DYNAMIC MATERIALS CORP
Form 10-Q
October 26, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .

Commission file number 0-8328

DYNAMIC MATERIALS CORPORATION

(Exact name of Registrant as Specified in its Charter)

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

5405 Spine Road, Boulder, Colorado 80301

(Address of principal executive offices, including zip code)

(303) 665-5700

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

The number of shares of Common Stock outstanding was 12,148,857 as of October 26, 2007.

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. In particular, we direct your attention to Part I, Item 1- Financial Statements, Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 3 - Quantitative and Qualitative Disclosures About Market Risk and Part II, Item 1A Risk Factors. We intend the forward-looking statements throughout this quarterly report on Form 10-Q and the information incorporated by reference herein to be covered by the safe harbor provisions for forward-looking statements. Statements contained in this report which are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. All projections and statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may , believe , plan , anticipate , estimate , expect , intend and other similar meaning. The forward-looking information is based on information available as of the date of this quarterly report and on numerous assumptions and developments that are not within our control. Although we believe that our expectations as expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Factors that could cause actual results to differ materially include, but are not limited to, the following: the ability to obtain new contracts at attractive prices; the size and timing of customer orders and shipment; fluctuations in customer demand; competitive factors; the timely completion of contracts; the timing and size of expenditures; the timely receipt of government approvals and permits; the adequacy of local labor supplies at our facilities; current or future limits on manufacturing capacity at our various operations; the availability and cost of funds; and general economic conditions, both domestic and foreign, impacting our business and the business of the end-market users we serve. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis only as of the date hereof. We undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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Part I - FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

ASSETS	September 30, 2007 (unaudited)	December 31, 2006
CURRENT ASSETS:		
Cash and cash equivalents	$ 22,044	$ 17,886
Restricted cash		3,059
Accounts receivable, net of allowance for doubtful accounts of $321 and $260, respectively	20,077	21,549
Inventories	33,793	19,226
Prepaid expenses and other	2,183	1,419
Current deferred tax assets	804	708
Total current assets	78,901	63,847
PROPERTY, PLANT AND EQUIPMENT	39,904	31,963
Less - Accumulated depreciation	(13,320)	(11,703)
Property, plant and equipment, net	26,584	20,260
GOODWILL, net	847	847
OTHER ASSETS, net	23	19
TOTAL ASSETS	$ 106,355	$ 84,973

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share Data)

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2007 (unaudited)	December 31, 2006
CURRENT LIABILITIES:		
Accounts payable	$ 17,400	$ 13,572
Accrued expenses	3,007	3,347
Accrued income taxes	1,455	1,892
Accrued employee compensation and benefits	3,753	3,710
Customer advances	2,619	2,394
Current maturities on long-term debt	413	382
Total current liabilities	28,647	25,297
LONG-TERM DEBT		382
DEFERRED TAX LIABILITIES	1,024	1,512
OTHER LONG-TERM LIABILITIES	628	202
COMMITMENTS AND CONTINGENT LIABILITIES		
Total liabilities	30,299	27,393
STOCKHOLDERS' EQUITY:		
Preferred stock, $.05 par value; 4,000,000 shares authorized; no issued and outstanding shares		
Common stock, $.05 par value; 25,000,000 shares authorized as of September 30, 2007; 15,000,000 shares authorized as of December 31, 2006; 12,147,757 and 11,981,999 shares issued and outstanding, respectively	607	599
Additional paid-in capital	23,638	22,166
Retained earnings	48,940	33,102
Other cumulative comprehensive income	2,871	1,713
Total stockholders' equity	76,056	57,580
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 106,355	$ 84,973

