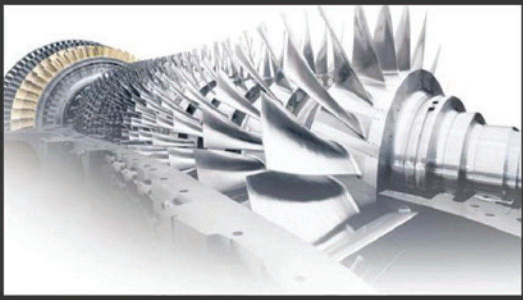
2010 Dynamic Materials Annual Report



DMC Dynamic Materials CORPORATION

EXPLOSIVE METALWORKING • OILFIELD PRODUCTS • AMK WELDING

ABOUT **THE COMPANY**

Dynamic Materials Corporation (DMC) is a diversified provider of industrial products and services, and the world's leading manufacturer of explosion-welded clad metal plates. The Company's Explosive Metalworking business, which generated 64 percent of DMC's fiscal 2010 revenue, uses specialized explosive processes to clad metal and alloy plates, which are then utilized in a broad spectrum of industrial capital projects.

The Explosive Metalworking segment serves a variety of industries, including oil and gas, alternative energy, chemicals and petrochemicals, hydrometallurgy, aluminum production, shipbuilding, power generation, and industrial refrigeration.

DMC also operates an Oilfield Products segment, which manufactures, markets and sells specialized explosive components and systems used to perforate oil and gas wells. The segment, which generated 29 percent of DMC's 2010 revenue, also distributes a line of explosive-related seismic products that support oil and gas exploration activities.

DMC's third business segment, AMK Welding, utilizes various technologies to weld components for use in power-generation turbines, as well as commercial and military jet engines. AMK was responsible for 7 percent of the Company's 2010 revenue.

Based in Boulder, Colorado, DMC has production facilities in Mt. Braddock, Pennsylvania; Rivesaltes, France; Burbach, Germany; Troisdorf, Germany; Edmonton, Alberta; Tyumen, Russia; and South Windsor, Connecticut.

The Company's stock trades on Nasdaq under the symbol "BOOM."

About the Cover:

This year's cover features images of industrial equipment that incorporates products and technologies from DMC's three business segments. The top image shows separating equipment at a natural gas production facility where clad plates produced by DMC's Explosive Metalworking segment have been utilized in the fabrication of specialized pipes.

In the three-picture panel, the left image is of a heat exchanger built for a Chinese chemical plant. The exchanger incorporates tubesheets that have been manufactured from DMC's titanium-clad explosion welded plates.

The center image is of an oil and gas rig. Specialized guns and shaped charges from DMC's Oilfield Products segment are used within many wells to perforate the casing, thereby allowing oil or gas from the surrounding formation to enter the well.

The right image features a ground-based power turbine. DMC's AMK Welding segment utilizes specialized technologies to weld components for use in these power-generation turbines.

FINANCIAL **HIGHLIGHTS**

Consolidated Statement of Operations Highlights
(Dollars in thousands except per share amounts)

	Years ended December 31, 2010	Years ended December 31, 2009
Net sales	$ 154,739	$ 164,898
Gross profit	$ 36,950	$ 43,119
Income from operations	$ 6,789	$ 16,238
Income before income taxes	$ 6,398	$ 12,927
Net income	$ 5,265	$ 8,549
Net income per share - diluted	$ 0.40	$ 0.66
Weighted average number of shares outstanding - diluted	12,881,754	12,662,440
Dividends declared per common share	$ 0.16	$ 0.12

Balance Sheet Highlights
(Dollars in thousands)

ASSETS	December 31, 2010	2009
Cash and cash equivalents	$ 4,572	$ 22,411
Accounts receivable, net	$ 27,567	$ 25,807
Total current assets	$ 72,735	$ 87,974
Total assets	$ 201,393	$ 225,176
LIABILITIES AND STOCKHOLDERS' EQUITY		
Total current liabilities	$ 38,392	$ 42,135
Long-term debt	$ 14,579	$ 34,120
Deferred tax liabilities	$ 12,083	$ 15,217
Other long-term liabilities	$ 1,415	$ 1,593
Stockholders' equity	$ 134,924	$ 132,111
Total liabilities and stockholders' equity	$ 201,393	$ 225,176

Mr. Yvon Pierre Cariou
President and Chief Executive Officer

Dear Stockholders,

By the end of fiscal 2010, an improving global economy finally began to lift many of the markets served by our flagship Explosive Metalworking business. A surge in capital spending within these sectors led to a fourth quarter spike in orders for our explosion-clad plates, and as a result, our Explosive Metalworking backlog at year-end had increased to a five-quarter high of $57 million.

