and 2004 as follows:

	Explosive Metalworking Group	AMK Welding	Total
As of and for the year ended December 31, 2006:			
Net sales	$ 108,362	$ 5,110	$ 113,472
Depreciation	$ 1,150	$ 219	$ 1,369
Income from operations of continuing operations	$ 29,605	$ 1,158	$ 30,763
Unallocated amounts:			
Stock-based compensation			(660)
Other expense			(115)
Interest expense			(84)
Interest income			704
Consolidated income before income taxes			$ 30,608
Segment assets	$ 57,271	$ 4,618	$ 61,889
Assets not allocated to segments:			
Cash and cash equivalents			17,886
Restricted cash			3,059
Prepaid expenses and other assets			1,431
Current deferred tax assets			708
Consolidated total assets			$ 84,973
Capital expenditures	$ 7,342	$ 1,308	$ 8,650

	Explosive Metalworking Group	AMK Welding	Total
As of and for the year ended December 31, 2005:			
Net sales	$ 75,582	$ 3,709	$ 79,291
Depreciation	$ 1,328	$ 199	$ 1,527
Income from operations of continuing operations	$ 15,160	$ 608	$ 15,768
Unallocated amounts:			
Other expense			(7)
Interest expense			(219)
Interest income			63
Consolidated income before income taxes			$ 15,605
Segment assets	$ 37,940	$ 2,949	$ 40,889
Assets not allocated to segments:			
Cash and cash equivalents			5,763
Marketable securities			1,950
Prepaid expenses and other assets			898
Current deferred tax assets			572
Deferred tax assets			819
Other receivables related to discontinued operations			681
Assets of discontinued operations			3,739
Consolidated total assets			$ 55,311
Capital expenditures	$ 2,217	$ 631	$ 2,848

	Explosive Metalworking Group	AMK Welding	Total
As of and for the year ended December 31, 2004:			
Net sales	$ 51,375	$ 2,790	$ 54,165
Depreciation	$ 1,138	$ 249	$ 1,387
Income from operations of continuing operations	$ 6,609	$ 279	$ 6,888
Unallocated amounts:			
Other income			7
Interest expense			(554)
Interest income			23
Consolidated income before income taxes			$ 6,364
Segment assets	$ 32,459	$ 2,211	$ 34,670
Assets not allocated to segments:			
Cash and cash equivalents			2,404
Prepaid expenses and other assets			655
Current deferred tax assets			436
Other receivables related to discontinued operations			1,696
Assets of discontinued operations			3,892
Consolidated total assets			$ 43, 753
Capital expenditures	$ 1,004	$ 134	$ 1,138

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The geographic location of the Company s property, plant and equipment, net of accumulated depreciation, is as follows:

	As of December 31,		
	2006	2005	2004
United States	$ 16,242	$ 9,387	$ 8,721
France	3,298	2,751	2,755
Sweden	720	434	368
Total	$ 20,260	$ 12,572	$ 11,844

All of the Company s sales are shipped from the manufacturing locations located in the United States, France and Sweden. The following represents the Company s net sales based on the geographic location of the customer:

	For the years ended December 31,		
	2006	2005	2004
United States	$ 56,395	$ 32,126	$ 24,527
Russia	11,137	838	253
Canada	10,787	7,562	4,924
France	4,791	2,417	1,662
India	3,764	140	71
Italy	3,466	2,208	2,236
South Korea	3,080	7,771	409
Belgium	2,546	2,495	2,591
Spain	2,465	5,369	957
Germany	2,265	939	1,978
Netherlands	1,967	2,757	1,218
China	1,055	3,368	310
Malaysia	358	5,148	83
Australia	235	1,940	5,454
Other foreign countries	9,161	4,213	7,492
Total	$ 113,472	$ 79,291	$ 54,165

During the years ended December 31, 2006, 2005 and 2004, no one customer accounted for more than 10% of total net sales.

(7) COMMITMENTS AND CONTINGENCIES

The Company leases certain office space, storage space, vehicles and other equipment under various operating lease agreements. Future minimum rental commitments under non-cancelable operating leases are as follows:

Year ended December 31-	
2007	$ 342
2008	313
2009	301
2010	184
2011	69
Thereafter	109

	$ 1,318

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Total rental expense included in operations was $596, $603 and $529 for the years ended December 31, 2006, 2005 and 2004, respectively.