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(Dollars in Thousands, Except Share Data)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
NET SALES	$ 42,099	$ 24,852	$ 109,964	$ 77,781
COST OF PRODUCTS SOLD	27,807	16,542	72,741	50,270
Gross profit	14,292	8,310	37,223	27,511
COSTS AND EXPENSES:				
General and administrative expenses	1,903	1,267	5,419	3,948
Selling expenses	1,811	904	4,913	3,174
Total costs and expenses	3,714	2,171	10,332	7,122
INCOME FROM OPERATIONS OF CONTINUING OPERATIONS	10,578	6,139	26,891	20,389
OTHER INCOME (EXPENSE):				
Interest income, net	213	121	578	347
Other income (expense)	23	(23)	3	(40)
INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	10,814	6,237	27,472	20,696
INCOME TAX PROVISION	3,697	2,547	9,813	7,865
INCOME FROM CONTINUING OPERATIONS	7,117	3,690	17,659	12,831
INCOME FROM DISCONTINUED OPERATIONS, net of tax				1,357
NET INCOME	$ 7,117	$ 3,690	$ 17,659	$ 14,188
INCOME PER SHARE - BASIC:				
Continuing operations	$ 0.59	$ 0.31	$ 1.47	$ 1.09
Discontinued operations				0.11
Net income	$ 0.59	$ 0.31	$ 1.47	$ 1.20
INCOME PER SHARE - DILUTED:				
Continuing operations	$ 0.58	$ 0.30	$ 1.44	$ 1.05
Discontinued operations				0.11
Net income	$ 0.58	$ 0.30	$ 1.44	$ 1.16
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING -				
Basic	12,094,181	11,865,336	12,039,593	11,813,371
Diluted	12,301,772	12,210,791	12,245,212	12,216,283
ANNUAL DIVIDENDS DECLARED PER COMMON SHARE	$	$	$ 0.15	$ 0.15

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

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DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007

(Amounts in Thousands)

(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Other Cumulative Comprehensive Income	Total	Comprehensive Income for the Period
	Shares	Amount					
Balances, December 31, 2006	11,982	$ 599	$ 22,166	$ 33,102	$ 1,713	$ 57,580	
Shares issued for stock option exercises	127	6	465			471	
Restricted stock awards	35	2	(2)				
Shares issued in connection with the employee stock purchase plan	4		92			92	
Tax benefit related to stock options			5			5	
Stock-based compensation			912			912	
Dividends paid				(1,821)		(1,821)	
Net income				17,659		17,659	17,659
Change in cumulative foreign currency translation adjustment					1,158	1,158	1,158
Balances, September 30, 2007	12,148	$ 607	$ 23,638	$ 48,940	$ 2,871	$ 76,056	$ 18,817

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(Dollars in Thousands)

(unaudited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 17,659	$ 14,188
Adjustments to reconcile net income to net cash provided by operating activities -		
Income from discontinued operations, net of tax		(1,357)
Depreciation	1,394	1,020
Amortization of capitalized debt issuance costs		50
Stock-based compensation	912	436
Deferred income tax provision (benefit)	(239)	923
Change in -		
Restricted cash	3,059	
Accounts receivable, net	2,001	(3,885)
Inventories	(13,541)	(1,608)
Prepaid expenses and other	(636)	150
Accounts payable	3,125	568
Customer advances	132	5,961
Accrued expenses and other liabilities	(1,080)	(189)
Net cash provided by operating activities	12,786	16,257
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(7,347)	(5,154)
Sale of marketable securities		1,950
Loan to related party		(1,206)
Repayment on loan to related party		1,206
Change in other non-current assets	(11)	219
Payment received on other receivables related to discontinued operations		3
Cash flows provided by investing activities of discontinued operations		2,197
Net cash flows used in investing activities	(7,358)	(785)

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(Dollars in Thousands)

(unaudited)

	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on related party lines of credit, net		(47)
Payment on industrial development revenue bond		(1,720)
Payment on term loan with French bank	(389)	(361)
Payment of dividends	(1,821)	(1,766)
Change in other long-tem liabilities	15	22
Net proceeds from issuance of common stock to employees and directors	563	523
Tax benefit related to exercise of stock options	5	948
Net cash flows used in financing activities	(1,627)	(2,401)
EFFECTS OF EXCHANGE RATES ON CASH	357	327
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,158	13,398
CASH AND CASH EQUIVALENTS, beginning of the period	17,886	5,763
CASH AND CASH EQUIVALENTS, end of the period	$ 22,044	$ 19,161

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

DYNAMIC MATERIALS CORPORATION & SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(unaudited)

1. BASIS OF PRESENTATION

The information included in the Condensed Consolidated Financial Statements is unaudited but includes all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the interim periods presented. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements that are included in the Company s Annual Report filed on Form 10-K for the year ended December 31, 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Foreign Operations and Foreign Exchange Rate Risk

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

Revenue Recognition

Sales of clad metal products and welding services are generally based upon customer specifications set forth in customer purchase orders and require the Company to provide certifications relative to metals used, services performed and the results of any non-destructive testing that the customer has requested be performed. 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, the Company recognizes such anticipated loss at such time.