During the early stages of the recession, activity at our Explosive Metalworking segment was mirroring that of many late-cycle sectors, and continued to deliver strong results long after other industries had been caught in the downdraft of a sinking global economy. Of course our core business ultimately was impacted, and this resulted in a marked decrease in order volume that persisted through much of 2010. Fortunately, the diversified nature of our revenue stream helped mitigate what could have been a much steeper decline in DMC's consolidated financial results. As I will discuss below, our rapidly expanding Oilfield Products business and our resilient AMK Welding segment both delivered strong performances during 2010.

2010 Financial Review

Sales in 2010 were $154.7 million, down 6 percent from $164.9 million in 2009. The decrease was due to a $35.5 million, or 27 percent, sales decline at our Explosive Metalworking segment. This decrease was largely offset by sales increases of $23.5 million, or 108 percent, at our Oilfield Products segment; and $1.8 million, or 20 percent, at our AMK Welding segment.

Consolidated gross margin dipped to 24 percent from 26 percent in 2009. A 30 percent pull-back in Explosive Metalworking gross margins – resulting principally from lower sales, a less favorable product mix and less efficient absorption of fixed costs – was partially offset by gross margin improvements of 50 percent and 23 percent at our Oilfield Products and AMK Welding segments, respectively.

Our consolidated operating income was $6.8 million versus $16.2 million in 2009, while net income, which included a gain of $2.1 million on step acquisitions of two Russian joint ventures, was $5.3 million, or $0.40 per diluted share, versus $8.5 million, or $0.66 per diluted share, in 2009. We reported adjusted EBITDA* of $21.0 million compared with $29.8 million in the prior year.

One of our most notable financial achievements during fiscal 2010 was the $23.4 million reduction we made to our long-term debt. This nearly halved the $47.6 million of long-term debt we carried at the end of fiscal 2009.

Explosive Metalworking Review

Despite the sluggish order volume during much of 2010, our Explosive Metalworking team made important progress throughout the year both at strengthening our position in existing end markets and at penetrating new market sectors. We captured new opportunities in the upstream oil and gas sector, where our clad plates are now being used in separating equipment such as that shown on the cover of this report. Demand from the downstream energy market, which is our traditional niche within the oil and gas industry, remained relatively weak during 2010. However, given the improving profit margins on processed fossil fuels, we are optimistic that refiners could increase their infrastructure investments sooner rather than later.

Activity in end markets such as aluminum smelting and shipbuilding remained relatively healthy during 2010. And while investment activity in the traditionally significant chemical/petrochemical sector has remained rather tepid, we have seen some encouraging, albeit early, signals that new capital projects may be moving forward.

Fiscal 2010 also brought our first significant order from the transportation industry, where our plates are being used to manufacture transition joints for a line of next-generation rail cars. As I noted in last year's report, we believe the evolving international rail industry could represent a meaningful, long-term market opportunity for DMC. We also have continued our R&D work in the defense and protection sector, where our clad plates may ultimately be used in ballistic resistant armoring.

Oilfield Products

As I noted earlier, full-year sales at our Oilfield Products segment increased by 108 percent, or $23.5 million, versus 2009. Acquisitions during 2010 contributed $15.4 million to our topline performance, which means sales from legacy operations increased by $8.1 million, or a very respectable 37 percent, versus 2009. The rebound in crude prices combined with a sharp increase in global exploration and production drilling has fueled strong demand for our perforating gun systems and related equipment.

The acquisitions I mentioned earlier consisted of our April 2010 purchase of the outstanding minority-owned interest in two Russian joint ventures, and the June 2010 acquisition of Texas-based Austin Explosives. These acquisitions, when combined with our 2009 purchase of Alberta-based LRI Oil Tools, have expanded the reach of our Oilfield Products business within some of the world's most active and strategically important energy markets. We are exploring a range of additional organic and external growth opportunities for this segment, which is proving a highly complementary business to our explosion-welding operations.

AMK Welding

Our AMK Welding segment was only minimally disrupted by the economic crisis, and that impact was primarily felt in fiscal 2009. Thanks to its unique service offering and strong relationships with a core group of customers, AMK delivered solid top and bottom-line growth during 2010. I believe the AMK team has established a focused strategy for expanding its service offering and broadening its customer base.

“…DMC has entered 2011 as a strong, nimble company with a clear roadmap toward future growth and success.”

Conclusion

Opportunities abound for our three operating segments, and we have established a 2011 capital expenditure budget of approximately $10 million to ensure each business is adequately equipped to address its respective growth prospects. In addition, we have worked hard to preserve and enhance the deep pool of specialized talent we have assembled around the world to execute our operational objectives. We also are in the advanced stages of implementing a new Enterprise Resource Planning system, which will help improve the productivity, consistency and controls of our global explosion-welding infrastructure. While the challenges of a sluggish economy have not fully abated, we feel DMC has entered 2011 as a strong, nimble company with a clear roadmap toward future growth and success.