In the normal course of business, the Company is a party to various contractual disputes and claims. After considering the Company s evaluations by legal counsel regarding pending actions, management is of the opinion that the outcome of such actions will not have a material adverse effect on the financial position or results of operations of the Company.

(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, 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 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 had no intent to ever again operate any of the leased assets. In December 2006, the third party purchaser of the Spin Forge business purchased the majority of these leased assets while the remainder of the leased assets was liquidated by the Company. This transaction resulted in a pretax gain of $228, which was recorded as discontinued operations in the fourth quarter of 2006. The Company had received rent of $23 per month on these leased assets until the date of their sale.

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 was removed from the Company s balance sheet in the first quarter of 2006.

Assets of discontinued operations were comprised of the following as of December 31, 2005:

Leased manufacturing equipment	$ 859
Capital lease asset - real estate	2,880
Total assets of discontinued operations	$ 3,739

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 December 31, 2005, the remaining receivable totaled $681 and was classified as long-term. This receivable was repaid in December 2006.

Operating results of the discontinued operation for the years ended December 31, 2006, 2005 and 2004 are summarized as follows:

	For the years ended December 31,		
	2006	2005	2004
Net sales	$	$	$ 1,790
Loss from discontinued operations	$	$	$ (1,284)
Related income tax benefit (expense)			501
Loss from discontinued operations, net of tax	$	$	$ (783)
Gain (loss) on sale of discontinued operations	$ 2,425	$	$ (1,290)
Related income tax benefit	(928)		503
Gain (loss) on sale of discontinued operations, net of tax	$ 1,497	$	$ (787)

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in or disagreements with accountants on accounting and financial disclosure for the fiscal year ended December 31, 2006.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on such evaluation, such officers have concluded that our disclosure controls and procedures are effective as of the end of the period covered by this Annual Report.

Management s Report on Internal Control over Financial Reporting

The management of Dynamic Materials Corporation (DMC) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of DMC s management, including its Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of DMC s internal control over financial reporting as of December 31, 2006 based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In designing and evaluating the internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on that evaluation, management concluded that DMC s internal control over financial reporting was effective as of December 31, 2006.

Management s assessment of the effectiveness of DMC s internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

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/s/ Yvon Pierre Cariou
Yvon Pierre Cariou
President and Chief Executive Officer
March 8, 2007

/s/ Richard A. Santa
Richard A. Santa
Vice President Chief Financial Officer
March 8, 2007

Report of Independent Registered Public Accounting Firm

The Stockholders and the

Board of Directors of Dynamic Materials Corporation:

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that Dynamic Materials Corporation (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Dynamic Materials Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed 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. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Dynamic Materials Corporation maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Dynamic Materials Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Dynamic Materials Corporation and subsidiary as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2006 and our report dated March 6, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado

March 6, 2007

ITEM 9B. Other Information

Not applicable.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Item 10 incorporates information by reference to our 2007 Proxy Statement for the Annual for the Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2006.

ITEM 11. Executive Compensation

Item 11 incorporates information by reference to our 2007 Proxy Statement for the Annual for the Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2006.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Item 12 incorporates information by reference to our 2007 Proxy Statement for the Annual for the Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2006.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Item 13 incorporates information by reference to our 2007 Proxy Statement for the Annual for the Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2006.

ITEM 14. Principal Accountant Fees and Services

Item 14 incorporates information by reference to our 2007 Proxy Statement for the Annual for the Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days of the close of fiscal year 2006.

ITEM 15. Exhibits and Financial Statement Schedules

(a) **Financial Statements**

See Index to Financial Statements in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

(b) **Exhibits**

Exhibit Number	Description
10.1	Employee Stock Purchase Plan, dated January 9, 1998 (incorporated by reference to the Company s Definitive Proxy Statement filed with the Commission on April 22, 1998).
10.2	Operating Lease, dated as of March 18, 1998, between Company and Spin Forge, LLC (incorporated by reference to the Company s Form 8-K filed with the Commission on April 2, 1998).
10.3	Option Agreement, dated as of March 18, 1998, between Company and Spin Forge, LLC (incorporated by reference to the Company s Form 8-K filed with the Commission on April 2, 1998).