Loan to Related Party

The Company s subsidiaryNobelclad Europe, S.A. (Nobelclad), had a Euro-denominated cash management agreement with SNPE, the parent company of SNPE, Inc., the Company s former majority stockholder, which provided for loans to or from either party of up to approximately $3,400, based on the December 31, 2005 exchange rates. Amounts outstanding under this agreement bore interest at EURIBOR plus 1.5% annually. Due to Nobelclad s excess cash position during the first quarter of 2006, it began advancing cash to SNPE through this intercompany cash agreement. At March 31, 2006, these advances to SNPE totaled 1,003 Euros ($1,211). The interest rate earned on these advances exceeded the interest rate that Nobelclad could earn on excess cash and cash equivalents held at its local bank. The agreement allowed Nobelclad to request repayment on the advances at any time. The balance outstanding at March 31, 2006 was repaid in full in April 2006 and the agreement was terminated upon the sale of our common stock by SNPE.

Earnings Per Share

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

	For the three months ended September 30, 2007				
		Income	Shares		Per share Amount
Basic earnings per share:					
Net income	$	7,117	12,094,181	$	0.59
Dilutive effect of options to purchase common stock			182,455		
Dilutive effect of restricted stock awards			25,136		
Dilutive earnings per share:					
Net income	$	7,117	12,301,772	$	0.58

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

	For the nine months ended September 30, 2007			
	Income	Shares		Per share Amount
Basic earnings per share:				
Net income	$ 17,659	12,039,593	$	1.47
Dilutive effect of options to purchase common stock		191,652		
Dilutive effect of restricted stock awards		13,967		
Dilutive earnings per share:				
Net income	$ 17,659	12,245,212	$	1.44

	For the nine months ended September 30, 2006			
	Income	Shares		Per share Amount
Basic earnings per share:				
Net income	$ 14,188	11,813,371	$	1.20
Dilutive effect of options to purchase common stock		402,912		
Dilutive earnings per share:				
Net income	$ 14,188	12,216,283	$	1.16

3. INCOME TAXES

The Company adopted the provisions of Financial Accounting Standards Board 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, on January 1, 2007. FIN 48 seeks to harmonize certain accounting practices associated with the recognition and measurement of income taxes. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. On the adoption date of January 1, 2007, the Company had $394 of unrecognized tax benefits, all of which would affect our effective tax rate if recognized. At September 30, 2007, the balance of unrecognized tax benefits remains at $394, and primarily relates to uncertain U.S. Federal tax positions. The unrecognized tax benefits have been reclassified from deferred tax liabilities to

other long-term liabilities in 2007. The Company has identified no uncertain tax position for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the 12 months following the date of adoption of FIN 48.

The Company recognizes interest and penalties related to uncertain tax positions in operating expense. As of September 30, 2007, the Company s accrual for interest and penalties related to uncertain tax positions is insignificant.

The Company s U.S. Federal tax returns for the tax years 2003-2006 remain open to examination while most of the Company s state tax returns remain open to examination for the tax years 2002-2006. The Company s foreign tax returns remain open to examination for the tax years 2003-2006 in France and 2001-2006 in Sweden.

4. INVENTORY

The components of inventory are as follows at September 30, 2007 and December 31, 2006:

	September 30, 2007 (unaudited)	December 31, 2006
Raw materials	$ 12,177	$ 6,282
Work-in-process	20,825	12,314
Supplies	791	630
	$ 33,793	$ 19,226

5. DEBT

Long-term debt consists of the following at September 30, 2007 and December 31, 2006:

	September 30, 2007 (unaudited)	December 31, 2006
Term loan - French bank	$ 413	$ 764
Less current maturities	(413)	(382)
Long-term debt	$	$ 382

Loan Covenants and Restrictions

The Company s existing loan agreements include various covenants and restrictions, certain of which relate to the incurrence of additional indebtedness, mortgaging, pledging or disposition of major assets, limits on capital expenditures and maintenance of specified financial ratios. As of September 30, 2007, the Company was in compliance with all financial covenants and other provisions of its debt agreements.

6. BUSINESS SEGMENTS

The Company is organized in the following two segments: the Explosive Metalworking segment and AMK Welding. The Explosive Metalworking segment uses explosives to perform metal cladding and shock synthesis 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 engines and ground-based turbines.