I would like to thank our employees for their perseverance and hard work during the past year, and our Board of Directors for their valuable strategic guidance. I also would like to thank you, our stockholders, for your continued support of the Company.

Sincerely,

Yvon Cariou

* Adjusted EBITDA is a non-GAAP (generally accepted accounting principle) financial measure used by DMC management to measure operating performance. See additional information about adjusted EBITDA, including a reconciliation of adjusted EBITDA to GAAP measures, beginning on page 32 of the enclosed Form 10-K.

MANAGEMENT & DIRECTORS

Dynamic Materials Board of Directors, from left to right:
Gerard Munera, James Ferris, Richard P. Graff, Dean K. Allen, Yvon Pierre Cariou, Robert A. Cohen, Bernard Hueber, Rolf Rospek

DIRECTORS

Mr. Dean K. Allen
Chairman of the Board, Dynamic Materials Corporation; Retired President, Parsons Europe, Middle East and South Africa

Mr. Yvon Pierre Cariou
President and Chief Executive Officer, Dynamic Materials Corporation

Mr. Robert A. Cohen
Managing Partner, Joranel LLC; former President and CEO, Korea First Bank

Dr. James Ferris
Former Director and President/Group Chief Executive Officer, CH2M Hill Companies Ltd.; former President and Chief Executive Officer, Ebasco Environmental

Mr. Richard P. Graff
Retired Partner, PricewaterhouseCoopers

Mr. Bernard Hueber
Former Secretary General, Federation of European Explosives Manufacturers; former Chairman and CEO, Nobel Explosifs France

Mr. Gerard Munera
General Manager, Synergex

Mr. Rolf Rospek
Chief Executive Officer, DYNAenergetics

EXECUTIVE MANAGEMENT

Mr. Yvon Pierre Cariou
President and Chief Executive Officer

Mr. Richard A. Santa
Sr. Vice President and Chief Financial Officer

Mr. John G. Banker
Sr. Vice President, Customers and Technology

Mr. Rolf Rospek
Chief Executive Officer, DYNAenergetics

CORPORATE DATA

Independent Auditors
Ernst & Young, LLP
Denver, Colorado

Legal Counsel
Holme Roberts & Owen LLP
Denver, Colorado

Transfer Agent
Computershare Investor Services
350 Indiana Street
Golden, Colorado 80401
Phone: 303.262.0600

Investor Relations Counsel
Pfeiffer High Investor Relations, Inc.
3235 East Second Avenue
Denver, Colorado 80206
Phone: 303.393.7044

Annual Meeting
The Annual Meeting of Stockholders will be held in Boulder, Colorado on May 26, 2011, at 8:30am at the St. Julien Hotel.

Form 10-K
Included herein

Headquarters
& Clad Metal Sales
Dynamic Materials Corporation
5405 Spine Road
Boulder, Colorado USA 80301
Phone: 303.665.5700
Fax: 303.665.1897
www.dynamicmaterials.com

Offices

Dynamic Materials Corporation
Mt. Braddock Facility
P.O. Box 317
1138 Industrial Park Drive
Mt. Braddock, Pennsylvania 15465
Phone: 724.277.9710

Nobelclad Europe
Espace Entreprise Mediterranee–
1 allee Alfred Nobel
66600 Rivesaltes - France
Phone: 33 4 68 64 56 56

Dynaplat
Dr.-Hermann-Fleck-Allee 8
DE-57299 Burbach
Germany
Phone: 49 2736 50978 0

DYNAenergetics Oilfield Products
Kaiserstr. 3
D-53840 Troisdorf
Germany
Phone: 49 5102 6757 0

DYNAenergetics US Inc.
P.O. Box 341090
3317 N Highway 620
Austin, Texas 78734
Phone: 512.327.2043

DYNAenergetics Canada
5911 56 Ave. Edmonton, Alberta
Canada T6B 3E2
Phone: 780.490.0939

Perfoline
Yamskaya str. 105
Tyumen
625017 Russia
Phone: 7 3452 434058

DYNAenergetics Rus
Russia
115230 Moscow
Varshavskoye Chaussee,
d.36, str.8, 2-nd floor
Phone: 7 495 9330047

AMK Welding
283 Sullivan Avenue
South Windsor, CT 06074
Phone: 860.289.5634

Headquarters & Clad Metal Sales
Dynamic Materials Corporation
5405 Spine Road • Boulder, CO USA 80301
PH: 303.665.5700 • FAX: 303.665.1897

Dynamic Materials
CORPORATION

WWW.DYNAMICMATERIALS.COM