10.4	Loan Agreement between Company and Fayette County Industrial Development Authority, dated September 1, 1998 (incorporated by reference to the Company s Form 10-Q filed with the Commission on November 17, 1998).
10.5	Amended and Restated Employee Stock Option Plan approved by the Directors of the Company on March 26, 1999 (incorporated by reference to the Company s Definitive Proxy Statement filed with the Commission on April 26, 1999).
10.6	Stock Purchase Agreement, dated January 20, 2000, between the Company and SNPE, Inc. (incorporated by reference to the Company s Form 8-K filed with the Commission on January 31, 2000).
10.7	Agreement and Amendment to Operating Lease, dated as of February 1, 2000 between the Company and Spin Forge, LLC (incorporated by reference to the Company s Form 10-K filed with the Commission on March 30, 2000).
10.8	Form of Directors and Officers Indemnification Agreement (incorporated by reference to the Company s Form 10-K filed with the Commission on March 30, 2000).
10.9	Stock Purchase Agreement, dated as of January 20, 2000, between the Company and SNPE, Inc. (incorporated by reference to the Company s Definitive Proxy Statement filed with the Commission on May 9, 2000).
10.10	Amendment Number One to Stock Purchase Agreement, dated as of April 20, 2000, between the Company and SNPE, Inc. (incorporated by reference to the Company s Form 10-Q filed with the Commission on May 12, 2000).
10.11	Credit Facility and Security Agreement, dated as of June 14, 2000, between the Company and SNPE, Inc. (incorporated by reference to the Company s Form 8-K filed with the Commission on June 22, 2000).
10.12	Convertible Subordinated Note, dated as of June 14, 2000, between the Company and SNPE, Inc. (incorporated by reference to the Company s Form 8-K filed with the Commission on June 22, 2000).
10.13	Stock Purchase Agreement, dated June 28, 2001, between DMC and Nobel Explosifs France (incorporated by reference to the Company s Form 8-K filed with the Commission on July 16, 2001).
10.14	Term Loan Agreement, dated July 3, 2001, between DMC and SNPE, Inc. (incorporated by reference to the Company s Form 10-K filed with the Commission on March 26, 2002).
10.15	Stock Pledge Agreement, dated July 3, 2001, between DMC and SNPE, Inc. (incorporated by reference to the Company s Form 10-K filed with the Commission on March 26, 2002).
10.16	Credit and Security Agreement, dated December 4, 2001, between DMC and Wells Fargo Business Credit, Inc. (incorporated by reference to the Company s Form 10-K filed with the Commission on March 26, 2002).
10.17	Agreement, dated as of September 17, 2004, between the Company and Aerojet (incorporated by reference to the Company s Current Report on Form 8-K filed with the Commission on September 23, 2004)
10.18	Transition Services Agreement, dated as of September 17, 2004, between the Company and Aerojet (incorporated by reference to the Company s Current Report on Form 8-K filed with the Commission on September 23, 2004)
10.19	Equipment Lease Agreement, dated as of September 17, 2004, between the Company and Aerojet (incorporated by reference to the Company s Current Report on Form 8-K filed with the Commission on September 23, 2004)
10.20	Sublease, dated as of September 17, 2004, between the Company and Aerojet (incorporated by reference to the Company s Current Report on Form 8-K filed with the Commission on September 23, 2004)
10.21	Amendment Number 5 to Option Agreement, , dated as of September 17, 2004, between the Company and Spin Forge, LLC (incorporated by reference to the Company s Current Report on Form 8-K filed with the Commission on September 23, 2004)
10.22	Option Agreement, dated as of September 17, 2004, between the Company and Aerojet (incorporated by reference to the Company s Current Report on Form 8-K filed with the Commission on September 23, 2004)
10.23	Employment Agreement, dated as of March 3, 2005, by and between the Company and Yvon Cariou (incorporated by reference to the Company s Form 10-K filed with the Commission on March 22, 2005)
10.24	Employment Agreement, dated as of March 3, 2005, by and between the Company and John G. Banker (incorporated by reference to the Company s Form 10-K filed with the Commission on March 22, 2005)
10.25	Employment Agreement, dated as of March 3, 2005, by and between the Company and Richard A. Santa