The accounting policies of both segments are the same as those described in the summary of significant accounting policies. The Company s reportable segments are strategic business units that offer different products and services and are separately managed. Each segment is marketed to different customer types and requires different manufacturing processes and technologies. Segment information is presented for the three and nine months ended September 30, 2007 and 2006 as follows:

	Explosive Metalworking Group	AMK Welding	Total
For the three months ended September 30, 2007:			
Net sales	$ 40,326	$ 1,773	$ 42,099
Depreciation	$ 402	$ 82	$ 484
Income from operations of continuing operations	$ 10,646	$ 325	$ 10,971
Unallocated amounts:			
Stock-based compensation			(393)
Interest income, net			213
Other income			23
Consolidated income before income taxes			$ 10,814

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

	Explosive Metalworking Group	AMK Welding	Total
For the nine months ended September 30, 2007:			
Net sales	$ 105,257	$ 4,707	$ 109,964
Depreciation	$ 1,190	$ 204	$ 1,394
Income from operations of continuing operations	$ 27,197	$ 606	$ 27,803
Unallocated amounts:			
Stock-based compensation			(912)
Interest income, net			578
Other income			3
Consolidated income before income taxes			$ 27,472

	Explosive Metalworking Group	AMK Welding	Total
For the nine months ended September 30, 2006:			
Net sales	$ 74,336	$ 3,445	$ 77,781
Depreciation	$ 854	$ 166	$ 1,020
Income from operations of continuing operations	$ 20,204	$ 621	$ 20,825
Unallocated amounts:			
Stock-based compensation			(436)
Interest income, net			347
Other expense			(40)
Consolidated income before income taxes			$ 20,696

During the three months ended September 30, 2007, sales to one customer represented approximately $7,333 (17%) of total net sales. During the nine months ended September 30, 2007, no sales to any one customer accounted for more than 10% of total net sales. During the three and nine months ended September 30, 2006, no sales to any one customer accounted for more than 10% of total net sales.

7. COMPREHENSIVE INCOME

The Company s comprehensive income for the three and nine months ended September 30, 2007 and 2006 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income for the period	$ 7,117	$ 3,690	$ 17,659	$ 14,188
Foreign currency translation adjustment	898	137	1,158	659
Comprehensive income	$ 8,015	$ 3,827	$ 18,817	$ 14,847

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As of September 30, 2007 and December 31, 2006 other cumulative comprehensive income of $2,871 and $1,713, respectively, consists entirely of cumulative foreign currency translation adjustment.

8. DISCONTINUED OPERATIONS

On September 17, 2004, DMC completed the divestiture of its Spin Forge division under an agreement that involved subleasing the Spin Forge real estate and leasing the manufacturing equipment and tooling to a third party. Under the master agreement relating to this divestiture transaction, 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 were removed from the Company s balance sheet in the first quarter of 2006.

Discontinued operations for the nine months ended September 30, 2006 is summarized as follows:

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

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

The following discussion should be read in conjunction with our historical consolidated financial statements and notes, as well as the selected historical consolidated financial data that are included in the Company s Annual Report filed on Form 10-K for the year ended December 31, 2006.

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 and AMK Welding. For the three months ended September 30, 2007, Explosive Metalworking accounted for 96% of our net sales and 97% of our income from operations of continuing operations before consideration of stock-based compensation expense, which is not allocated to our business segments. Year to date Explosive Metalworking accounted for 96% of our net sales and 98% or our income from operations of continuing operations before consideration of stock-based compensation expense.

Our year to date 2007 net sales increased by $32,183 (41.4%) compared to the first nine months of 2006, reflecting year-to-year net sales increases of $30,921 (41.6%) and $1,262 (36.6%) for our Explosive Metalworking and AMK Welding segments, respectively. Our operating income from continuing operations increased by 31.9% to $26,891 in the first nine months of 2007 from $20,389 in the first nine months of 2006, reflecting a $6,993 improvement in Explosive Metalworking s operating income and a decrease of $15 in AMK Welding s operating income. Income from continuing operations increased by 37.6% to $17,659 for the nine months ended September 30, 2007 from $12,831 in the same period of 2006. Our net income increased to $17,659 in the first nine months of 2007 from $14,188 in the first nine months of 2006. For the nine months ended September 30, 2006, net income included $1,357 of income from discontinued operations, net of tax, relating to the sale of the Spin Forge real estate option as further discussed below.

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. While demand for our clad metal products in the United States is largely driven by new plant construction and large plant expansion projects, maintenance and retrofit projects at existing chemical processing, petrochemical processing and oil refining facilities also account for a significant portion of total demand. Demand for our clad products in Europe and Asia is more dependent on new construction projects, such as the building of new purified terephthalic acid (PTA) plants in different parts of the world, including China, and on sales of electrical transition joints that are used in the aluminum production industry.

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

A significant portion of our net sales is derived from a relatively small number of customers; therefore, the failure to complete existing contracts on a timely basis, and to receive payment for such services in a timely manner, or to enter into future contracts at projected volumes and profitability levels could adversely affect our ability to meet cash requirements exclusively through operating activities. We attempt to minimize the risk of losing customers or specific contracts by continually improving product quality, delivering product on time and competing favorably on the basis of price.

Explosive Metalworking 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.

Gross profit and cost of products sold

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

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

Discontinued operations

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

Income taxes

Our effective income tax rate decreased to 35.7% for the first nine months of 2007 from 38.0% for the first nine months of 2006. Income tax provisions on the earnings of Nobelclad and Nitro Metall AB (Nitro Metall) have been provided based upon the respective French and Swedish statutory tax rates. Going forward, based upon existing tax regulations and current federal, state and foreign statutory tax rates, we expect our effective tax rate on our consolidated pre-tax income to range between 36% and 38%.

Backlog

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

Our backlog with respect to the Explosive Metalworking segment increased to approximately $77.1 million at September 30, 2007 from approximately $68.8 million at December 31, 2006 but was down from the record backlog of approximately $84.7 million that we reported as of June 30, 2007.

Three and Nine Months Ended September 30, 2007 Compared to Three and Nine Months Ended September 30, 2006

Net sales

	Three Months Ended September 30,			
	2007	2006	Change	Percentage Change
Net sales	$ 42,099	$ 24,852	$ 17,247	69.4%

	Nine Months Ended September 30,			
	2007	2006	Change	Percentage Change
Net sales	$ 109,964	$ 77,781	$ 32,183	41.4%

Net sales for the third quarter of 2007 increased 69.4% to $42,099 from $24,852 in the third quarter of 2006. Explosive Metalworking sales increased 71.5% to $40,326 in the three months ended September 30, 2007 (96% of total sales) from $23,511 in the same period of 2006 (95% of total sales). Net sales for the nine months ended September 30, 2007 increased by 41.4% to $109,964 from $77,781 in the same period of 2006. Sales for our Explosive Metalworking Group increased 41.6% to $105,257 in the first nine months of 2007 (96% of total sales) from $74,336 for the first nine months of 2006 (96% of total sales). The significant increase in Explosive Metalworking sales is principally attributable to the continued economic strength of the industries that this business segment serves.

AMK Welding contributed $1,773 to third quarter 2007 sales (4% of total sales) which represented a 32.2% increase from sales of $1,341 in the third quarter of 2006 (5% of total sales). AMK Welding s year to date 2007 sales increased by 36.6% to $4,707 (4% of total sales) compared to $3,445 (4% of total sales) in year to date 2006 sales. The increases in AMK s third quarter and year to date sales relates principally to increased revenues from H System ground-based gas turbine work.

Gross profit

	Three Months Ended September 30,			
	2007	2006	Change	Percentage Change
Gross profit	$ 14,292	$ 8,310	$ 5,982	72.0%
Consolidated gross profit margin rate	33.9%	33.4%		

	Nine Months Ended September 30,			
	2007	2006	Change	Percentage Change
Gross profit	$ 37,223	$ 27,511	$ 9,712	35.3%
Consolidated gross profit margin rate	33.9%	35.4%		

Gross profit increased by 72.0% to $14,292 for the three months ended September 30, 2007 from $8,310 for the three months ended September 30, 2006. Our third quarter 2007 consolidated gross profit margin rate increased to 33.9% from 33.4% in the third quarter of 2006. The gross profit margin for Explosive Metalworking increased from 33.1% in the third quarter of 2006 to 34.3% in the third quarter of 2007 and the gross profit margin for AMK Welding decreased to 27.7% in the third quarter of 2007 from 40.8% in the third quarter of 2006.

For the nine months ended September 30, 2007, gross profit increased to $37,223 from $27,511 for the same period of 2006, a 35.3% increase. Our year to date consolidated gross profit margin rate decreased to 33.9% from 35.4% for the first nine months of 2006. The gross profit margin rate for Explosive Metalworking decreased to 34.3% from 35.6%. For the nine months ended September 30, 2007, the gross profit margin for AMK Welding decreased to 26.5% from 31.1% for the same period of 2006.