	(incorporated by reference to the Company s Form 10-K filed with the Commission on March 22, 2005)
10.26	Credit Agreement dated as of September 15, 2005 between Dynamic Materials Corporation and Wells Fargo Bank, National Association (incorporated by reference to the Company s Current Report on Form8-K filed with the Commission on September 21, 2005)
10.27	$7,500,000 Revolving Line of Credit Note dated September 15, 2005 of Dynamic Materials Corporation payable to the order of Wells Fargo Bank, National Association (incorporated by reference to the Company s Current Report on Form 8-K filed with the Commission on September 21, 2005)
10.28	Option Purchase Agreement, dated November 4, 2005, by and between the Company and Spin Forge, LLC (incorporated by reference to the Company Form 10-Q filed with the Commission on November 9, 2005)
10.29	Supply Agreement, dated as of November 29, 2005, by and between General Electric Company, through its GE Energy Business, and Dynamic Materials Corporation, through its AMK Welding Division (incorporated by reference to the Company s Current Report on Form 8-K filed with the Commission on December 5, 2005)
10.30	First Amendment to Credit Agreement dated as of March 31, 2006 (incorporated by reference to the Company s Current Report on Form 8-K filed with the Commission on April 5, 2006)
10.31	Dynamic Materials Corporation 2006 Stock Incentive Plan (incorporated by reference to the Company s Form 10-Q filed with the Commission on November 2, 2006)
21.1	Subsidiaries of the Company
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
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.
99.1	Letter from DMC to the SEC regarding the Company s Auditors (incorporated by reference to the Company s Form 10-K filed with the Commission on March 26, 2002).

(c) **Financial Statement Schedules**

See Schedule II beginning on page 73 of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dynamic Materials Corporation

March 8, 2007

By: **/s/ Richard A. Santa**
Richard A. Santa
Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

SIGNATURE	**TITLE**	**DATE**
/s/ Yvon Pierre Cariou Yvon Pierre Cariou	President and Chief Executive Officer (Principal Executive Officer)	March 8, 2007
/s/ Richard A. Santa Richard A. Santa	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 8, 2007
/s/ John G. Banker John G. Banker	Vice President, Marketing & Sales, Clad Metal Division (Executive Officer)	March 8, 2007
/s/ Dean K. Allen Dean K. Allen	Chairman and Director	March 8, 2007
/s/ Bernard Hueber Bernard Hueber	Director	March 8, 2007
/s/ Gerard Munera Gerard Munera	Director	March 8, 2007

DYNAMIC MATERIALS CORPORATION

INDEX TO SCHEDULE II

AS OF DECEMBER 31, 2006

Report of Independent Registered Public Accounting Firm

To the Stockholders and the

Board of Directors of Dynamic Materials Corporation:

We have audited the consolidated financial statements of Dynamic Materials Corporation and subsidiary as of December 31, 2006 and 2005, and for each of the three years in the period ended December 31, 2006, and have issued our report thereon dated March 6, 2007 (included elsewhere in this Form 10-K). Our audits also included the financial statement schedules listed in Item 15 of this Form 10-K. These schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these schedules based on our audits.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Denver, Colorado

March 6, 2007

DYNAMIC MATERIALS CORPORATION

SCHEDULE II(a) - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at beginning of period	Additions charged to income	Accounts receivable written off	Other Adjustments	Balance at end of period
Year ended -					
December 31, 2004	$ 217	$ 85	$ (22)	$	$ 280
December 31, 2005	$ 280	$ 49	$ (28)	$	$ 301
December 31, 2006	$ 301	$ 42	$ (7)	$ (76)	$ 260

DYNAMIC MATERIALS CORPORATION

SCHEDULE II(b) - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

WARRANTY RESERVE

	Balance at beginning of period	Additions charged to income	Repairs allowed	Balance at end of period
Year ended -				
December 31, 2004	$ 150	$ 30	$ (39)	$ 141
December 31, 2005	$ 141	$ 498	$ (118)	$ 521
December 31, 2006	$ 521	$	$ (406)	$ 115

DYNAMIC MATERIALS CORPORATION

SCHEDULE II(c) - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

INVENTORY RESERVE

	Balance at beginning of period	Additions charged to income	Inventory write-offs	Balance at end of period
Year ended -				
December 31, 2004	$ 57	$ 170	$ (57)	$ 170
December 31, 2005	$ 170	$ 158	$ (163)	$ 165

December 31, 2006	$ 165	$ 218	$ (103)	$ 280