The decreased year to date gross margin rate for Explosive Metalworking relates primarily to changes in product mix during the first nine months of 2007 as compared to that for the first nine months of 2006. AMK Welding s decreased year to date gross margin rate relates to an increase in fixed manufacturing overhead expenses and changes in products mix. The increase in fixed manufacturing overhead expenses at AMK Welding is attributable to the recently competed facility expansion and staffing additions as AMK readies itself for anticipated increases in production levels during the remainder of 2007 and in 2008. Gross profit margins typically fluctuate from one quarter to the next for various reasons, including changes in sales volume and product mix. Our gross margins are likely to continue to fluctuate from quarter-to-quarter.

General and administrative expenses

	Three Months Ended September 30,			
	2007	2006	Change	Percentage Change
General & administrative expenses	$ 1,903	$ 1,267	$ 636	50.2%
Percentage of net sales	4.5%	5.1%		

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	Nine Months Ended September 30,			
	2007	2006	Change	Percentage Change
General & administrative expenses	$ 5,419	$ 3,948	$ 1,471	37.3%
Percentage of net sales	4.9%	5.1%		

General and administrative expenses increased by $636, or 50.2%, to $1,903 in the third quarter of 2007 from $1,267 in the third quarter of 2006. Expense increases reflect a $229 increase in stock-based compensation, an increase of $179 in accrued incentive compensation expense, a $154 increase in legal and consulting expenses, an impact of $61 from annual salary adjustments and staffing changes, and minor net increases of $13 in a number of other expense categories. As a percentage of net sales, general and administrative expenses decreased to 4.5% in the third quarter of 2007 from 5.1% in the third quarter of 2006.

General and administrative expenses for the nine months ended September 30, 2007 totaled $5,419 compared to $3,948 for the same period of 2006. This reflects an increase of 37.3%. The $1,471 increase in 2007 general and administrative expenses for the nine-month period reflects an impact of $399 from annual salary adjustments and staffing changes, a $308 increase in legal and consulting expenses, a $294 increase in accrued incentive compensation expense, a $262 increase in stock-based compensation and net increases of $208 in a number of other expense categories. As a percentage of net sales, general and administrative expenses decreased to 4.9% in the first nine months of 2007 from 5.1% in the first nine months of 2006.

Selling expenses

	Three Months Ended September 30,			
	2007	**2006**	**Change**	**Percentage Change**
Selling expenses	$ 1,811	$ 904	$ 907	100.3%
Percentage of net sales	4.3%	3.6%		

	Nine Months Ended September 30,			
	2007	**2006**	**Change**	**Percentage Change**
Selling expenses	$ 4,913	$ 3,174	$ 1,739	54.8%
Percentage of net sales	4.5%	4.1%		

Selling expenses, which include sales commissions of $663 in 2007 and $79 in 2006, increased by 100.3% to $1,811 in the third quarter of 2007 from $904 in the third quarter of 2006. The $907 increase in selling expenses reflects an increase in sales commissions of $584, an $86 increase in accrued incentive compensation expense, an impact of $70 from annual salary adjustments and staffing changes, and a $53 increase in stock-based compensation expense. As a percentage of net sales, selling expenses increased to 4.3% in the third quarter of 2007 from 3.6% in the third quarter of 2006.

Selling expenses increased by 54.8% to $4,913 in the first nine months of 2007 from $3,174 in the same period of 2006. These expenses include sales commissions of $1,378 and $674 for 2007 and 2006, respectively. The $1,739 increase in 2007 selling expenses for the nine-month period includes an increase in sales commissions of $704, an impact of $290 from annual salary

adjustments and staffing changes, an increase of $173 in accrued incentive compensation expense, a $107 increase in the provision for doubtful accounts and an increase of $130 in stock-based compensation expense. As a percentage of net sales, selling expenses increased to 4.5% in the first nine months of 2007 from 4.1% in the first nine months of 2006.

Income from operations of continuing operations

	Three Months Ended September 30,			
	2007	2006	Change	Percentage Change
Income from operations of continuing operations	$ 10,578	$ 6,139	$ 4,439	72.3%

	Nine Months Ended September 30,			
	2007	2006	Change	Percentage Change
Income from operations of continuing operations	$ 26,891	$ 20,389	$ 6,502	31.9%

Income from operations increased by 72.3% to $10,578 in the third quarter of 2007 from $6,139 in the third quarter of 2006. Explosive Metalworking reported income from operations of $10,646 in the third quarter of 2007 as compared to $5,831 in the third quarter of 2006. This 82.6% increase is largely attributable to the 71.5% sales increase discussed above. AMK Welding reported income from operations of $325 for the three months ended September 30, 2007 as compared to $391 for the same period of 2006.

Income from operations increased by 31.9% to $26,891 in the first nine months of 2007 from $20,389 in the first nine months of 2006. Explosive Metalworking reported income from operations of $27,197 in the first nine months of 2007 as compared to $20,204 in the first nine months of 2006. This 34.6% increase is largely attributable to the 41.6% sales increase discussed above. AMK Welding reported income from operations of $606 for the nine months ended September 30, 2007 as compared to the $621 that it reported for the same period of 2006.

Income from operations of continuing operations for the three and nine months ended September 30, 2007 includes $393 and $912, respectively, of stock-based compensation expense compared to stock-based compensation expense for the three and nine months ended September 30, 2006 of $83 and $436, respectively. This expense is not allocated to our two business segments and thus is not included in the above third quarter and year to date operating income totals for Explosive Metalworking and AMK Welding.

Interest income (expense), net

	Three Months Ended September 30,			
	2007	2006	Change	Percentage Change
Interest income, net	$ 213	$ 121	$ 92	76.0%

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Percentage

	Nine Months Ended September 30,			
	2007	2006	Change	Change
Interest income, net	$ 578	$ 347	$ 231	66.6%

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Net interest income improved by $92 to a net of $213 in interest income for the third quarter 2007 from a net of $121 in interest income in the third quarter of 2006. We recorded net interest income of $578 for the first nine months of 2007 compared to a net interest income of $347 for the first nine months of 2006, an improvement of $231. This change in net interest income reflects increased investment earnings on larger average cash balances during 2007.

Income tax provision

	Three Months Ended September 30,			
	2007	2006	Change	Percentage Change
Income tax provision	$ 3,697	$ 2,547	$ 1,150	45.2%
Effective tax rate	34.2%	40.8%		

	Nine Months Ended September 30,			
	2007	2006	Change	Percentage Change
Income tax provision	$ 9,813	$ 7,865	$ 1,948	24.8%
Effective tax rate	35.7%	38.0%		

We recorded an income tax provision of $3,697 in the third quarter of 2007 compared to $2,547 in the third quarter of 2006. The effective tax rate decreased to 34.2% in the third quarter of 2007 from 40.8% in the third quarter of 2006. The income tax provisions for the three months ended September 30, 2007 and 2006 include $3,274 and $2,370, respectively, related to U.S. taxes, with the remainder relating to foreign taxes associated with the operations of Nobelclad and its Swedish subsidiary, Nitro Metall. The lower than expected third quarter 2007 effective tax rate of 34.2% relates to a favorable tax provision adjustment that was recorded in the third quarter in connection with the reconciliation of our tax accounts to the actual federal and state tax returns for 2006 that were completed and filed during the quarter and to minor adjustments to our estimated effective tax rate for the full year 2007.

For the nine months ended September 30, 2007, we recorded an income tax provision of $9,813 compared to $7,865 for the same period of 2006. The effective tax rate decreased to 35.7% for the first nine months of 2007 from 38.0% for the first nine months of 2006. The income tax provisions for the nine months ended September 30, 2007 and 2006 include $8,317 and $6,551, respectively, related to U.S. taxes, with the remainder relating to foreign taxes associated with the operations of Nobelclad and Nitro Metall. We expect our full year 2007 effective tax rate on consolidated pre-tax income to approximate 36% and our 2008 effective tax rate to range between 36% and 38%.

Income from discontinued operations

	Three Months Ended September 30,			
	2007	2006	Change	Percentage Change
Income from discontinued operations	$	$ 1,357	$ (1,357)	NA

We completed the divestiture of our Spin Forge division in September 2004. Under the principal divestiture agreement, we sold the assets of the Spin Forge division to a third party,

excluding certain equipment and real estate which were leased or subleased to the buyer. 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. On January 10, 2006, we sold our purchase option on 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 in discontinued operations, net of related taxes.

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. We continue to evaluate potential investment opportunities including strategic acquisitions and joint ventures. A significant acquisition or joint venture may require us to secure additional debt or equity financing.

Debt and other contractual obligations and commitments

We have a $10,000 credit facility with Wells Fargo Bank, N.A. Any restriction on the availability of borrowing under this credit facility 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 September 30, 2007, we were in compliance with all financial covenants and other provisions of our debt agreements.

The Company s principal cash flows related to debt obligations and other contractual obligations and commitments have not materially changed since December 31, 2006.

Cash flows from operating activities

Net cash flows provided by operating activities for the nine months ended September 30, 2007 totaled $12,786. Significant sources of operating cash flow included net income of $17,659, non-cash depreciation expense of $1,394 and stock-based compensation of $912. These sources of operating cash flow were partially offset by net negative changes in various components of working capital in the amount of $6,940. Net negative changes in working capital included increases in inventories and prepaid expenses of $13,541 and $636, respectively, and decreases in accrued expenses and other liabilities of $1,080. These negative changes in working capital were partially offset by a decrease in restricted cash and accounts receivable of $3,059 and $2,001, respectively, and increases in accounts payable and customer advances of $3,125 and $132, respectively. The net negative changes in working capital are reflective of the growth in our business from 2006 to 2007.

Net cash flows provided by operating activities for the nine months ended September 30, 2006 totaled $16,257. Significant sources of operating cash flow included net income of $14,188, non-cash depreciation and amortization expense of $1,070, $923 from provision for deferred

income taxes, stock-based compensation of $436 and net positive changes in various components of working capital in the amount of $997. Net positive changes in working capital included increases in customer advances and accounts payable of $5,961 and $568, respectively. These positive changes in working capital were largely offset by increases in accounts receivable and inventories of $3,885 and $1,608, respectively.

Cash flows from investing activities

Net cash flows used in investing activities for the first nine months of 2007 totaled $7,358 and consisted primarily of capital expenditures.

Net cash flows used by investing activities for the first nine months of 2006 totaled $785 and consisted primarily of $5,154 in capital expenditures that were largely offset by $1,950 from the sale of marketable securities and $2,197 for investment activities of discontinued operations that consisted of the sale of the Spin Forge real estate purchase option.

Cash flows from financing activities

Net cash flows used in financing activities for the first nine months of 2007 were $1,627. Significant uses of cash for financial activities included a $1,821 payment of annual dividends and a $389 principal payment on a term loan with French bank. Sources of cash flow from financing activities include $563 in net proceeds from the issuance of common stock relating to the exercise of stock options.

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

Payment of Dividends

We paid annual dividends in both 2006 and 2007 and may continue to pay annual dividends in the future subject to capital availability and periodic determinations that cash dividends are in the best interests of our stockholders, but we cannot assure you that such payments will continue. Future dividends may be affected by, among other items, our views on potential future capital requirements, future business prospects, changes in federal income tax law and any other factors that our board of directors deems relevant. Any decision to pay cash dividends is and will continue to be at the discretion of the board of directors.

Critical Accounting Policies

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

In management s opinion, the more significant reporting areas impacted by management s judgments and estimates are revenue recognition, asset impairments, 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 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 September 30, 2007, relates to our Explosive 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 conform with changes in the corresponding balances in the consolidated balance sheets. The effects of exchange rate changes on cash balances held in foreign currencies are reported as a separate line item below cash flows from financing activities.

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.

We adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of SFAS 109 (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, on January 1, 2007. FIN 48 seeks to harmonize certain accounting practices associated with the recognition and measurement of income taxes. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for unrecognized income tax benefits. On the adoption date of January 1, 2007, we had $394 of unrecognized tax benefits, all of which would affect our effective tax rate if recognized. At September 30, 2007, the balance of unrecognized tax benefits remains at $394, and primarily relates to uncertain U.S. Federal tax positions.

We recognize interest and penalties related to uncertain tax positions in operating expense. As of September 30, 2007, our accrual for interest and penalties related to uncertain tax positions is insignificant.

Our U.S. Federal tax returns for the tax years 2003-2006 remain open to examination while most of our state tax returns remain open to examination for the tax years 2002-2006. Our foreign tax returns remain open to examination for the tax years 2003-2006 in France and 2001-2006 in Sweden.

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 September 30, 2007, the balance of this allowance is $143.

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.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no events that materially affect our quantitative and qualitative disclosure about market risk from that reported in our Annual Report on Form 10-K for the year ended December 31, 2006.

ITEM 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company s Exchange Act reports is accurately recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of September 30, 2007, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective. There have been no changes in the Company s internal controls during the quarter ended September 30, 2007 or in other factors that could materially affect the Company s internal controls over financial reporting.

The Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, does not expect that the Company s disclosure controls or its internal controls will prevent all errors and all fraud. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. As a result of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, the Company s disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the disclosure controls and procedures are met.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Our 2006 Annual Report on Form 10-K includes a detailed discussion of our risk factors. The information presented below updates and should be read in conjunction with the risk factors and information disclosed in our Form 10-K.

Our backlog figures may not accurately predict future sales.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6.

Exhibits

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

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

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

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

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DYNAMIC MATERIALS CORPORATION
(Registrant)

Date: October 26, 2007

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